



Independent Consumer & Competition Commission

Issues Paper

PNG Tourism Industry Review

30 May 2006



Submissions

The Government through the Department of Treasury ("Treasury") has requested the Independent Consumer & Competition Commission ("Commission") to undertake a comprehensive review of the Tourism industry in Papua New Guinea ("PNG") with a view to identify existing growth impediments and growth potential including any areas where both Government and industry actions may be necessary to foster the effective growth of a vibrant, sustainable and internationally competitive Tourism Industry.

To meet the Terms of Reference ("ToR") for the Review set by Treasury of the Review, the Commission has set certain deadlines for the preparation and release of the Issues Paper, Draft Report and Final Reports, and subsequent presentation to the Government of the final conclusions and recommendations. In order to meet the Review's timing objectives, the timetable for the various stages in the Review is as follows:

- Receipt of Submissions on the Issues Paper.....23 June 2006
- Release of Draft Report..... 21 July 2006
- Receipt of submission on Draft Report..... 18 August 2006
- Release of Final Report..... 15 September 2006

As is the usual practice employed by the Commission in the conduct of such industry reviews, public and industry stakeholders' involvement forms an important element in the entire process. Hence, this Issues Paper is intended to provide a brief overview of the issues that will be considered as part of the Review and to invite submissions from stakeholders and interested parties.

Submissions to the Commission will be available for public inspection unless the Commission agrees that all or part of the submission should remain confidential. However, in accordance with the applicable provisions of the Commission's governing legislation, the Commission intends to make the Review a process as transparent as possible, and to this end, submissions would normally be available for public inspection unless there are exceptional commercial-in-confidence reasons why submissions should be held confidential.

Submissions to this Issues Paper should be received by 23 June 2006, and should be directed to:

Mr Thomas Abe
Commissioner & CEO
Independent Consumer and Competition Commission
Angau Drive
Level 1, Garden City Complex
PO Box 6394
BOROKO
National Capital District, PNG.

All inquiries should be directed to **Mr Stanley Alphonse** on:

Telephone: (+675) 325 2144
Facsimile: (+675) 325 3980
Email: salphonse@iccc.gov.pg

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Executive Summary

The tourism industry in PNG has the potential to be a significant contributor to the national economy and to PNG's future sustainable development. There are however a number of issues that are potentially impeding this progress. The Government, through the Department of Treasury has commissioned the Commission to undertake a comprehensive review of the tourism industry with a view to identify the key barriers and recommend appropriate policy initiatives to be adopted by the Government.

The industry in its current state, although experiencing some growth, remains fragmented with little coordination and efficiency between industry stakeholders and Government. Communication between the primary drivers of the industry; the major airlines, niche industries, tour operators and hospitality providers, is uncoordinated and without focus or strategy. The tourism industry requires a clear strategic vision and setting key objectives that are achievable by all participants in the industry.

Major issues that are claimed to be impeding growth of tourism in PNG are interrelated and should not be viewed in isolation. Removal of a single barrier may have little effect unless there is a concurrent flow onto all aspects of industry. This will potentially require commitment from Provincial and National Governments to address issues of basic infrastructure and the facilitation of new investments. An underlying aspect of this is the management of law and order and an effort to rectify the poor image that PNG holds internationally.

The issues that the Commission, on behalf of Treasury wish to address include:

The Commission seeks comments and input on the potential for Tourism in PNG and the net economic benefits that maybe derived.

The Commission seeks comments from the public and any interested parties on the scope of this Review and whether it sufficiently covers all relevant matters of pertinence in the industry that needs to be looked at as part of this Review.

The Commission invites comments on barriers to new investments in the tourism sector and potential policy responses.

The Commission seeks comments from the public and any interested parties on the key stakeholders that should be examined as part of this Review.

The Commission invites comments from industry stakeholders and the wider public on the appropriateness and quality of existing tourism and related infrastructure including but not limited to transport, accommodation, tourists activities and general support activities in PNG and whether these are adequate to support the growth of the tourism industry.

The Commission also seeks comments from relevant industry participants and the public as to what appropriate actions are necessary in order to develop appropriate infrastructure to cater for the tourism industry going forward.

The Commission wishes to address views on the need for a “whole of government” approach and seeks to understand the level of ownership of individual departments and statutory organisations in fostering the development of a sustainable tourism industry.

The Commission seeks comments and submissions from the public, stakeholders and any interested parties on the structure and effectiveness of the Tourism Promotion Authority and the performance of its roles and functions in efficiently promoting and encouraging tourism and related investment to PNG.

In particular, the Commission would like to understand the effectiveness of the TPA in understanding PNG’s competitive advantage and successfully promoting products and niche industries internationally.

The Commission invites submissions from the industry, public and other stakeholders as to the role, structure and functioning of the Tourism Industry Association and its effectiveness in representing its members and in facilitating the growth and sustainability of tourism.

The Commission invites submissions from industry, stakeholders and consumers on the issue of access to transport infrastructure and its impact on the tourism sector. In particular, the Commission is seeking comments on the future depth of the market and its ability to support more than one international airline.

The Commission seeks submissions from industry and the public on the level of input provided by Provincial Government and its impact on developing tourism across provinces.

