

AGRICULTURE TRADE

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INTRODUCTION

I am honored and thankful to the Deputy Prime Minister, Hon. Mao Zeming for inviting me to speak on the topic "**Agriculture Trade**" at this Conference on "**Agriculture in the New Millennium**".

What is Trade?

First of all, let us remind ourselves that "Trade" remains the building block of an economy's growth potential and wealth creation. Without both domestic and international trade, there will be no market outlets to reward the costs incurred in the production of goods and services.

In other words, there will be no incentive to produce goods and services to realize the growth potential. At the end of the day, we have to trade the surplus we produce in order to re-finance our production.

"Agriculture Trade", therefore is vital to act as a catalyst for economic activity in that sector. If you cannot sell your produce then why invest resource to tend the land and grow crops of different types. Hence, an economy cannot do without trade.

TRADE AND TRADE POLICY DEVELOPMENT

Agriculture Trade

Various empirical studies show that agricultural products account for over one third of export trade for most developing countries and will continue to contribute significantly to their GDP,

foreign exchange earnings, employment and food security for a long while.

This is also true from PNG's perspective where, "**Agriculture Trade**" represented K 1.02 billion in 1998, with a corresponding market share of 27.5% of the total exports for the same year. It will continue to represent an average of 25% of GDP that includes Forestry and Fisheries, while accounting for the bulk of the employment.

According to the recent World Bank Study, the Agriculture Sector is one of the sectors where PNG has comparative advantage over its neighbours. The main traditional cash crops such as coffee, cocoa, copra & palm oil provides over 12% of the total export earnings.

The narrow base of the economy is anticipated to continue. At the same time, agricultural exports as a share of the total export value has declined on a downward trend over the years, while other sectors have fared an upward trend.

Among the noted reasons for this decline were:

- erratic and enclave sectoral economic growth;
- low human capital and labour productivity
- high cost structure of the economy and
- negative effective rates of protection in the renewable resources industries in agriculture as a result of higher tariffs on transportation, equipment, fuel and other inputs.

Further, some of the notable factors constraining the agriculture sector:

- difficult topography
- debt overhang in the sector
- land tenure problems

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- poor infrastructure
- poor business support services, and
- small and isolated markets

Against this scenario, the National Investment Policy recognizes that there is considerable growth potential in agriculture sector. There is opportunity to make this sector more competitive for its traditional exports with FDI and specific initiatives for private sector promotions and financial sector reforms. That is, efficient mobilisation and credit allocation for productive activities.

Rationale of PNG Trade Policy Development

It is within this underlying principle of trade and the importance of agriculture trade, that I would like to focus on the strategic direction taken by the Ministry of Trade and Industry under the 1992 **"Beyond the Minerals Boom"** Policy Document, which encompasses the Trade policy development of PNG to the year 2000.

Unfortunately, most of the targets set were not achieved, partly due to resource constraints and socio-economic and political instability during that period.

In essence, the **'Trade Policy'** at that time was targeted at all levels. It ranged from the inward looking - often referred to as import substitution to that of **'outward looking-or export oriented'** with equal emphasis on diversification from traditional products into new areas or products as dictated by the changes in the global market.

It was simply to facilitate the notion of not putting all the eggs into one basket. It was a sound policy within PNG's context, despite criticisms on the in-ward aspects of trade promotion.

From June, 1996 when PNG joined the World Trade Organisation (WTO), it was obliged to review the trade and investment policies and relevant regulative instruments, which were promoting import-substitution. As you are fully aware, the non-tariff barriers such as import bans quo-

tas and licensing were abolished in favour of protective tariffs. The protective tariffs were to be gradually reduced over time towards the bound rates.

As a member of WTO and APEC, PNG has committed itself to reap the benefits of a multilateral open trading system, through greater market efficiencies and thereby was required to liberalize its market through the maintenance of an acceptable level of tariff bound rates for both agriculture and industrial products.

In the schedule of commitments therefore, PNG has bounded the agricultural goods at 40% and the industrial goods at 30%.

By setting the bound rates at 40% for agricultural products, this would allow reasonable time frame for a gradual reduction of high protective rates for some of the existing products to acceptable tariff levels. At the same time, any tariff measures for a new range of agricultural products will not exceed the bound rate of 40%.

On the whole, the bound rates are within the requirements of WTO, where developed countries are required to reduce the average tariff on agricultural products by 36% over six years while developing countries by 24% over a ten year period.

Global Perspective of trade

Let me reiterate the brief details of the Trade related Agricultural Policy Developments within the Global Environment as it will dictate the terms in which we are to facilitate trade.

