



TRADE POLICY REVIEW

REPORT BY

PAPUA NEW GUINEA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Papua New Guinea is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Papua New Guinea.

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1 SUMMARY

1.1. Papua New Guinea (PNG) has been a member of the WTO since 1996 and this is the country's third Trade Policy Review (TPR), the second having been completed in 2010–11. The country is a strong supporter of the rules-based international trading system, which is of particular value to small economies that lack the administrative capacity to negotiate on trade-related matters simultaneously with their many trading partners. PNG does not yet have permanent representation in Geneva, and is represented in WTO matters by the Geneva office of the Pacific Islands Forum Secretariat (PIFS), and by its Ambassador in Brussels.

1.2. The period since the last TPR has been an economically successful time for PNG, recording an average annual growth rate of 5.2%, though growth remains unduly reliant on the fortunes of the extractives sector. Growth is expected to return to a medium-term trajectory of 5.0%, once the effects of recent natural disasters have passed. PNG's hosting of Asia-Pacific Economic Cooperation (APEC) meetings throughout 2018 has provided an excellent opportunity for the country to raise global awareness of its economic and investment potential.

1.3. The review period has also been a significant time for trade policy. Firstly, the Government has continued implementation of a gradual MFN tariff reduction, completed in multiple phases between 1999 and 2017. This policy has understandably placed strain on the country's manufacturing sector, and the Government is preparing to conduct an evaluation to quantify the policy's impact and decide what future action to take. Secondly, the country's first trade policy was published in 2017, providing a comprehensive framework for action to expand trade over the coming 15 years.

1.4. PNG has benefitted substantially from trade-related technical assistance over the course of the review period, and views the WTO as an important forum for discussing the ways in which technical assistance can help to integrate developing countries into the global economy. The Government has chosen to highlight selected specific, present needs in the annex to this report in order to stimulate further dialogue with development partners.

2 ECONOMIC OVERVIEW

2.1 Performance

2.1. Papua New Guinea has achieved strong yet fluctuating growth since 2010, averaging 5.2%, but varying from 0.3 to 15.4% annually. Such variation is not unusual in small, vulnerable economies and has largely been due to price and volume changes in key export commodities (including oil and gas) and the wider economic impact of natural disaster and recovery. Growth peaked above 10% in 2014 and 2015, due to large increases in liquefied natural gas (LNG) production.

2.2. Real growth in 2018 was at its lowest level in a decade, due to low commodity prices and the effects of a major drought in 2017 and a magnitude 7.5 earthquake in the centre of the country in February 2018, with multiple large aftershocks. Reconstruction will take around four years, though the effect on GDP growth in 2019 is expected to be marginal.

2.3. PNG has maintained a surplus in goods trade throughout the review period, partly offset by a deficit in services trade. The overall current account has been in surplus since 2014. Consumer prices rose an average of 5.5% per year between 2012–17, with a slight rise in 2018 due to APEC-related spending.

2.4. Papua New Guinea has established its credentials as a venue for major international meetings in recent years. In mid-2016, Port Moresby hosted the 8th Africa, Caribbean and Pacific (ACP) Summit of Heads of State and Government, only the second time this meeting has been held in the Pacific (after Fiji in 2002). In February 2018, PNG hosted the 21st Melanesian Spearhead Group's Leaders' Summit. And throughout 2018, the country has been hosting APEC meetings, culminating in the Economic Leaders' Meeting on 18 November, which focused on improving digital connectivity and inclusive economic growth.

2.2 Macro Policy Developments and Priorities

2.5. The Government's planning framework for economic development and macroeconomic stability is coordinated through the Medium Term Fiscal Strategy (MTFS, 2018–22). This document brings together three elements of macroeconomic management, the Medium Term Revenue Strategy (MTRS), the Medium Term Debt Strategy (MTdS) and the Expenditure Strategy. Within this framework, by 2022 the Government aims to increase non-grant revenue to 14% of GDP and reduce expenditure to 16% of GDP. Over the same period, Government debt will be reduced to 30% of GDP and the non-resource primary fiscal balance will reach zero. To ensure adequate provision for economic development, two thirds of primary expenditure will be allocated to enablers of the Medium Term Development Plan (see section 3), and public investment will rise from less than 4.0 to 5.5% of GDP by 2022.

2.6. Considering the impact of large fluctuations in resource-related income on the economy and public finances, particularly due to LNG, the Government is in the process of establishing a sovereign wealth fund (SWF). This will smooth variations in revenue, save for the future and ensure consistent funding is available to support the social and economic development objectives of the country. The SWF will be invested offshore but will be fully integrated within the national budget and fiscal framework. Legislation governing the SWF has already been passed.

2.7. Many of the country's aspirations to rebalance its economy from informal agricultural employment and enclave resource extraction to a diversified, modern economy are encapsulated in the Small and Medium Enterprise (SME) Policy and Master Plan, covering the 15 years from 2016-30. The Government plans for the establishment and growth of SMEs to drive formal employment from 290,000 to 2 million and SME value addition from 10 to 50% of GDP by 2030. This will be achieved by improving the enabling environment, fostering an entrepreneurial mindset, ensuring access to business finance, building infrastructure and providing training and support services.

2.8. An immediate priority under the MTRS is a comprehensive review of tax incentives, which will be conducted in 2019 with assistance from the World Bank. The review aims to rationalize incentives to improve the business environment and raise revenue, and to improve the tax expenditure statement for the 2020 budget.