The Commission seeks comment from government, industry, private sector entities and land owner groups with regards to identifying an effective intermediary between industry and landowner issues with a view to minimising disputes.

The Commission is seeking submissions from stakeholders and the public on the environment for new investments and whether this is adequate to encourage sufficient investments into the tourism sector in PNG.

The Commission seeks views from stakeholders on the likely developments or changes to the existing state and structure of the Tourism industry, including the entry of new investments over the next decade.

1 Introduction

The Government is aware of the potential economic, social and environmental benefit that tourism can contribute to the development of Papua New Guinea (“PNG”), and as part of its Medium Term Development Strategy has made a commitment to examine tourism and the impediments to its sustainable growth.

The Independent Consumer and Competition Commission (“the Commission”) has been instructed by the Department of Treasury (“the Treasury”) to undertake a review on the issues affecting the sustainable economic development tourism industry in PNG. The review aims to understand the current state of the industry and the existing impediments to its growth as well as to identify any appropriate actions the Government might adopt in order to foster the industry’s development.

Tourism development in PNG has experienced growth in recent years with the advent of eco-tourism and adventure sports. Government support to the industry over the last 20 years has been inconsistent leading to a lack of continuity in strategy and policy development and implementation. The recent interest shown by Government in reviewing the industry and through its efforts in marketing and promoting PNG indicates a resurgent and positive commitment to supporting this growth.

Major concerns expressed by stakeholders in the tourism industry, including business community, government authorities, relevant statutory bodies and provincial operators, focus on key impediments to doing business and developing the industry. These impediments include: government regulation and policy, promotion and marketing assistance, education and awareness, transport and infrastructure needs, security and general law and order, land owners and community development. Other issues potentially include investments and competitiveness, ready access to the necessary documentation and approvals for travel to and within PNG.

Throughout the review, consideration will also be given to the roles and functions of industry bodies, the government’s tourism promotion entity and the wider role Government might take to addressing impediments for sustainable growth of the industry.

1.1 Objectives of the Review

The principal objectives and deliverables of the Review are to:

- Review and report on the current operation of the tourism industry
- Identify the potential for further development of tourism over the next decade
- Report on the existing impediments, both regulatory and non-regulatory, to its growth; including infrastructure, effectiveness of promotion and marketing, implication of other possible barriers and impact of legislation, and

- Make recommendations on what action can be taken by industry and Government to address the impediments in the industry.

The deliverables of the review will include verbal presentations to Treasury, presentation of a written Draft Report for consideration and comments by the wider public and industry stakeholders and a presentation of a fully documented written Final Report to Treasury for presentation to government.

1.2 Why is the Commission conducting this Review?

As previously stated, the Tourism industry has the potential to be PNG's major export earner on a sustainable basis if the industry is properly and adequately developed to realise its potential. The government is examining what if any action it should take to address issues which may be impeding the tourism industry to achieve its potential in a competitive market. To this end the Commission has been requested to undertake this study on behalf of the Government as a means of informing government on appropriate policy initiatives that may be considered.

Given PNG's location, geography, cultural diversity and its richness in biodiversity, PNG has a considerable tourism potential within the region and beyond. This is further reinforced by access to unique and spectacular tourism products available throughout PNG such as diving, cultural and village tourism, nature and special interest activities, trekking, kayaking and similar special interest activities such as World War II sites of historic significance.

Notwithstanding this, the industry's growth and development has somewhat been stagnant or otherwise declined over the last 20 years although there has been some growth in recent years with the advent of eco-tourism, tracking, diving and other special interest tourism activities. The growth experienced nevertheless fades into insignificance against the overall potential of the industry which is unrealised at present.

Accordingly, there is therefore the need for a detailed and rigorous review to identify and address amongst other things, the various impediments hindering the growth and development of the industry including areas where government and industry actions may be necessary to foster the industry's growth whilst embracing aspects of international competitiveness and the effectiveness and sustainability of the industry in the long term.

1.3 Scope

The Review is intended to look at a wide range of issues relating to the current structure of the tourism industry. The key stakeholders of the industry that will be considered include:

- Hotel and hospitality operators
- Tour operators
- Niche industry drivers and representative associations
- Travel Agencies
- Airlines and related services
- Tourism related services

- Tourism Promotion Authority
- Tourism Industry Association
- Consumers - tourists and general public

In particular, the study team will focus the review on:

- Key impediments and barriers to the effectiveness of the industry
- Ways to promote the industry nationally and overseas
- Achievement of cost competitiveness while improving the overall range of tourism products and services
- The provision of appropriate infrastructure and facilities in PNG
- The role of government and industry in the development of the sector
- The involvement of landowners through equity and management of tourism activities
- The overall future sustainability of the tourism industry and,
- Its competitiveness in the international market.

The Commission seeks comments from the public and any interested parties on the scope of this Review and whether it sufficiently covers all relevant matters of pertinence in the industry that needs to be examined at as part of this Review.

1.4 Methodology

The Commission will undertake extensive interviews with all stakeholders, which will incorporate a detailed consultation process to ensure that comments are duly received and considered. This will be supported by the Commissions own analysis and research. The stakeholders that will take part in the consultative process are as outlined above in the Scope.

