

PAPUA NEW GUINEA'S EFFORTS TO PROMOTE MARKET OPENNESS

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Executive Summary

Papua New Guinea is a small economy with its Gross Domestic Product (GDP) and Trade accounting for 3% and 1% of the world total. Apart from the absolute smallness, PNG yet appears to exploit its full potential in the trade expansion and income generations, as its share in the world total is far smaller in trade and GDP than that of the population of 0.4% of the world total. Yet trade plays an important role in PNG economy as her economy really depends on external trade even its relatively high openness to international trade. In 1999, merchandise exports and imports of PNG accounted for 50% and 30% GDP.

The Government of PNG has recognized the importance of Market Openness and has taken a whole of Government approach to remove the impediments to trade and investment by making significant changes to cross – border and regulatory framework to open up its markets to promote international trade and investment. These changes will be discussed separately.

1. Tariff Reduction Program (TRP)

The Tariff Reduction Program (TRP) began in 1999 purposely to encourage a more efficient and productive private sector through greater exposure to international competition and reduce the burden of tariffs on consumer and businesses. The tax reform package also replaced tariffs with the Goods and Services Tax (GST) as a major source of Government revenue. The TRP has seen a reduction in tariff assistance for the manufacturing sector, however assistance from some manufacturers remain at very high levels. The TRP led to considerable declines in negative rates of assistance for most agricultural, natural resource and service industries. These industries are no longer disadvantaged by the tariff regime.

Under the TRP, most goods can be imported into PNG duty free. The only goods that are subject to import tariffs are goods produced or which could be produced potentially in Papua New Guinea. The TRP saw an immediate reduction in tariffs and provided for three rates of tariff (intermediate,³² protective³³ and prohibitive³⁴ rates). These rates are scheduled to be reduced over the next eight (8) years. Below is a table which shows the different rates:

Table 1.1. Time table for Tariff Reduction Program (1 January basis) 1998 - 2006

Rate	1999 – 2000	2001 - 2002	2003 - 2005	2006
Intermediate	30%	25%	20%	15%
Protective	40%	35%	30%	25%
Prohibitive	55%	50%	45%	40%

In 2003, the Government of PNG undertook a review of the program. The TRP has promoted efficiency among firms and that were previously highly assisted. Efficiency improving measures were frequently mentioned such as improving management and distribution.

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32. The Intermediate rate applies to goods that constitute “intermediate goods” in the production process that is they are utilized by other businesses or manufacturing companies.
 33. The Protective rate is the principal duty rate. Goods in this category include most fish, coffee and tea.
 34. The Prohibitive rate applies to products such as fruit and vegetables, tinned mackerel, cigarettes, veneer and sugar.

Since the TRP began, both exports and imports have increased. Trade surplus has increased to around K1.5 billion (USD 0.5 billion) in 1998 to around K2.6 billion (USD 0.8 billion) in 2002, representing a 73% increase in the trade surplus. The TRP has benefited consumers, particularly the poor by reducing the tariffs on basic items.

2. Foreign exchange review

One of the key pillars of the Government's Structural Reform Program is to remove impediments to investment. The review of the existing regulations pertinent to exchange control, with the view to liberalize exchange controls on the inflow and outflow of foreign exchange in Papua New Guinea is in line with attracting investments thus opening the market for investments. The review intends to recommend substantial removal of foreign exchange controls, except those necessary to guard against balance of payments crises. The assessment of inflows and outflows, contractual agreements and other legal documents will be transferred to commercial banks by the Central Bank of Papua New Guinea.

The PNG Government recommended for a well-developed contingency plan to be put in place to counter risks of economic or political shocks that may destabilize capital flows.

3. Consumer and competitive markets

In Papua New Guinea, there is no specific law relating to competition. A regulatory approach has been adopted by the Government to promote competition. The Independent Consumer & Competition Commission (ICCC) is the agency that is promoting competitive market conducts, behaviours and trade practices. The ICCC has been established to promote competition and fair trading, the regulation of prices of certain goods and services, the protection of consumers' interests, to promote economic efficiency in industry structure, investment and conduct and to promote the long term interests of the people of Papua New Guinea with regard to price, quality, and reliability of significant goods and services.