2.3 Outlook

2.9. The economy is expected to rebound in 2019, with the economic effects of the 2017 drought and 2018 earthquake largely complete, and due to the resolution of the foreign exchange imbalance, and new spending in preparation for mining and petroleum projects. This last is expected to spill over into the non-mining sector, boosting construction, transport, storage and manufacturing. Between 2019 and 2023, the economy is expected to grow at an average annual rate of 5.0%.

2.10. As the effects of APEC dissipate, inflation is expected to ease to 5.4% in 2019, with a marginal increase in 2020 as new mining and petroleum projects move into the early construction phase. Increased employment is likely to maintain upward pressure on prices.

2.11. The Government increased external borrowing in 2018–19. Along with an increase in mining and petroleum tax collections, dividends and royalties, this is expected to resolve the foreign exchange shortage in 2019.

3 DEVELOPMENT FRAMEWORK

3.1. Papua New Guinea's strategic development framework comprises three levels.

- At the top level, Vision 2050 establishes the country's overall strategic direction over the 40 years from 2010 to 2050.
- Long-term planning is further elaborated in the Development Strategic Plan (DSP), covering the 20 years from 2010 to 2030.

- More immediate planning is captured in the Medium Term Development Plan (MTDP), the current third edition covering the 5 years from 2018 to 2022 to coincide with the current electoral cycle.

3.2. This traditional planning process is augmented by the National Strategy for Responsible Sustainable Development (StaRS, now in its second edition), which complements the longer-term strategy documents by emphasising sustainable solutions to PNG's development challenges.

3.3. Vision 2050 is based on seven strategic focus areas, which are:

- Human capital development, gender, youth and people empowerment
- Wealth creation
- Institutional development and service delivery
- Security and international relations
- Environmental sustainability and climate change
- Spiritual, cultural and community development, and
- Strategic planning, integration and control.

3.4. The DSP builds on this foundation with greater policy detail, in particular fleshing out trade and economic policy priorities, including macroeconomic and financial management, goods sector strategies, policies on land, infrastructure and services, and the concept of economic corridors, prioritising the provision of infrastructure to zones suitable for rapid private sector development. Ten potential regions are identified for development as economic corridors.

3.5. Planning for the election cycle is captured in the MTDP, which is separated into two volumes; volume one provides the policy rationale and strategies for implementation of the plan, while volume two provides a detailed logframe for each sector priority, including indicators, targets and budget requirements. Each action is delegated to a sector plan or specific policy to ensure ownership and accountability. Alignment with the Sustainable Development Goals (SDGs) is detailed throughout. Alongside the MTDP, the Development Cooperation Policy (DCP, now in its second edition) follows the same time horizon and aims to address a historical lack of coordination amongst development partners and between development partners and the Government by establishing principles and strategies to guide more effective collaboration. The MTDP is structured around six areas of activity: the economy, the social sector, infrastructure, law and order, governance, and cross-cutting issues including gender, youth, climate change and natural disaster management.

4 TRADE POLICIES AND PRIORITIES

4.1 Trade Policy

4.1. During the review period, trade policy planning in PNG has undergone a step change. Long-term support from the European Union (EU) and an extensive consultation process have culminated in the country's first National Trade Policy (NTP) in 2017, which will coordinate Government action for the next 15 years. The NTP places equal weight on domestic and international trade, recognising the remaining deficits in national infrastructure, the business environment and mechanisms to support trade facilitation. Despite the substantial work that remains for the Government to do in these areas, the NTP is fundamentally private-sector-led, outward looking, and cognisant of the benefits of a liberal international trade regime. The NTP's main objectives are:

- To signal the country's openness to international partners
- To improve market access for exports
- To protect consumers through enforced standards and intellectual property rights

- To create a conducive business environment
- To identify new export markets and improve access through new agreements
- To advocate for the elimination of large subsidies that distort international trade
- To ensure that trade-related sectors can access necessary financial services, and
- To mainstream PNG's small and medium enterprises (SMEs) into international trade.

4.2. The Government recognizes that the publication of the NTP, although important, is only the first of many steps needed to fully exploit available trading opportunities. The next priority is to implement the NTP's vision for the institutional structure that PNG needs to coordinate and implement its trade policy effectively and coherently. The NTP envisages that trade functions will be drawn together into a new National Trade Office (NTO), capable of spearheading policy implementation and coordinating trade-related dialogue across Government and with the private sector. Planning for this transition is well under way.

4.2 Tariff Liberalization

4.3. The Government firmly believes that opening up trade through tariff liberalization can unlock growth and economic development, and to that end has pursued a policy of managed unilateral tariff reduction since 1999, which has reduced duties considerably. However, it is incumbent on any government to improve the business environment in step with liberalization, to ensure that the private sector is not exposed to competition from firms that have better access to critical infrastructure or lower costs. Alongside liberalization, the Government has striven to extend ICT and transport infrastructure, improve education and lower security costs faced by firms. In some cases, such as where competitor firms have access to heavily subsidized energy costs, the Government cannot provide like treatment for domestic companies.

4.4. Substantial progress has already been made. However, through ongoing dialogue, the private sector has raised concerns that the pace of liberalization has, in certain sectors, progressed more quickly than the resolution of firms' challenges. The Government is committed to evidence-based policy-making in matters of such importance, and has therefore decided to take stock of its recent liberalization, and evaluate the impact on trade, the private sector, and poverty, following earlier reviews in 2003 and 2007. This evaluation will go ahead as soon as resources are available. Future policy regarding MFN tariffs and priority investment climate improvements will be informed by the evidence established by this review.