It is envisaged that the Commission will hold public hearings in Port Moresby and Lae as part of the review process in order to provide an opportunity for industry, private businesses, Government and the wider public to present their views on any issues associated with this Review.

This Issues Paper is being made available to industry and the public for comment to facilitate written submissions on aspects of the Review. The Commission will consider all submissions that are submitted in response to the Issues Paper and following further consultation with stakeholders will release a Draft Report which will again provide an opportunity for further consultation.

The Commission will consider all comments before releasing its Final Report in response to the Government's terms of reference. Table 1 sets out the Commission's expected timetable for this review. Note that the Commission is required to provide a response to the Government by 15 September 2006. All consultations will need to be completed in time for the Commission to

have the opportunity to provide appropriate consideration of all issues raised in advance of this date.

Table 1. Time table for the review

Event	Timeframe
Release of Issues Paper	30 th May 2006
Submissions due on Issues Paper	23 rd June 2006
Release of Draft Report	21 st July 2006
Submissions due on Draft Report	18 th August 2006
Release of Final Report	15 th September 2006

1.5 Structure of the Issues Paper

This issues paper is designed to solicit responses from the various industry players in the market including consumers of the tourism goods and services in the industry. This paper provides a background and context to the industry and will ask a series of “issues” questions that are designed to stimulate discussion and feedback from stakeholders, private enterprise, government and the general public.

These questions should not be seen as the Commission’s likely conclusions to this Review. Further, they should not be seen as dictating the scope of the Review. Hence, the Commission welcomes submissions on other matters that stakeholders believe should be addressed.

This paper is structured in the following format:

- Chapter 2 - Background and industry overview
- Chapter 3 - Key issues
- Chapter 4 - Appendices

2 Background & Industry Overview

2.1 Country Overview

The independent state of Papua New Guinea ("PNG") is located on the eastern half of the island of New Guinea located to the north of Australia and east of Indonesia.

According to the 2000 National Census, PNG's population was about 5.2 million of which around 15 per cent live in the major urban centres of Port Moresby (220,000), Lae (90,000), Madang (30,000), Mt Hagen (40,000), Wewak (23,000) and Goroka (25,000), with the balance in the rural areas.

PNG has a dualistic economy with a traditional quasi subsistence rural sector which provides the livelihood for about 85 percent of the population. The remaining 15 percent live in the major urban centres a majority of whom are employed in the formal labour market and a growing portion which contribute to the under and unemployment sector. The formal labour market provides a rather narrow development base, consisting of workers engaged in mineral production, a relatively small manufacturing sector, public sector employees and service industries including finance, construction, transportation and utilities.

Despite several years of economic contraction, the PNG economy grew by 2.8 per cent in 2003 and 2.6 per cent in 2004¹. Other macroeconomic indicators have also improved with inflation rates and interest rates declining. The economy continues to be highly susceptible to price fluctuations in the external sector through export earnings. Economic prospects from year to year are mainly determined by international commodity prices, particularly those of gold, oil, copper, timber and logs, coffee, copra and cocoa, and petroleum products. Oil, agriculture and mineral exports are equivalent to 42 percent of PNG's GDP, and account for 90 percent for its exports. At present, the tourism industry is a relatively minor foreign exchange earner for PNG and contributes about 2.5 percent to the Gross Domestic Product (GDP).

The geography of PNG consists mainly of volcanic mountains and low coral atolls. The PNG archipelago comprises about 1.7 million square kilometres of sea area, including 17 million hectares of reef covered coastal waters and about 600 islands. Most of the population of PNG live in isolated villages along 6,500 kilometres of coastline. As a result of this difficult geography, aviation transport is the primary mode of transportation for tourism into and throughout PNG.

¹ Department of Treasury, Budget 2004

2.2 Industry Overview

The tourism industry is one of the fastest growing industries worldwide, with over 808 million tourists travelling in 2005 and a global value in excess of US\$500 billion. In the South Pacific region, tourism accounted for US\$1.52 billion of expenditure in 2004.²

In the Pacific, tourism represents a major opportunity for small island nations to increase their economic base, expand foreign exchange earnings and enhance the standard of living for their people. Whilst PNG is a relatively young market for tourism, it accounts for 5 percent of the total market in the South Pacific region and is a growing contributor to the country's GDP.

The PNG's Government's Medium Term Development Strategy (MTDS) 2005-2010 identified the importance and economic potential of the Tourism Industry in generating foreign reserves, and contributing to the creation of employment opportunities and other related spin-offs across other sectors of the economy. The Government for the first time in 2004 increased its tourism budget allocation three-fold to K6 million and in 2006 provided close to K13million to the Tourism Promotion Authority ("TPA").

Despite this, the industry in PNG as a whole remains largely fragmented. This is despite the level of support and strategic direction provided by industry bodies, representative associations and government through the Tourism Promotion Authority. The Commission is seeking views on the cohesiveness of the current approach towards fostering a sustainable tourism industry.

The tourism industry in PNG has traditionally been developed by private sector initiatives with minimal government support. The key drivers within the industry include the airlines, hotel and hospitality, tour operators and niche industries diving, trekking, surfing, kayaking, and historical/cultural sectors.