The ICCC Act provides Competitive Market Conduct Rules that apply to commercial dealings by individuals, businesses and even the Government and its agencies where they are involved in business. The rules are designed to protect competition in the market place to the benefit of consumers through lower prices and access to more and better services than would otherwise be available.

The ICCC ensures that there is competition in the market and any market behaviour or conduct must conform to competitive market conduct rules under the Act. The competitive market rules that will help the Government identify anti-competitive market behaviour or conduct that are likely to lessen competition in a market place are as follows:

- **Anti-competitive arrangements**

The ICCC Act prohibits contracts, arrangements or understandings that have the purpose or effect of substantially lessening competition in a market.

- **Exclusionary provisions**

These provisions are known as primary boycotts are agreements between competitors that will prevent or limit their dealings with a particular person or class of persons, where the person is the target of the boycott is the competitor of one or both of those who agree not to deal with him.

- **Anticompetitive covenants**

Covenants over land that have the purpose or effect or likely effect of substantially lessening competition in the market are prohibited by the Act. The prohibition extends to requiring someone to give a covenant, giving one yourself or seeking to enforce that covenant.

- **Price fixing**

An agreement between competitors to fix price is an example of anti-competition market behavior. Accordingly, price fixing agreements between competitors are absolutely prohibited under the Act because they are deemed to have the purpose or effect or likely effect of substantially lessening competition. Price fixing agreements are defined broadly to include contracts, arrangements or understandings that have the purpose or effect or likely effect of fixing, controlling or maintaining the price of goods or services or any discount, allowance, rebate or credit.

- **Taking advantage of market power**

Where a person or a company has substantial degree of power in a market, they are prohibited from taking advantage of that power for anti-competitive purposes which are to restrict entry of a competitor into the market or another to prevent or deter someone from engaging in competitive conduct or to eliminate a competitor. An example of someone taking advantage of their market power may be where a new competitor enters the market which is dominated by one large company, which immediately and drastically reduces its price for the product which a new competitor is selling, to a price below production cost, with the intention of forcing the new competitor out of the market, at which stage the dominant market player can again raise its price to the higher level.

- **Resale price maintenance**

Resale price maintenance, the practice of a supplier requiring its retail customers not to sell its products below a certain price, is also prohibited. Thus a manufacturer cannot insist that its retailers do not sell the manufacturing products for less than a certain price. Resale price maintenance would also apply where a manufacturer threatens to refuse to support a retailer who was discounting the manufacturers' products where other retailers were not.

- **Mergers and acquisitions**

The acquisition of assets of a business or shares that would have the effect of substantially lessening competition in the market is also prohibited. While this prohibition relates to the structure of the market rather than to behaviour in that market, it is nevertheless prohibited by the Act. This is because the mergers between competitors or the acquisition of one competitor by another can have just a serious anti-competitive consequence as can price fixing arrangements or arrangements that substantially lessen competition. Thus, those anti-competition acquisitions are also prohibited.

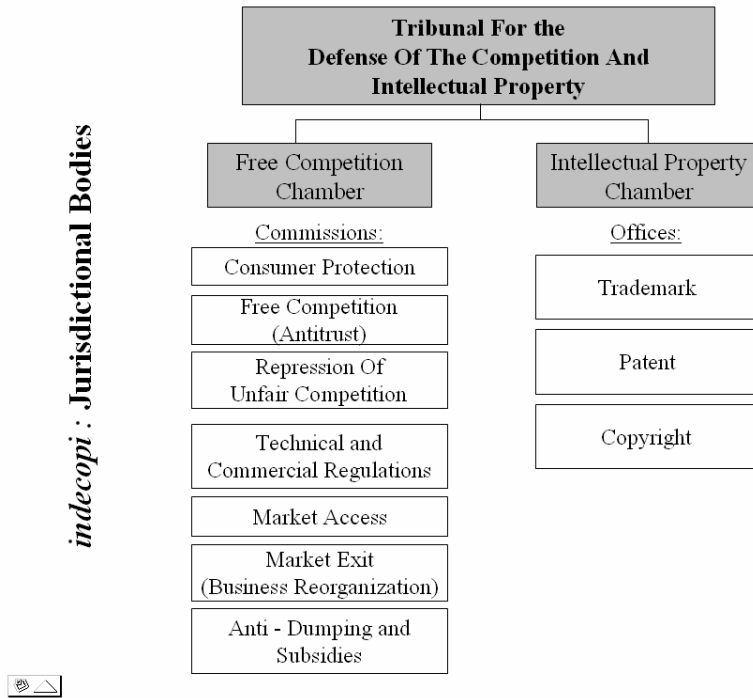
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COMPETITION POLICIES IN PERU