4.5. As liberalization has exposed the private sector to increased competition, the effects of trading partners' export subsidies have more frequently caused damage to domestic manufacturing. PNG repealed its previous trade defence legislation in 1997, shortly after joining the WTO, but recent liberalization has drawn attention to this gap in the legal framework. Consequently, the Government is currently preparing an Anti-Dumping and Countervailing Measures bill to provide protection in line with the country's existing obligations.

4.3 Intellectual Property (IP) Rights

4.6. The Intellectual Property Office of PNG (IPOPNG) is responsible for registration and protection of intellectual property. The Office is currently working on amendments to the existing legal framework, in order to eliminate remaining incompatibilities with TRIPS among other objectives. Generous assistance has recently been provided by the EU to develop a new IP strategy. The Government remains committed to implementing this strategy as soon as funding is available to meet its cost implications.

4.7. So far, IPOPNG's activities have centred on IP registration, with limited ability to support enforcement. Domestic prosecution of IP-related infractions requires that personnel within the police and court system have a baseline understanding of the technicalities of intellectual property, and this has proved a substantial hurdle to effective enforcement. A concern is that staff turnover within other agencies means that such training needs to be provided on an ongoing basis, rather than a one-off donor intervention. In the medium term, IPOPNG seeks to develop the in-house capacity to

provide such training to partner institutions, perceiving this to be the only sustainable solution, but is likely to need technical assistance to develop this capability.

4.8. In addition to traditionally legislated areas, IPOPNG's mandate includes the protection of traditional knowledge (TK). This has been a particular concern during the review period, since perceived misuse of Papua New Guinean traditional designs has posed a substantial threat to the livelihoods of many low-income informal workers in household enterprises, particularly women — making this a pressing concern in terms of poverty reduction and gender equality. As with other countries, PNG has found it challenging to translate traditional knowledge principles into effective legislation, but has been actively involved in collaborative attempts to solve this problem through a regional work programme with other Pacific islands during the review period. At present, an important priority is to undertake a stocktake of the most important national areas of traditional knowledge. Funding has been the main constraint in progressing with this task, and it is an area in which donor support could be well used.

4.4 SPS and Biosecurity

4.9. PNG is relatively free of many of the pests and diseases that have harmed agricultural production in other countries. The National Agriculture Quarantine and Inspection Authority (NAQIA) is the competent biosecurity statutory institution and authority created in 1997 by an act of parliament. NAQIA is mandated under the National Agriculture Quarantine and Inspection Authority Act 1997 to provide sound scientific quarantine and inspection services to assist and encourage agricultural production by minimising the risk of introducing exotic animal and plant pests and diseases.

4.10. Sanitary and phytosanitary (SPS) measures are important in relation to animal, plant, and human health. SPS measures act as a medium to enhance trade facilitation with other economies through compliance. PNG's SPS measures are set in compliance with the regulations and guidelines of the WTO SPS Agreement, World Organisation for Animal Health, International Plant Protection Convention and the Codex Alimentarius Commission.

4.11. The biosecurity measures that NAQIA sets play a significant role to protect animal health, plant health, human health, biodiversity, and to encourage agricultural production and promote economic growth.

4.12. NAQIA is responsible for maintaining the integrity of agricultural production and the livelihoods it supports. It does this by setting import requirements based in risk assessments and international standards.

4.13. Up until now, NAQIA's enforcement capability has been limited to points of entry. The new Biosecurity bill has been developed to resolve this limitation by providing NAQIA behind-the-border enforcement powers, in addition to other new functions and powers. The Government intends to enact this bill in the near future.

4.14. A second priority is to continue to facilitate trade by improving online access to SPS approvals. In 2013, with the support of Australia, NAQIA first introduced an SMS-based system for reporting animal disease outbreaks. Unfortunately, this system is no longer working, and donor assistance would be useful in restoring it. Improvements in the use of new technology to facilitate interaction between NAQIA and the public have been ongoing. At present, the Authority is establishing an electronic process to apply for import permits, including online payment and approval. At a later stage, this system will be extended to cover phytosanitary and health (sanitary) certificates. Work has begun and is progressing, but full implementation would be greatly accelerated if donor assistance were to be made available. NAQIA also needs support in the form of training and upgrading facilities to complement its current modernization process.

4.5 Standards

4.15. The National Institute of Standards and Industrial Technology (NISIT) is PNG's national standards body and TBT National Enquiry Point. It is a full member of the Asia Pacific Metrology Programme, Asia Pacific Legal Metrology Forum, Asia Pacific Laboratory Accreditation Cooperation and the Pacific Area Standards Congress, and a corresponding member of the International

Standards Organization, International Organization for Legal Metrology and International Bureau of Weights and Measures. NISIT represents PNG in the APEC Standards and Conformance Subcommittee.

4.16. NISIT is currently concentrating on a national survey and gap analysis of quality infrastructure in order to develop the country's first national quality policy. This process is receiving support from the UK's Department for International Development and the British Standards Institute through the Commonwealth Standards Network. The Government intends to implement this policy through a substantial increase in the staff of NISIT and relocation to more suitable facilities. This will enable the organization to more fully fulfil its mandate of proactively scrutinising imports and documenting the quality of selected exports.