In 2005, PNG received close to 70,000 overseas visitors of which 26 per cent (approximately 18,000) were holiday travellers and the remainder comprising of the business traveller segment. This is an increase of over 17 per cent on the previous year, generating estimated revenue of K488.5 million.³ It must be noted however, that arrivals to PNG have declined by 10,000 from a high in 1999.

Significant numbers of tourist visitors were from Japan (24%), United States of America (15%) and other European markets (9.3%) which comprise the United Kingdom, Russia, Scandinavia, Germany and Italy. The Australian market is the single largest source of inbound travel to PNG, comprising over half (53%) of total visitors, however only 20 percent of these visitors account for holiday/leisure travel⁴ representing 40% of the tourist visitors. The country of origin and portion of visitors from principal markets has over the last 10 years remained relatively unchanged.⁵

A break down of market performance and trends is highlighted in table 2 which clearly identify country of origin and purpose of visit. Average length of stay for holiday visitors to PNG is 8-14

² The Economic Value of Tourism in the South Pacific Final Report – South Pacific Tourism Organisation, August 2005

³ The Post Courier, Focus, PNG Arrivals Improve, Barnabas Orere, 10-12 March 2006

⁴ International Visitor Arrival Report, TPA, 2005

⁵ Tourism Development in Papua New Guinea, University of Hawaii, 1995

days.

Table 2. Visitors Arrival by Country and Purpose of Visit - 2005

COUNTRY OF RESIDENCE	PURPOSE OF VISIT				Total 2005	Total 2004	Change	%+/-
	Business	Holiday	Visit Friends Relatives	Other				
Australia	25,870	7,278	3,054	459	36,661	32,290	4,371	13.5
New Zealand	1,862	306	168	50	2,386	1,858	528	28.4
Oceania	2,037	176	225	80	2,518	1,974	544	27.6
China	1,002	128	92	45	1,267	1,074	193	18.0
Japan	977	4,315	41	68	5,401	3,474	1,927	55.5
Malaysia	1,953	325	101	64	2,443	2,106	337	16.0
Philippines	2,909	157	184	94	3,344	2,657	687	25.9
India	622	31	51	32	736	630	106	16.8
Other Asia	2,510	731	144	110	3,495	2,530	965	38.1
United Kingdom	826	475	142	33	1,476	1,581	-105	-6.6
Germany	240	294	47	16	597	1,172	-575	-49.1
France	94	111	8	4	217	164	53	32.3
Other Europe	890	815	131	29	1,865	1,822	43	2.4
USA	2,498	2,757	294	160	5,709	4,748	961	20.2
Canada	475	122	43	20	660	586	74	12.6
Other America	53	57	8	4	122	106	16	15.1
Africa	280	37	29	7	353	241	112	46.5
Total 2005	45,098	18,115	4,762	1,275	69,250	59,013	10,237	17.3

Source: Tourism Promotion Authority, 2005

However, when benchmarked against other comparable countries within the region, PNG still has an underdeveloped tourism industry⁶. Smaller nations such as the Cook Islands and Western Samoa attract more visitors than Papua New Guinea and the number visiting Tonga and Solomon Islands is only marginally less. Not only is the tourism industry of Papua New Guinea performing well below its neighbours in the South Pacific, but its growth is poor. Papua New Guinea is by far the worst performing nation in the region in terms of tourist growth. The growth of tourism in the region has been substantial and in line with world trends of around 7 per cent average per

⁶ The Economic Impact of Tourism in SPTO Member Countries, South Pacific Tourism Organisation, August 2005

annum. Although PNG enjoyed a 17% growth in tourists in 2005, this growth has not been sustained over several years.

Fiji has had significant success in attracting tourists despite suffering from a series of political disturbances. Visitor numbers to Fiji numbered around 300,000 per annum. Fiji's success in turning around tourism in the country has been made possible through substantial changes across all levels of industry. The Fiji model is driven by cooperation between private sector, government and industry stakeholders including the airlines and hospitality segment, who have a strong focus on achieving individual and combined objectives in business and industry.

2.3 Legislation & Regulation

The main pieces of legislation and documentation that provide the framework governing the operations and management of stakeholders within the Tourism industry and its various sectors include:

- Tourism Promotion Authority Act 1993 (Consolidated to No 3 of 2004) (TPA Act)
- Regulatory Statutory Authorities (Appointment of Certain TPA offices) Act 2002
- Tourism Industry Association Constitution
- Memorandum of Understanding - Tourism Industry Association and Tourism Promotion Authority
- Kokoda Track Authority Act

Subsidiary legislation that also impacts the legal framework in the industry includes:

- Civil Aviation Authority Act
- Investment Promotion Act
- Merchant Shipping Act
- Immigration laws

2.4 Major Stakeholders

Tourism industry stakeholders can be broken down into the following categories:

- Government bodies (provincial and national level) such as the Tourism Promotion Authority;
- Private sector businesses, airlines, transport companies, tour operators, travel agencies, hotels, resorts and other hospitality and tourism service providers; and

- Industry representatives and niche industry associations such as the;
 - Tourism Industry Association,
 - Tour Operators Association
 - PNG Dive Association
 - PNG Surfing Association
 - Kokoda Track Authority.

