## SUMMARY

1. This is the third Trade Policy Review of Papua New Guinea (PNG). Its macroeconomic performance has been broadly satisfactory, with the economy growing at an annual average rate of 5.2% during 2010-18. Real GDP growth peaked at 15.4% in 2014 but decelerated to an estimated zero in 2018. The recent slowdown was attributed to low commodity prices, a major drought in 2017 and a big earthquake in February 2018 which also weakened PNG's external position and created fiscal challenges.

2. Notwithstanding the increase in GDP per capita from USD 1,672 in 2009 to USD 2,556 in 2017, poverty alleviation remains one of PNG's major challenges. It is estimated that some 3 million people, about 40% of the population, live below the basic needs poverty line.

3. In general, the Bank of Papua New Guinea (BPNG) maintained a neutral monetary policy stance during the review period, with inflation averaging 5.5% in 2013-18. PNG's fiscal deficit, as percentage of GDP, declined from 6.9% in 2013 to an estimated 2.9% for 2018. However, the government debt-to-GDP ratio currently exceeds the target band of 30-35%, mainly because tax revenues from LNG exports have been decreasing since 2015. The Government aims to achieve fiscal consolidation in the medium-term and reduce its debt to a level below 30% of GDP in 2021 by, *inter alia*, increasing revenues and widening the tax base.

4. Despite recording current account surpluses since 2014, PNG has been facing a shortage of foreign exchange, which has adversely affected activities dependent on imports and has dampened GDP growth. During 2012-17, PNG's merchandise exports almost doubled and their composition drastically shifted, with LNG and other mineral products accounting for about half of the total (up from 17% in 2012). The composition of imports remained largely unchanged across commodity groups. Australia accounted for around 34% of imports and 28% of exports of goods in 2017.

5. PNG's investment regime is generally open. However, certain low-skilled economic activities continue to be reserved for PNG citizens and national entities. On average, FDI inward stock represented about 20% of GDP between 2012 and 2017. FDI inflows were negative in 2014 and 2017 because of LNG project-related debt repayments. Some legislative reforms and added stability in government helped PNG to improve its ranking in the World Bank's latest Ease of Doing Business report to 109th (from 145th in 2016). Some of the reported challenges for doing business in PNG are enforcing contracts, starting a business, resolving insolvency, and trading across borders.

6. In 2017, PNG adopted its first ever National Trade Policy, covering the period 2017-2032. An institutional transformation is currently under way at the Department of Commerce and Industry, with a view to separating external trade from commerce and industry functions. PNG still has no legal and institutional frameworks for the application of antidumping, countervailing, and safeguard measures. During the review period, the only significant legislative developments concerned the public-private partnership (PPP) and government procurement frameworks. Provisions stipulating local preference margins and reserving certain tenders for PNG nationals are being introduced.

7. PNG is an original WTO Member; it remains a non-resident Member, handling WTO matters through its mission in Brussels and the WTO Pacific Islands Forum Representative Office in Geneva, established in 2004. The absence of a Geneva mission continues to hamper its participation in the multilateral trading system. PNG is not a party to the Information Technology Agreement, or to the plurilateral Agreements on Government Procurement and Trade in Civil Aircraft. It has not been involved in any formal WTO disputes, including as a third party.

8. PNG has made few notifications to the WTO; the authorities have requested technical assistance from the Secretariat in this regard. PNG notified its Category A commitments under the Agreement on Trade Facilitation (TFA) on 8 June 2016, and deposited its instrument of acceptance of the TFA on 7 March 2018. PNG accepted the Protocol Amending the TRIPS Agreement in June 2016.

9. PNG has four RTAs in force: Economic Partnership Agreement (EPA) EU–Papua New Guinea/Fiji; Melanesian Spearhead Group Trade Agreement (MSGTA); Pacific Island Countries Trade Agreement (PICTA); and South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA). These RTAs encompass 41 partners (some of them are not WTO Members), and have

been notified to the WTO. The four RTAs have membership overlaps, translating in complex trade regimes that pose risks of raising business costs and thereby potentially resulting in more trade (and investment) diversion than creation.