4.17. One of the most persistent challenges NISIT has faced over the review period has been to build the capacity of staff in the face of persistent turnover. International assistance has been appreciated in providing training to standards officials, but it has been difficult to retain staff members that are often highly valued by international extractives companies, who are able to offer higher salaries than civil service positions. The Government appreciates the patience shown by international organizations and development partners in providing repeated training in the face of such regular setbacks. It is unclear how this challenge can be sustainably addressed in the longer term.

4.18. In the future, a range of additional reforms and aspects of organizational development will be required. Once a new national quality policy is in place, it is likely that the legislative framework will need to be reviewed and updated. Construction of a permanent, Government-owned laboratory and investment in appropriate technical equipment will be necessary. Ultimately, the goal is to implement a quality system according to ISO/IEC 17025, with a view to achieving international recognition of declared calibration and measurement capabilities within the framework of the CIPM mutual recognition arrangement. Investment in technical training will also be required for implementation of a quality system according to ISO 17011 for Accreditation Bodies and ISO 17021 for Certification Bodies enabling international recognition of the declared scope of accreditation and certification within the framework of the International Laboratory Accreditation Cooperation and the International Accreditation Forum.

5 SECTORAL TRADE POLICIES

5.1 Agriculture

5.1. Agriculture remains of central importance to the economy, not least because 82% of Papua New Guineans farm, whether commercially or to provide their households with food. The sector represents 24% of GDP (including forestry products) and 13% of exports.

5.2. The main commercial products grown are oil palm, coffee, cocoa, coconut, rubber and tea. These commercial crops are supported by statutory authorities such as the Cocoa and Coconut Research Institute, the Coffee Research Institute, the Fresh Produce Development Agency (FPDA), and the Oil Palm Research Association, who provide research and development and extension services.

5.3. During the review period, agriculture has been governed by the National Agriculture Development Plan 2007–16 (NADP). The main objectives of the NADP were to reduce costs and improve quality, to increase the incomes of people dependent on agriculture, to improve sustainability and to increase the opportunity for women to make decisions in agriculture.

5.4. Since 2011, the Government has been working with the World Bank to implement the Productive Partnerships in Agriculture Project, to improve the livelihoods of cocoa and coffee farmers by increasing yield and improving product quality. Additional financial support has been generously provided by the International Fund for Agricultural Development (IFAD) and the EU. This has been a great success, increasing farmers' income by averages of 61 (cocoa) and 76% (coffee), and increasing average coca yield by 330%.

5.5. The Government is currently reviewing the success of the NADP and consulting widely in order to develop an updated agricultural policy for the sector over the next ten years. Important steps to

improve the productivity of the sector are among the emerging priorities, including renewed investment for rehabilitation of aging plantations and the creation of a nationwide network of new nurseries.

5.6. An important component of the Government's current plans is a partnership between the FPDA and IFAD to support fresh produce value chains. It is expected that implementation will begin later this year.

5.2 Forestry

5.7. Forests cover approximately two thirds of PNG, and the country is among the twenty countries with the largest area of forest cover in the world. The country is a globally significant exporter of tropical round logs. Timber products are exported almost exclusively to economies in the APEC region, totalling 3.2% of the country's exports.

5.8. The Government is concerned with the sustainability of the timber industry, and has set a target in the MTDS to reduce the rate of harvest of primary forests from 9 to 5% per year by 2022, and levies export duties of up to 42% on logs. However, it has also allowed increased log exports in the short term, to allow the country to increase its revenue to sustain the economy. The Government, as a matter of policy, will continue to strive towards the downstream processing of all logs prior to export. At present, roughly 10% of the annual timber harvest is processed onshore for domestic consumption and timber products export. The country is endowed with a vast forest resource and Government recognizes this and has used it to improve the socio-economic conditions of its rural majority, with due environmental safeguards.

5.9. PNG has increased its participation in the International Tropical Timber Organization (ITTO), the APEC Experts Group on Illegal Logging and Associated Trade (EGILAT), and in bilateral meetings with important timber consuming countries like Australia. This advocacy reflects the dire need of PNG to address non-tariff barriers and restrictions on market access. The Government also encourages all stakeholders to achieve an equitable income from a sustainable forestry sector. To this end it has recently made an important decision to levy a charge on all log harvest, in order to fund the PNG Forest Authority (PNGFA) to carry out its mandated function. This, amongst other things, will enable PNGFA to increase its promotional activity, research and to improve connectivity to international markets, where 90% of the country's annual log harvest is consumed.

5.10. The Government supports efforts by the timber industry in pursuing forest and timber product certification, either through third-party certifying organizations or through market-driven standards, as is the case with Australia. The country-specific guidelines signed with Australia, the biggest timber products market for PNG, is a manifestation of this endeavour. It is also the desire of the Government to maintain independent monitoring of the most important timber commodity exports, and has maintained SGS (PNG) Limited, a Swiss surveillance company, to monitor log exports since 1994.

5.11. The PNGFA has collaborated with the EU, United Nations (UN) Food and Agriculture Organization (FAO) and UN Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation (UN-REDD) to develop a multi-purpose inventory of forest resources. The Authority has also enhanced the capacity of its Forest Resource Information Management System (FRIMS) through the introduction of remote sensing and geographical information tools, with support from the Japan International Cooperation Agency (JICA), which is helping the country to address REDD+. The Australian Centre for International Agricultural Research (ACIAR) has further assisted in improving understanding of the means for increasing recovery for processed wood products. UN-REDD has also enabled the Government to partner with various international and regional organizations to build a centralized web-based application that will collect, store and process forest information, to enable more informed management decisions. The system is called the Decision Support System (DSS). It is envisaged that the DSS and the FRIMS will support PNG's Timber Legality Verification System (TLVS), which is currently in development. This will allow for PNG forest products to be traced from market to origin. The Government has partnered with the UN FAO to complete the DSS.