2.5 Major Drivers

Some private sector organisations within the industry can be further described as being drivers of the industry, i.e. segments of the industry that contribute significantly to the development of tourism. Drivers include airlines, niche industries (diving, trekking, surfing, kayaking, historic and heritage site and other), tour operators (including inbound travel services) and the hotel and hospitality segment.

2.5.1 Airlines

The airline industry in PNG plays a major role as the primary mode of transport for international arrivals into the country and visitor domestic travel. The geography and the inadequate road infrastructure, including poor road linkages between major towns provide an exaggerated demand for air travel. There are 23 registered air service operators in PNG and a number of smaller third level operators and service providers. The three major participants in the market are:

- Air Niugini Limited (ANG) operates essentially as a government owned entity. It holds the greatest market share, accounting for all international (95%) and 60%-70% of the domestic market.
 - ANG has direct international flights to and from Brisbane, Cairns, Singapore, Manila, Tokyo and Honiara.
 - ANL has a code share agreement with Qantas Airways which mainly affects the Port Moresby-Brisbane-Sydney route, although it has not prevented the emergence of competition between the Port Moresby - Cairns route which is also under a code share agreement between ANG and Qantas Airways.
 - Aircraft fleet includes a B767-300 , Dash 8's, F28 and F100's.
- Airlines PNG (APNG) is the largest privately owned entity and is a relatively new arrival in the international route from Cairns to Port Moresby.
 - APNG operates routes to most domestic centres and provides charter flights for the mining sector across PNG

- Airlink, also a privately owned PNG entity, operates on domestic routes only as well as charter routes predominantly supporting the mining sector.

There are a total of 21 airports owned and operated by the Civil Aviation Authority (“CAA”), of which eleven are primary airports. Port Moresby’s Jacksons International Airport handles all international arrivals and departures to PNG, however other major airports in Lae (Nadzab), Mt Hagen (Kagamuga), Kokopo (Tokua) and Alotau (Gurney), may have the potential to accommodate some international flights. Other domestic airports are located in Madang, Goroka, Kimbe, Kavieng, Lorengau, Daru, Popondetta, Mendi, Tari and Kundiawa.

The Commission invites submissions from industry, stakeholders and consumers on the issue of access to transport infrastructure and its impact on the tourism sector. In particular, the Commission is seeking comments on the future depth of the market and its ability to support more than one international airline.

2.5.2 Niche Industries

The tourism market by virtue of its products has segmented into niche industries that have become the primary draw-card for wilderness and adventure tourism in PNG. These niche industries are readily identified as:

Trekking

PNG’s wilderness rainforest and WWII history play a significant role in the growth of “extreme” adventure sports including trekking at Mt Wilhelm, Black Cat and The Kokoda track. Over the last three years, trekking has experienced a phenomenal growth from just over 700 visitors in 2002 to over 3500 visitors in 2005. Trekking is the fastest growing product sector, accounting for almost 50% of total tourist revenue. ANZAC day commemorations in April 2006 alone attracted almost 300 visitors (predominantly from Australia) together with substantial Australian media coverage.

The Kokoda Track Authority (KTA) is the statutory government body of the Kokoda and Koiari rural localities. Its primary purpose is to assist local level government in the promotion of trekking and tourism related activities, to administer and implement development initiatives in the Kokoda track area, collect all permit fees, and be the liaison intermediary between land owner groups, users and operators.

The KTA receives part funding from the Australian Government as well as other donors including the PNG Sustainable Development Fund. They have recently come under criticism for their distribution of funds and it has been argued that 80% of fee revenue is absorbed in administration rather than contributing toward the development and implementation of projects⁷. Additionally, it has been suggested that KTA has potentially conflicting alliances with local village representatives and tour operators leading to an uneven playing field and

⁷ Australian Broadcasting Commission, Foreign Correspondent, April 2006

poor representation. There are 27 tour operators that are registered with the Kokoda Track Authority⁸.

Safety on the track has also been an issue which has been attempted to be addressed by the KTA.

The Commission seeks comments from the public and stakeholders on the effectiveness of the Kokoda Track Authority and its roles and functions as the statutory government body.

Further the Commission is also interested in seeking comments on the representation sought from Landowners and Tour Operator groups as part of its operations.

Diving

For a number of years the dive industry in PNG has received considerable support and Government funding through the PNG Dive Association ("PNGDA") via the Tourism Promotion Authority of approximately K800,000. In 2005 the Association received K120,000. The association is active in the promotion of diving through its website and through constant liaison with tour agencies overseas and locally. It is estimated that roughly 50 per cent of tourist visitors that arrive in PNG cite diving as the principle reason for their visit.⁹ There are 19 dive operators that are registered members of the association and a further 7 non-dive-operators.

There has been some concern expressed by industry on the strong representation that the PNGDA have on the Tourism Industry Association board and the potential this may have on influencing the activities of the Association.