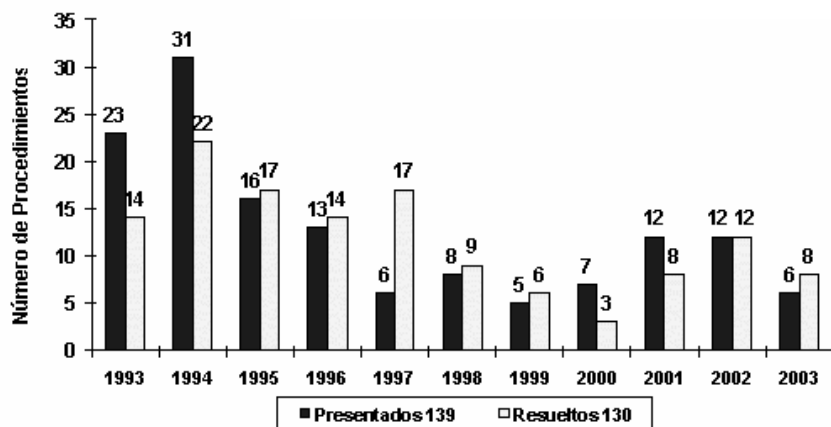
In 1990 the Peruvian economy began its opening, lengthwise these ten years Indecopi has been the principal office government to implement the policies competition in Peru.



The Commissions and Offices of Indecopi have development different functions, although property their function is to apply penalties, these offices have development other activities to reach the person and the companies in Peru understand benefits the free trade. Indecopi can do it, because its organization includes all matters about competition and that help it integrate property their actions.

In matter free competition, antitrust, Indecopi apply penalties to the companies' agreements practices that affect the marketplace, although there isn't a control corporate merger, the prohibition of practices that restrain trade, such as price-fixing conspiracies and predatory acts designed to achieve or maintain monopoly power, have had good results. The message to the trade has been effective, although there aren't many processes in Peru, is known the effects and penalties for these practices.

Procedures – Free Competition



Fuente: Comisión de Libre Competencia del Indecopi.

Elaboración: Gerencia de Estudios Económicos del Indecopi

Indecopi has participated too in the elaboration the rules and laws in others matters for example on Government Procurement. Step by step in Peru are many offices publics and people in general that are integrating the concept the free competition in their functions and activities.

This is very important in matter the technical barriers to trade, because there are many publics offices that fix rules about the characteristics or quality level of products and services to protect the health the people, animals and vegetables, the public security and the environmental. Here Indecopi, through the Technical and Commercial Regulations Commission - CRT, has development an important function too to avoid these regulations became technical barriers to trade. In some cases, Indecopi can stop a measure or technical regulation if consider it's excessive to protect the health, security, etc. in Peru. All Peruvian authority must to can explain the technical fundaments their regulations and all citizen and company in Peru have right to know these fundaments when are affected by them.

Behind these practices Indecopi protect the free trade that is a principal security the economics polices in Peru, and try to get balance between the consumer protection and the free trade, because Indecopi understand each more time the competition polices are a system integrated for rules to protect the trade but the consumer too, so that its important the participate the State to correct the negative practices that broke the balance between theses objectives.

Likewise, it's necessary to indicate that the balance in the trade involve too the international practices, in these cases Indecopi can to apply anti-dumping measures. At last time, Indecopi has increased in this matter.

Finally, the protection the intellectual property is other key in the competition politics in Peru, Indecopi is doing great efforts to protect the copyrights, one more time the measures are taken in two directions, first to apply penalties and second to try the people understand why its necessary protect this rights.