5.12. An ongoing corporate review aims to develop the National Forest Service to improve the delivery of Government directives which aim to increase participation in the forest industry by forest owners and Papua New Guineans. The Government calls on Members and development partners to

work together to make up-to-date market information available to enhance informed decisions on the trade of PNG forest products.

5.3 Fisheries

5.13. PNG is deeply committed to the sustainable management of its fisheries resources, both to maximize their commercial value and to preserve their biodiversity for generations to come. Having successfully managed the rehabilitation of bigeye tuna and bêche-de-mer in collaboration with regional fisheries management organizations (RFMOs), all of PNG's assessed stocks are now healthy. The Government is fully committed to the eradication of illegal, unregulated and unreported (IUU) fishing, though traditional ('kastom') community systems of stock management and protection are every bit as valid and effective as those within the formal legal system. The Parties to the Nauru Agreement (PNA, eight Pacific islands including PNG that cooperate to manage tuna stocks) now require all purse-seiners to carry observers, as part of renewed efforts to tackle IUU fishing. PNG has the largest force among the PNA, with 300 observers. The Government sees the achievement of SDG 14.6 as critical for the health of the world's fisheries, and consequently the successful achievement of a fisheries subsidies agreement is currently its highest priority at the WTO.

5.14. The Government supports a range of additional sustainability measures, such as the International Seafood Sustainability Foundation's (ISSF) partnership with industry to reduce the negative effects of lost fish aggregating devices (FADs) by improving their biodegradability. In 2014, the Conservation and Environmental Protection Authority (CEPA) introduced a new policy on protected areas, including the creation of marine sanctuaries and locally managed marine areas. Enabling legislation is currently in draft form.

5.15. Government support for the nation's fisheries remains important for a number of reasons. Most importantly, at the artisanal and subsistence level, fisheries are a critical source of food and livelihoods for some of the poorest Papua New Guineans. The ability of Government to support fishing activity to reduce food poverty, and to help in the transition out of subsistence activities and in to the beginning stages of commercialization is fundamental to the nation's development. This has been recognized by a wide range of development partners — in recent years the World Bank, Asian Development Bank (ADB), EU and JICA have all generously provided support to programmes of these types. Such programmes also have a long history, dating back to support provided by IFAD and funded by Germany in the 1970s.

5.16. Papua New Guinea has not had the financial resources to provide large subsidies to develop a commercial fishing fleet. All of the foreign commercial fleets operating in the country's waters continue to benefit from such historical subsidies. A prohibition on future subsidies, which fails to acknowledge the present and ongoing benefits of past subsidies, would lock PNG into an unfairly disadvantaged position within its own waters for decades to come. In coming negotiations, it will be vital for more developed fishing nations to acknowledge this reality if an equitable outcome is to be reached.

5.17. Attracting investment in onshore processing of fish is a high priority. The Government sees this as a way of creating well paid employment, especially for women, who are underrepresented in the formal economy, but form a large majority of workers in the fish processing sector. The country currently has six facilities producing tinned tuna and cooked loins, employing some 20,000 people. A major current challenge is that tariff preferences for tinned tuna into the EU market, negotiated under the interim EPA, have been eroded through the extension of duty-free access to large competitors under GSP+. This has seriously undermined the overall value of the agreement to the PNG economy, and placed the industry under threat from international competitors who benefit from subsidies that the Government of PNG cannot match.

5.4 Manufacturing

5.18. Manufacturing contributes just 6% of GDP, yet accounts for approximately half of all formal sector jobs. Important subsectors such as textiles and fish processing predominantly employ women, ensuring that overall, manufacturing is not as male-dominated as in many other countries. Manufacturing growth is therefore central to reducing poverty by increasing formal sector employment. Many of the Government's policy priorities for manufacturing are discussed elsewhere in this report, such as improving standards and SPS infrastructure, strengthening IP protection,

reintroducing trade defence legislation, improving the business environment and streamlining the administration of importing inputs. The Government also promotes consumption of local products through its "PNG made" initiative, and supports exports abroad through trade fairs and research on foreign markets.

5.5 Services

5.19. The Government's work on **financial inclusion** has resulted in major achievements over the review period. In 2013, the Government established the Centre for Excellence in Financial Inclusion (CEFI) as the industry apex body for promoting financial inclusion in the country. CEFI developed the country's first National Financial Inclusion Strategy (NFIS), with a second edition published in 2016 to plan for the period to 2020. CEFI coordinates the NFIS through collaboration with the Bank of PNG (the central bank), government agencies, financial service providers, development partners and seven industry working groups. In just the first two years of the strategy, 1.2 million bank accounts were opened — covering 15% of the population — of which 35% were opened by women. The next phase aims to create an additional 2 million accounts, of which half are to be opened by women to address the earlier imbalance. Australia is currently funding the ADB to implement the Microfinance Expansion Project, through which 200,000 people have received financial literacy training, of which 47% are women.