10. PNG's applied MFN tariff is now based on HS2017, with a simple average (excluding non-*ad valorem* rates) of 3.9%, down from 5.1% in 2010. Some 82 tariff lines (1.4% of all lines), covering certain alcoholic beverages, tobacco, and poultry meat, carry specific rates. *Ad valorem* tariffs range from zero to 50%, with the highest rates levied on wood, pulp, paper and furniture products. There are no seasonal tariffs, or tariff quotas. PNG has bound its entire tariff; it has bound "other duties and charges" at zero. On 23 tariff lines, applied rates exceed bound levels; unit differences preclude meaningful comparison between applied and bound specific rates on 34 additional tariff lines.

11. PNG has not submitted any notifications to the Committee on Import Licensing since 1998. Prior authorization and/or licence requirements exist for certain imports mainly for security, public health and environmental reasons. Export controls and restrictions are also in place largely for the purpose of protecting wildlife, cultural heritage and the environment.

12. PNG applies *ad valorem* export taxes on crocodile skins (5%), jewellery and articles of gold or silver (5%), and certain ores and concentrates (5%). As from January 2018, unprocessed old-growth logs (except plantation logs) are subject to a progressive export tax, whose rates increase with the f.o.b. price. A log export development levy of PGK 8 per $m^3$ also remains in force.

13. An amendment to the Income Tax Act, repealing an export subsidy provision, became effective as of 1 January 2015. PNG maintains an income tax concession allowing for the double deduction of expenditure on export market development. The tax savings must not exceed 75% of incurred eligible expenditure, which includes that on overseas publicity and advertising, market research, tender preparation, samples, trade fairs and exhibitions, overseas sales offices, and certain travel.

14. PNG's standards and technical regulations framework has been undermined by significant challenges regarding human and material resources. The National Institute of Standards and Industrial Technology (NISIT) has been suspended from the International Laboratory Accreditation Cooperation Mutual Recognition Arrangement (ILAC MRA) since August 2017. Although PNG has struggled to put in place an accreditation scheme, it recognizes certificates issued from signatories of the ILAC MRA. In 2019, NISIT's budgetary allocation was increased with a view to enhancing its personnel and technical capacity. A state-owned building has also been designated for the establishment of laboratories and an office complex.

15. There was little change to PNG's SPS regime during the period under review; the legislation in force remains outdated, and a range of capacity weaknesses are yet to be addressed. PNG lacks legislation on genetically modified organisms; such imports are cleared for entry without any specific controls. A system of import permits, administered by the National Agriculture Quarantine and Inspection Authority (NAQIA), remains in place for: live animals, animal products, fish and fish products, plants, timber, plant products, biological organisms, sand, stone and gravel. An electronic platform for the issuance of import permits is being developed but progress is hampered by the lack of resources. In August 2015, PNG imposed a moratorium on the issuance of import permits for fresh foods, including fruit, vegetables and uncooked poultry, with the stated aim of fostering domestic production and further protecting biosecurity. The import ban was lifted, at least partially, in January 2016.

16. In principle, PNG's competition regime applies to all sectors of the economy, and to SOEs that engage in commercial activities in competition with private firms. The mandate of the Independent Consumer and Competition Commission (ICCC) comprises: competition and consumer protection enforcement; administering price controls; and regulating certain markets. The ICCC has not yet entered into any formal international cooperation arrangements. In July 2018, the National Executive Council (NEC) approved a switch from the voluntary to a compulsory pre-merger notification system, which is yet to enter into force.

17. PNG has not submitted to the WTO any notifications on state-trading entities. According to the authorities, no public entities or SOEs have any exclusive rights to import, export or supply in the domestic market a particular good or service. State involvement remains prevalent in many

sectors of the economy and, in some cases, continues to crowd out private entrepreneurs. A number of SOEs continue to benefit from soft budget constraints and access to concessional finance arrangements. In June 2015, with a view to ensuring the efficient management of state-owned commercial assets, PNG established a framework that consolidated: all state interests in oil and gas projects under Kumul Petroleum Holdings (KPH); all state interests in mining projects under Kumul Minerals Holdings (KMH); and all remaining SOEs under Kumul Consolidated Holdings (KCH). As at December 2018, the KCH portfolio of companies alone had combined assets of PGK 9 billion and 7,117 employees.

18. No changes to the legal and institutional framework governing intellectual property took place during the review period. Enforcement of IPRs continues to face major challenges. The sale of counterfeit and pirated goods remains widespread.