The Uruguay Agreement represents a milestone in the multilateral trading system. For the first time, agriculture has been incorporated under operationally effective rules and disciplines. Market access and disciplines on domestic support and export subsidies in agriculture, forestry and fisheries have been improved under the Uruguay Round commitments.

Yet improved conditions of competition an op-

opportunities for trade in agricultural products depend on the commitments regarding market access.

The Agreement on Agriculture (AoA) is of great significance, as it has brought agriculture into the mainstream of international trade rules. The three main provisions of the Agreement are aimed at:

- improving market access;
- reducing domestic support; and
- reducing export subsidies.

The Uruguay Agreement therefore provides a window of opportunities for all countries to benefit from greater access to world markets by curbing past production and trade-distorting practices and by facilitating more competitive and fairer trade.

National Perspective of Trade

In becoming a member of the World Trade Organization (WTO), Papua New Guinea made commitments in its Protocol of Accession or Schedule of Commitment on trade liberalization, including trade in agriculture, within given specified timeframes. As a signatory to the Agreements, PNG assumes the obligation of complying with their provisions.

Being a member of the Food and Agriculture Organisation (FAO) of the United Nations, PNG is also required to comply with its obligations under FAO.

One of the requirements of the WTO is that member countries must ensure complete compliance and conformity of their trade policies, regulations and practices with the rules of the Multilateral Trading System. Policy reforms in the three main areas of the AoA - improving market access, reducing domestic support and reducing export subsidies towards complete trade liberalization on the basis of non-discriminatory trade practices (MFN and National Treatment principles) among all member countries is non-negotiable. That is a legal requirement to effect

trade liberalization to facilitate fairer trade between trading partners.

Papua New Guinea has opted for the policy of gradual liberalization under its APEC/WTO commitments and is expected to fully liberalize trade by 2020.

TRADE POLICY ISSUES

- Importing countries are starting to insist that imported produce meet Codex Alimentarius recommendations for quality;
- Importing countries are also starting to insist that imported produce comply with their sanitary and phytosanitary standards in conformity with the General Agreement on Trade & Tariff;
- Supermarkets in Japan, America and Europe are imposing quality standards higher than national standards;
- Pacific Island Countries (PIC) are beginning to recognize that inter-regional trade in agriculture produce among and between Pacific nations is possible;
- Pacific regional meetings are an on-going process to address these issues of trade in horticultural products. Recommendations from past meetings highlighted the recognition by PICs that significant technical support will be needed by exporting countries, if they are to meet the challenges of the new liberalized environment;
- PICs are now mobilizing and consolidating regional support and resources to confront the trade liberalization challenges and to take advantage of benefits of free trade. Issues of discussion are;
- Competitiveness of domestic products against imports;
- Diversifying marketability of products, and

market access - issues taken up for discussion at WTO meetings by PICs who are WTO members (current membership: PNG, Fiji and Solomon Islands. Vanuatu is in the process of accession).

- Positions of the Major Players.
- National and Regional responses to the Major Issues.

Development of Agriculture

The National Government has among other policies and strategies, approved the Small and Medium Enterprise (SME) Policy (1998) and National Investment Policy (Vol. 1 & 2) (1998 and 1999 respectively).

These policies broadly provide the framework for improved business environment and increased investment in the small holder agricultural activities, as well as medium and large investments. The SME Policy calls for actions to be taken to:

- improve and increase market access;
- improve and increase access to development finance;
- improve and increase Human Resource Development;
- improve and increase infrastructure;
- improve and increase information quality and availability; and
- improve and increase technology input.

Complementing this call is the National Investment Policy, which is intended to improve business environment, in terms of policy, practice and legislation for investment as well as enabling environment, in terms of Business Incentives to promote investment and business growth.

CONCLUSIONS/RECOMMENDATIONS

In conclusion, I must state that PNG should analyse market trends, market needs/demands, challenges and opportunities and decide on its market strategies, if benefits are to be realised.

In terms of **Policy Reforms** we should give priority, to progressing effort from "vulnerability" to capability, and concentrate on areas where we have comparative advantage. At the same time we should develop strategies based on realistic and achievable goals.

Papua New Guinea's strategy should be to place emphasis on developing PNG's international competitiveness in the production of goods and services, including to agricultural products.

Given the expected increases in the cost of production in many countries which are experiencing higher standard of living, PNG is placed to compete well in the production of most agricultural goods in terms of quantity, quality and price.

It is therefore part of the Ministry of Trade and Industry's responsibilities to negotiate market access for the traditional and new export crops if there is unfair market restrictions.

On the other hand, market preferences into regional markets such as European Union and other similar arrangements will erode. This means that all the producing countries have to develop their competitiveness in both the cost and quality aspects to meet the market's specific requirements, such as standards, quarantine and health regulations.

With this humble presentation, I wish this conference every success and thank you.