5.20. **Information and communications technology** (ICT) has the potential to transform every economy, but is particularly powerful for small island developing states (SIDS) as a means to circumvent the costs of remoteness and distance from major markets. At present, with inadequate international fibre optic capacity, PNG relies heavily on satellite capacity to carry remaining traffic. Internet services and international calls are consequently not competitive with other developing economies. This will be addressed through the Coral Sea Cable System (CS²), a 20 Tbps fibre optic cable connecting Sydney to Port Moresby in PNG and Honiara in Solomon Islands. The system is being funded jointly by the three governments. Equipment manufacture is underway and the cable is expected to be in use by 2020.

5.21. The National Information and Communications Technology Authority (NICTA) is the statutory ICT regulatory authority, and selectively regulates competition and pricing in the market. The Authority recognizes that adequate regulation is just as important as investment to ensure that businesses and consumers fully benefit from improved services and lower costs as a result of the new connection. Another Government priority is to improve connectivity within the country, a considerable challenge given PNG's mountainous terrain and 600 islands. The next step will be to construct a coastal submarine cable to connect major coastal population centres to the capital.

5.22. The Government is currently preparing **e-commerce** legislation to create an enabling environment for business, with the intention to accede to the UN Economic and Social Commission for Asia and the Pacific (UNESCAP) Framework Agreement on Cross-border Paperless Trade. This will contribute to the creation of the country's single window, in line with Article 10.4 of the Trade Facilitation Agreement (TFA).

5.23. Papua New Guinea has enormous untapped potential in the **tourism** sector. Since 2017, the Government has been partnering with the World Bank in a Tourism Sector Development Project (TSDP). This is updating the country's tourism policy, including detailed planning for two priority tourism hubs, in Milne Bay and East New Britain. The TSDP includes substantial investment in infrastructure, upgrading attractions, facilities, signage and access. New policy and infrastructure development is informed by a landmark international visitor survey and demand assessment report in 2017, led by the International Finance Corporation (IFC) with support from Australia and New Zealand. The Government is also working on a new investment guide for the sector, in particular to encourage greater foreign investment.

5.6 Mining, Oil, and Gas

5.24. Whilst the Government's long-term strategy aims to reduce reliance on extractive industries, at present GDP, export earnings and the Government's fiscal position are heavily influenced by oil, gas and metal prices, and the timeline of extractive operations.

5.25. Mining has diversified over the review period, with exports of nickel and cobalt beginning in 2012. However, at roughly the same time, a decade of strong exploration, investment and high commodity prices came to an end, and recent years have seen a cyclical downturn.

5.26. The oil and gas industry has followed a similar price-driven cycle, with prices falling dramatically from a 2014 peak, with a resulting reduction in exploration and investment. Oil production began in 1991, but has been in steady decline since 1993; the first refinery opened in 2005. In contrast, the prospects for continued expansion of the gas industry are strong, with three new projects at an advanced stage of planning, promising increased opportunities for downstream processing into liquefied petroleum gas (LPG). There is also an opportunity to initiate the first offshore development of natural gas reserves in the coming years. The Government is currently working on a third-party access policy, which would enable development of smaller stranded fields near to the existing petroleum pipeline by enabling other parties to access existing pipeline and processing facilities.

5.27. Vocational education has been a concern in recent times, as the lack of certification of local courses to international standards has meant that many extractives operations have required an undue proportion of expatriate labour. The Government has been discussing ways to improve courses and obtain international certification with development partners, including the EU and Australia.

6 TRADE NEGOTIATIONS AND RELATIONSHIPS

6.1 Multilateral Trading Arrangements

6.1. PNG is represented at the WTO by the Geneva office of the PIFS, and by the Government's Ambassador in Brussels. Since the last review, two Pacific Members (Solomon Islands and Vanuatu) have made the important step of establishing their own missions in Geneva, providing permanent representation to the WTO. The Government understands the great benefits of a permanent office to facilitate active and meaningful participation in multilateral negotiations, though for a small island developing state, the ongoing financial burden of doing so is considerable. To work towards the long-term objective of establishing a permanent presence, the Government aims to build the experience of its trade staff by seeking opportunities for officials to participate directly in negotiations on a temporary basis. France and Ireland have kindly offered funding for one official to work within the PIFS Geneva office for ten months in 2019, which will be of enormous benefit in this regard.

6.2. Given tight limitations on its representation in Geneva, PNG has to be highly selective in its engagement with negotiations, and is unable to participate in either the range of subject areas or with the depth of involvement it would like. As mentioned previously, fisheries subsidies negotiations are currently the top priority, but the Government also takes great interest in special and differential treatment (S&DT), trade and the environment, trade and natural disasters, and agriculture. Meaningful engagement has not so far been possible in the e-commerce initiative stemming from the MC11 Joint Statement on E-commerce, although the Government aims to follow future developments more closely. The Government is reluctantly not able to follow various other plurilateral initiatives that are gaining momentum and potentially of interest, in areas such as investment facilitation, domestic regulation and micro, small and medium enterprises (MSMEs).

6.3. As a SIDS, PNG is part of the informal small, vulnerable economy (SVE) grouping, and has been supportive of the Work Programme on Small Economies launched in 2002. The Government is disappointed by the latter's loss of momentum in recent years. Considering the specific risks and challenges faced by SIDS and SVEs, the Government believes that the logic of this Work Programme remains acutely relevant to current negotiations.

6.4. PNG notified its Category A commitments under the TFA in 2016, and deposited its instrument of acceptance of the TFA last year.