The tourism industry has traditionally focused on diving as its predominant source of revenue generation. However recent expansion in other niche product segments such as trekking, surfing, and eco-heritage (festivals, bird watching etc) tourism has had a stabilising effect on the growth of the dive market segment. There is a recognised need therefore for diving to refocus and deliver on their strategy for growth. Issues that are affecting the continued growth of the dive industry include¹⁰:

- Lack of industry standards and regulations
- Poor educational qualifications and skill competency training facilities
- Increase in competition from Asian and Pacific regional markets (these markets are increasingly successful in marketing dive packages as both cheaper and exotic destination)

Organisations such as the Tufi Dive Resort are successful working with the TIA in packaging Dive holidays to both the residential market (domestic tourists) and international tourists.

There is little data available on the percentage of repeat travellers that return to PNG to experience diving or details on how many resorts/dive destinations they visit whilst in PNG.

⁸ TPA website

⁹ PNGDA Strategic Plan, May 2005

¹⁰ PNGDA Strategic Plan, May 2005

The Commission is interested in obtaining comment from the industry and public on the PNG dive industry and its effectiveness in being marketed internationally.

Surfing

Surfing is a burgeoning product and has experienced considerable growth in the industry over the last 9 years from 150 to 1200 tourist surfers in 2005. The surfing market is driven domestically by the Surfers Association of PNG (SAPNG), the Nusa Island Retreat and increasingly by outbound tour companies operating out of Japan and Australia with direct links to SAPNG.

Nusa Island Retreat in Kavieng accommodates up to 80 per cent of the surfing market in PNG. SAPNG for the first time, received K82,000 from the TPA in 2005. The major strength of this niche segment is the ability of members to have a comprehensive understanding of its target market (comprising essentially baby boomers aged 35-60 years who have substantial leisure incomes), consumer buying habits and successfully delivering a package of personalised services to them. Promotion is through the industry's website and brochures and encourages surfing across PNG including Vanimo, Milne Bay, Bouganville Island, Gazelle Peninsula in East New Britain and to Kavieng in New Ireland Province.

An issue that is impacting on surfing volume is the introduction of Provincial and local based Reef Management Plans. These plans restrict the number of surfers on particular reefs to 20 people at the one time. Whilst these plans restrict larger numbers of tourists, it does effectively promote the sustainable development of surfing. The catalyst from this is the development of new opportunities through scouting further a field from traditional surfing areas to research and find new reefs and coastlines.

Resource ownership for the surf industry, as with other niche industries, presents a considerable cost to management and development of the industry. The PNGSA as part of revenue gained from membership, allocate access fees to land owners on a continual basis.

The Commission invites submissions from stakeholders and public on the position of surfing as a player in the international market and as a contributor to the economic viability of the tourism industry in PNG.

Historic/Heritage/Ecotourism

Historic World War II sites, outrigger adventures, eco-tourism, village stays and nature loving interest groups are a growing component of the Tourism industry. Increasingly, tourists from the European countries are seeking to learn and experience the "lost world" and tribal cultures that make up PNG. Tour operators in these niche areas operate individually and work hard to establish relationships with community and landowners.

This is the primary source of opportunity for potential growth of the industry and strategies that effectively harness this opportunity need to be developed.

The Commission is seeking views on the potential growth of Heritage and Eco-tourism and their contribution to the economic growth of community based operations as well as to the tourism industry as a whole.

Other Niche Opportunities

The Game Fishing industry in Papua New Guinea is represented by the PNG Game Fishing Association which has approximately 800 members. The Association organises the national games fishing titles every Easter, which attracts up to 50 tourists from within PNG and overseas to participate in the fishing titles. A number of resorts and agents also provide game fishing adventures (Blue Water and Black Bass) and are mainly located in the Morobe, East and West New Britain, New Island and Oro Provinces. Whilst only a relatively small niche market, game fishing has the potential to grow. However impediments such as compensation for land owners and high capital investment need to be addressed.

Other sport and adventure products including kayaking, sailing and canoeing are potential opportunities to attract tourism revenue.

2.5.3 Tour Operators & Travel Agents

According to the TPA, in 2002 there are about 14 travel agents and 19 tour operators operating in the Southern, Niugini Islands, Momase and Highlands regions. It is understood that these figures have risen along with the increase in tourism in these regions and have led to the development of the Tour Operators Association ("TOA"). Tour operators generally have been focusing on in-bound tourism and few have been active in participating in international trade shows and marketing.

The TOA have estimated that there are approximately 25 reputable tour operators in PNG, of which the majority are locally owned and operated. Foreign managed tour operators that are based in PNG, have local staff and operate in accordance with provincial and national business regulations. This includes a registration fee with the Investment Promotion Authority of K5,000 per year. A significant portion of these organisations have established offices in Australia in order to better manage services directly to their customers.

There are however increasing number of extremely profitable tour operators who are operating directly from Australia, independently of any local partner. Essentially, this group of tour operators have no local office and contract out services to PNG companies. They are not required, under PNG law, to pay any portion of income by way of taxes or business associated costs.

The Commission is seeking comment from stakeholders and industry members on the impact that the off shore foreign owned and operated tour operators have on locally established businesses and the development and enhancement of tourism opportunities in PNG.