19. Agriculture and related activities account for 18% of PNG's GDP. Agricultural policy relies on a self-sufficiency-driven notion of food security using high tariff barriers at the border for the targeted products (e.g. pork, poultry, sugar). The tariff is the main border measure assisting agriculture; the simple average MFN applied tariff on agriculture (WTO definition) is 10.1%. Agriculture exports (e.g. palm oil, coffee, cocoa) have fallen in the last few years not only because of a major drought in 2016-17 but also due to low productivity that reflects some of the key challenges facing the sector, notably poor application of technological improvements, and lack of scale economies inherent in smallholder farming.

20. In July 2018, PNG submitted its first domestic support notification to the WTO. It is the only Pacific Island country that has an Aggregate Measure of Support (AMS) entitlement, and is among the nine Small and Vulnerable Economies who obtained the same treatment as LDCs and Net Food Importing Developing Countries in the 2015 Nairobi Ministerial Decision on Export Competition in export finance.

21. In recent years, PNG's forests have been degraded and depleted due to excessive logging. The Government has decided to ban all round log exports by 2020. In addition, there is a moratorium on issuance of new logging permits. Regarding the fisheries sector, under the EPA, some fish canneries have been established to benefit from access to the EU market. However, PNG canneries are under threat of intensified competition following the inclusion of fish products under the EU's GSP+ scheme.

22. Since 2014-15, the development of LNG projects has propelled the gas industry to become the key driver of economic growth. Nonetheless, LNG output has mostly been used to repay project-related debt and has generated little employment or additional government revenues. Oil reserves are projected to be depleted by 2026 unless new discoveries are made. Mining remains an important contributor to the economy but very limited processing takes place in PNG and more could be done to encourage further value addition and downstream processing onshore to create jobs. Although the sector has been opened to private participation, electricity supply remains unreliable and very expensive for the quality of service, thus raising the costs of doing business in PNG.

23. Manufacturing has developed on the back of PNG's comparative advantage in agricultural and resource-based industries. PNG's largest manufacturing export commodities are palm oil, copra oil, processed timber and most recently refined petroleum. Processed tuna is another rapidly growing export industry. PNG imports most processed food, clothing and footwear, as well as inputs to industry and commerce. The tariff is the main border measure assisting the manufacturing sector; the simple average applied MFN tariff on manufacturing (major division 3 of ISIC) is 3.2%. Specific tax incentives are in place for manufacturing.

24. The services sector is, increasingly, the largest contributor to PNG's GDP (41.2% in 2018); wholesale and retail trade is the most important subsector. PNG's GATS commitments cover a limited number of sectors and remain unchanged since the Uruguay Round.

25. While most financial services are available in PNG, their supply is limited. Overseas investors may not be able to secure substantial funds locally. New projects would normally need to bring funds from overseas to start operations. According to the IMF, PNG's banking system is sound, profitable, and well-capitalized. However, PNG remains among the most underbanked countries on several

indicators (numbers of branches, ATMs, and loan penetration). BPNG is promoting financial inclusion and deepening.

26. Telecommunications services have benefited from the introduction of private-sector competition in the mobile telephony segment in 2007, which has resulted in a substantial upgrade in the quality and reach of services, and a significant decline in cost. However, broadband access remains expensive by international standards, access to the Internet at reasonable speeds remains difficult, and there are limitations on the international data gateway capacity, which also greatly reduces service quality.

27. Inadequate public infrastructure, across all transport modes, impedes development and is a major barrier to domestic and international trade. The coverage and quality of PNG's transport networks lag behind most other countries in Asia and the Pacific, mainly because of inadequate investment over the past 30 years. Travel by land between most provinces and to ports remains very difficult, and coastal shipping (restricted to domestic-flagged and licensed ships) and aviation services are not cost-effective. To foster the construction of transport infrastructure, the Government intends to establish PPP's as a means of harnessing private investment and management in major projects.

28. PNG's vast potential for attracting foreign tourists and fostering employment and economic growth remains largely untapped. Indeed, tourism continues to face many of the same hurdles confronting other sectors, including expensive air travel, law and security concerns, poor quality and expensive utilities, inadequate infrastructure (e.g. roads, tourism resorts), and insufficient foreign investment. To tackle these issues, the National Tourism Master Plan 2007-17 (currently being updated) prioritized marketing, product development and investment, transport and infrastructure, human resource development, and institution/industry partnerships.