6.5. PNG has noted Members' renewed interest in ensuring transparency through existing notification obligations within the context of ongoing discussions on WTO reform. The Government devotes considerable administrative resources to its notification requirements and has been proactive in seeking assistance from the Secretariat, which has been of great help in navigating a somewhat convoluted array of obligations. The Government faces an ongoing dilemma in choosing

the extent to which it should neglect active negotiations and the implementation of domestic trade-related policy in order to provide notifications, which often appear to have limited relevance to small economies and consequently provide little useful information to the international community.

6.6. In the interests of maximising transparency while minimising the burden on small, capacity constrained administrations, PNG would like to explore how the TPR process could be modified to provide direct assistance in the preparation of countries' notifications on request. The Government also believes that this is an area in which development partners could work with small countries to explore the use of ICT systems to streamline certain notification procedures. In future negotiations, it would be helpful if Members could remain mindful of the impact of notification requirements on the smallest administrations, and consider the inclusion of *de minimis* thresholds to ensure that the burden placed on countries is proportionate to the value of information sought.

6.2 Regional

6.7. The **Melanesian Spearhead Group** comprises Papua New Guinea, Solomon Islands, Vanuatu, Fiji and the Kanak and Socialist National Liberation Front (FLINKS) of New Caledonia. Over the last 26 years, the trading relationship between the group has become increasingly close through three successively comprehensive free-trade agreements. The first agreement, entering in to force in 1993, was based on a positive list approach, replaced in 2005 with a goods agreement using a negative list approach that had much greater coverage. In 2016, this integration process culminated in the finalization of a comprehensive agreement on goods, services, investment and labour mobility (MSGTA3). Two countries are already trading under the new agreement, and PNG will make the necessary arrangements to join them shortly.

6.8. PNG signed an **interim Economic Partnership Agreement** (EPA) with the EU in 2007, to succeed unilateral Cotonou trading preferences. Although intended to be a bridging arrangement that would be replaced by a more comprehensive agreement, offering benefits for more Pacific islands, further negotiations have at present been discontinued. In preparation for the UK's expected departure from the EU, the Government has been discussing with the UK how best to transition existing arrangements to ensure no disruption to trade on either side. Perhaps the most important benefit for PNG of joining the interim EPA was the ability to export tinned tuna to the EU duty free, securing an estimated 20,000 jobs, mostly for women. Unfortunately, since the agreement was signed, such preferences have been eroded due to the extension of duty-free access to major competitors under the EU's GSP+ scheme. Given the UK's strong understanding of PNG's situation, it is hoped that arrangements can be extended in a way that protects the development interests of the country and communities that rely on employment in fish processing facilities.

6.9. The **Pacific Island Countries Trade Agreement** (PICTA) provides PNG with duty-free access to most of the Pacific islands. It was ratified by the Government in 2003. It was extended through a protocol on trade in services in 2012, but the latter has not yet been signed by PNG.

6.10. Despite participating in negotiations of the **Pacific Agreement on Closer Economic Relations** (PACER) **Plus**, a free-trade agreement covering the Pacific island countries plus Australia and New Zealand, on completion of negotiations the Government has decided against signing. While the agreement made encouraging progress in covering labour mobility and development cooperation, it was unfortunate that countries' intentions in these areas could not be subject to binding disciplines, as were applied to island countries' defensive interests. The Government also had unresolved concerns relating to MFN treatment and infant industry protection. In the absence of PACER Plus, PNG continues to access Australia and New Zealand through the non-reciprocal South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA).

6.3 Bilateral

6.11. Papua New Guinea has had a bilateral trade agreement with **Australia** since 1977, which was updated in 1991. In light of the inability of PACER Plus to meet PNG's trade needs, the Government is currently conducting research to identify and quantify opportunities from a potential newly negotiated bilateral agreement with Australia. Australia is generously providing funding for this analysis.

7 CONCLUSION

7.1. Papua New Guinea remains deeply committed to the multilateral trading system. Binding, enforceable rules and open markets remain the best route to economic development, job creation and peaceful cooperation. The Government anticipates that the WTO has a crucial role to play in fulfilling the SDGs, not least SDG 14.6.

7.2. The complexity of multilateral negotiations poses difficulties for capacity constrained administrations, but bilateral or regional engagement can only ever deliver a fraction of the benefits of a global framework, and small countries are particularly vulnerable to the effects of a weakened WTO. PNG is ready to engage in the global conversation about how the multilateral system needs to change to continue to meet the needs of its Members throughout the 21st Century.

7.3. Many developing countries, not least SIDS and SVEs, remain insufficiently integrated into global trading systems. Geographical isolation, supply-side and administrative capacity constraints, and vulnerability to natural disasters and climate change remain profound challenges that threaten PNG's further marginalization. However, support from other Members in recognising these challenges and working in partnership to mitigate their effects will continue to ensure that the WTO system works effectively to advance the interests of all Members.

ANNEX

TRADE-RELATED TECHNICAL ASSISTANCE

The Donor Cooperation Policy (2018–22) lays out principles governing effective development assistance for PNG. The DCP aims to improve alignment between donor programmes and Government planning priorities. The Government takes responsibility for clear communication of the country's priority needs. To this end, this annex briefly summarizes areas in which trade-related technical assistance could be well used, either immediately or in the short-to-medium term. Many of these needs are discussed in the main report within the context of existing plans and policy priorities.