Travel Agents operating in PNG are focused on out-bound routes. There has been some concern from industry on the use of de-centralised booking systems which may prevent competitive practices in the booking of travel by defaulting to certain airlines when making bookings on both domestic and international routes. The opportunity for travel agents to offer travel packages that meet traveller's needs may be impeded by these developments. The Commission is seeking to understand the impact this may have on tourism and tourism growth opportunities.

2.5.4 Hotels/Resorts & Hospitality

In 1987, there were approximately 2,450 rooms available in PNG¹¹. In 2005, data indicate that there has been only a marginal increase, despite the growth in tourist figures, with a total of 2,830 rooms. Most of the facilities offering these rooms have less than 50 rooms each. In general, room rates are considered to be expensive, and the quality of facilities and level of service are inferior compared to many other developing Pacific and Asian countries.

In the absence of reliable or accurate data on the industry including inventory trend data and average room occupancy figures, it is difficult to project the growth and demand in accommodation. However based on current and projected growth over the next few years, it has been estimated that an additional 500 rooms will be required by 2010. A number of hotels in the Port Moresby area have already commenced expansion and redevelopment programs for increasing room numbers.

There are approximately 206 hotel and accommodation outlets in PNG. These can be categorised as follows in table 3.

Table 3 Total Accommodation Type in PNG

Type of Accommodation	Total Number of establishments	Rooms	Southern Region	Niugini Islands	Momase Region	Highlands Region
<i>Hotel</i>	27	1052	5	7	11	4
<i>Motel</i>	16	673	8	2	3	3
<i>Resort</i>	13	125	2	9	2	0
<i>Lodge</i>	51	546	9	6	15	21
<i>Guest House/Other</i>	99	434	28	20	32	19
TOTAL	206	2830	52	44	63	47

Source: TPA, 2002

¹¹ Tourism Development in Papua New Guinea, University of Hawaii, 1995

In the national capital, larger hotels catering to foreign tourists are the Crown Plaza, Holiday Inn (part of the global Intercontinental Hotels Group), the Airways, Gateway and Ela Beach. On average, 80-90% of their occupancy is generated through the business market dominated by Australians. Tourists generally do one day transits through Port Moresby on the way to resorts and hotels in the Southern, Nuigini and Momase regions. Resorts in these regions are frequented by both the expatriate/resident market and in greater numbers by overseas tourists. However the success rate of establishments in attracting international tourists is dependent on how effective they are in promoting and driving their own product to the market and buyers.

Resorts located in PNG that are capturing the highest portion of tourists from Europe, Australia and Japan include Tufi Dive Resort, Nusa Island, Malagan Resort, Madang International, Loloata Island, Tuwali, Ambua lodge, Lissenung and other smaller hotels including Sandaun, Vanimo Beach and Jais Aben.

Resorts are offering packages that incorporate the cultural and historical aspects of PNG at community based levels, such as village experiences and traditional dance and craft, together with snorkelling, diving and other adventure sports including trekking and outrigger stays. The performance and profitability of these resort establishments is dependent on their ability to strategically undertake target marketing in international and domestic markets. Support from the Government and industry association has been minimal.

The Commission is seeking submissions from stakeholders on the potential impediments to growth in accommodation facilities across PNG.

Hotels and resorts are generally operating at less than capacity, particularly during off- season. Options to generate higher occupancy rates and build capacity during low season is a priority for the industry. These options may include the provision of packaging of services combining airlines, transfers, rooms and additional services at lower rates. This type of alternative is effective in increasing volume of tourists to markets such as Fiji, Vanuatu and Indonesia, however requires substantial commitment from ALL stakeholders to be effective. Adequate marketing will need to accompany the promotion of these packages.

The demand for a high end international branded resort is debatable. Whilst there is a clear need for larger conferencing facilities aimed at the (expatriate) business community, public sector and event organisers, the direct benefits toward the tourism industry needs to be explored. The success of introducing larger resorts in developing Pacific Island countries is evident in Fiji, Samoa and Vanuatu.

It should be noted that the growing interest in eco-tourism indicates a demand for real opportunity for the development of smaller scale guest houses and village style accommodation.

The Commission seeks comments from industry on the current level of occupancy in hotels and resorts and what appropriate actions are required to encourage higher occupancy rates and increase tourist volume to regional locations in PNG.

3 Issues

3.1 Transport & Infrastructure

International experiences have demonstrated that the quality and appropriateness of relevant tourism infrastructure including affordable and attractive transportation options have a direct impact on the number of tourists visiting a particular destination. However most tourists will understand and tolerate the fact that it is not economically justified for the PNG government to lift the standard of all transport infrastructures to world's best practice.

According to the TPA, the lack of transportation alternatives coupled with the absence of quality and appropriate infrastructure and related services encumbers the development of tourism in PNG. However, where attractions and accommodation are well promoted and packaged, most tourists will be willing to endure some shortcomings in transport as part of the experience which is more than offset by the enjoyment attained at PNG's unique destinations.

Consequently, a fundable balance must be struck whereby the government facilitates enhancing infrastructure and services to a 'fit-for-purpose' standard with prioritisation towards tourism growth centres.

The Commission, invites comments from industry stakeholders and the wider public on the appropriateness and quality of existing tourism and related infrastructure including but not limited to transport, accommodation, tourists activities and general support activities in PNG and whether these are adequate to support the growth of the tourism industry.