PNG has undergone substantial tariff liberalization in recent years. Despite the benefits of these reforms, there is evidence of strain on domestic manufacturing industry, in light of continuing cost disadvantages, partly due to competitors' domestic subsidy programmes. The Government has prepared terms of reference for an **evaluation of the impact of the tariff reforms**, which is needed in order for decisions to be made regarding the future of the programme. Donor assistance would be helpful in funding this evaluation.

The Government is currently preparing a new **intellectual property** strategy with the support of the EU. Donor assistance is likely to be needed to support implementation of this strategy. The IPOPNG is also seeking to develop the capacity to provide training to law enforcement and the justice system in order to develop the sustainable ability to enforce IP rights law domestically. Donor assistance will be needed to establish this capability.

The Government's next priority in advancing the protection of **traditional knowledge** is to perform a stocktake of national areas of TK. Donor support for this work would be appreciated.

NAQIA is already working to speed up the provision of import permits, phytosanitary certificates and health (sanitary) certificates by developing online systems to replace traditional approvals processes. Donor support could greatly accelerate this process. Donor assistance could also usefully support **SPS and biosecurity** through a new laboratory building; improved lab testing capability for animal production diseases, zoonotic diseases, and public health food and water testing; improved quality assurance; lab biosafety; improved dialogue mechanisms with industry and the agricultural sector; regional and international networking; reliable and credible cost recovery services; lab upgrading for plant health, and training in plant identification and disease diagnostics; and quarantine and food safety inspection training.

PNG is in the process of establishing its first national quality policy to improve technical **standards**. Implementation of this policy is likely to require a range of support from donors, including in providing metrology and testing equipment and accompanying training. In the medium term, NISIT will need to move to a Government-owned facility to ensure long-term continuity in testing and certification.

In **agriculture**, PNG has a large number of aging plantations that have suffered from a lack of investment. Recent work by IFAD and the EU has demonstrated the large potential gains from rehabilitation, increasing farmers' incomes by more than half on average. This is an approach that could readily be more widely replicated. The Government also seeks to establish a nationwide network of nurseries, for which donor support would be helpful.

In **mining**, there are many opportunities for the domestic economy to reap greater spillover benefits from the sector. There is a need to improve vocational education to meet international standards acceptable to large mining operations to ensure that more Papua New Guineans benefit from well-paid formal sector employment.

In **forestry**, accessible, up-to-date information on market prices for round logs and timber would be of great benefit to communities negotiating contracts with logging companies, and to the Government in tackling transfer pricing. International collaboration would be necessary to develop such a project. Donors could assist the Government in its ongoing development of the TLVS, an online system providing public access to traceability information on wood originating in PNG.

PNG has benefitted from substantial formal sector employment provided by the **fish** processing industry, which has done a great deal to mitigate the gender disparity in formal-sector jobs across the economy. In the last ten years, the industry has benefitted from preferences on tinned tuna under the interim EPA with the EU. The erosion of these preferences under GSP+ has created a precarious situation for the industry. Donors are invited to consider what support could be provided to improve the competitiveness of the industry. The UK in particular may have the opportunity to provide at least part of the original benefits offered by the interim EPA under future trading arrangements.

In order to improve PNG's engagement with the **fisheries subsidies** negotiations, it would be extremely helpful if capital-based fisheries experts could attend Negotiating Group on Rules (NGR) meetings in Geneva on a more regular basis. It would also be useful for Pacific coordination if capital-based fisheries officials had more opportunities to meet with their counterparts within the Pacific Group, to discuss emerging negotiating issues and to find ways to accommodate other Members' proposals. Donor assistance to facilitate the logistical costs of such travel and meetings would be greatly valued.

The Trade Division of the Department of Commerce and Industry is responsible for market research to help export-ready **manufacturing** firms identify target markets and understand critical consumer requirements. However, this function is currently underdeveloped, due to a lack of capacity and an absence of resources for staff to complete attachments with PNG's overseas missions to gather evidence. Donors could consider providing staff training or supporting research projects that would build skills through practical experience.

The new CS² international optical fibre connection will dramatically improve **ICT** services in PNG. However, for the benefits to be felt by the poorest and most vulnerable communities, additional infrastructure investment will be needed to improve domestic connections to Port Moresby. Donor investment in this area could have a profound impact on isolated rural communities.

PNG believes that Members and donors could reduce the burden of WTO **notifications** on small economies, without significant loss of value to the international community. Members could explore adjustments to the TPR process itself, so that work already routinely done by the Secretariat could be made more useful to countries through direct assistance in the preparation of notifications. Donors could consider the creation of ICT solutions to streamline certain notification processes, especially for SIDS.

As a non-resident Member, PNG has relied on **supporting research** institutions such as the International Centre for Trade and Sustainable Development (ICTSD), to remain abreast of developments and understand the implications of proposed rules for the domestic economy. In light of the closure of ICTSD in late 2018, the Government is grateful that some of its programmes are being transitioned to other institutions. PNG urges donors to continue to consider how the valuable contribution that ICTSD made to developing Members in Geneva could be replaced with similar support through alternative mechanisms.

The Government is very grateful to donors who have funded **internships** enabling capital-based officials to experience WTO negotiations directly and help to ensure that PNG's interests are represented through the Geneva office of PIFS. In the long term, building this experience within the PNG trade staff will prepare the Government to establish effective permanent representation in Geneva. Future offers of support of this kind would be greatly appreciated.