The Commission also invites comments on barriers to new investments in the tourism sector and possible policy responses.

The Commission further seeks comments from relevant industry participants and the public as to what appropriate actions are necessary in order to develop appropriate infrastructure to cater for the tourism industry going forward.

3.1.1 Access and Entry – Airlines and Cruise Ships

The airlines industry has a direct causal relationship with the development of the tourism industry and vice versa. Concerns have been expressed by industry participants on the level of international airfares and to a lesser extent some domestic airfares as being expensive thus discouraging tourists and potential travellers from visiting PNG. In addition, limited international seating capacity and the absence of effective competition on the international segment of the airlines industry are suggested as a constraint on the growth of the tourism industry.

However, a second school of thought takes the view that once better tourist amenities are established and marketed, airlines will quickly respond by establishing new air services. An example of this has been the establishment of eco-tourism and resort facilities at Sabah (Borneo) which was soon followed by a range of air service options.

Entry into PNG is dominated by airlines (90%) into Port Moresby and to a lesser extent via ports in Port Moresby, Madang, Lae, Rabaul, Umando and some smaller destinations including Wewak and Tufi. Entry into PNG by land is across the border from West Papua from Vanimo.

Table 3 Visitor Arrivals via Mode of Transport

Purpose of Visit	Visitors by Air	Visitors by Sea	TOTAL
<i>Business</i>	<i>40,195</i>	<i>4,561</i>	<i>44,756</i>
<i>Holiday</i>	<i>15,204</i>	<i>3,250</i>	<i>18,454</i>
<i>Visiting Friends and Relatives</i>	<i>4,677</i>	<i>87</i>	<i>4,764</i>
<i>Other</i>	<i>1,257</i>	<i>19</i>	<i>1,276</i>
TOTAL	<i>61,333</i>	<i>7,917</i>	<i>69,250</i>

Source: TPA, International Visitor Arrival Report, 2005

Concerns with service delivery by the airlines sector particularly in circumstances of delayed or cancelled services due to maintenance work being carried out on aircraft can impact adversely upon the tourism sector where seamless delivery of transport services are regarded as the norm in other destination markets. Notwithstanding this, the smaller fleet sizes reduce options to substitute replacement aircraft which can extend delays. Tourists travelling on short stay visits can be easily inconvenienced by such problems and leave dissatisfied.

Questions are also raised concerning the pricing, surcharges for fuel and security as well as taxes included in passenger fares. On a typical route from Cairns-Port Moresby-Gurney return, a passenger is required to pay a total of AK948.30 per person in PNG taxes and industry surcharges alone of which fuel surcharge represents about half of this amount. It should be noted that visa costs are not included in the analysis. Details are provided in table 4 below. The airport facilities tax was introduced at the beginning of the year by CAA at K10 at all domestic ports.

Marine Tourism

International cruise ships and travel by sea for the sole purpose of tourism accounted for almost 3,250 visitors in 1995. Australian operated cruise ships include the Orion, True North and Coral Seas, which on average bring close to 400 passengers to PNG. About 20 other American and Asian operated cruise ships arrive in PNG on an annual basis. It must be noted however that the

cruise ships remain in PNG for very short periods (on average three days) and apart from general sight-seeing, tourists remain on board with little revenue being spent onshore.

There are 16 declared ports and an additional number of smaller landing sites along PNG's coastline of the mainlands and the islands. The main ports for international passenger services are in Port Moresby, Lae, Madang, Rabaul and Kavieng. Smaller ports in Alotau and Kimbe are also receiving passenger liners.

Table 4 Taxes on Air Travel: Cairns-Port Moresby-Gurney

Taxes and Industry charges	Amount (K)
Airline imposed charges	
Fare	2,840.00
Fuel Surcharge - Domestic	84.00
Fuel Surcharge - International	475.40
Insurance Surcharge - Domestic	30.00
Insurance Surcharge - International	32.80
Tax on insurance and fuel surcharges	114.00
PNG Government Tax	
PNG Goods & Services Tax	85.20
PNG Departure Tax	30.00
Australian Taxes and Charges	
Passenger movement tax	85.00
International service charge	80.00
CAA Charges	
Screening charge	16.90
Terminal facility charge	80.00
TOTAL	3,953.30
Charges and taxes in PNG (excl. fare):	948.30

Source: Air Niugini Central Reservations

In summary, some of the potential impediments faced by industry in the facilitation of entry and exit of tourists by air or sea route include:

- Access to visa's and costs associated with tourist visas for bona-fide tourists. The availability of tourist visas at Jacksons Airport would potentially assists new arrivals entering PNG.
- Standard of maintenance of port facilities and infrastructure. Issues of safety standards also are relevant and can create significant problems for tour operators facing higher insurance costs.
- Service standards at airstrips and airport terminals. Those that are managed by Provincial Governments are often in a state of disrepair and it is frequently up to

private industry to pay for upgrade and maintenance. The Civil Aviation Authority is responsible for the maintenance of terminals and airstrips at larger airports. However the condition of even the major airports such as Nadzab is of a low standard.

- Frequent delays in ANL services due to maintenance and safety issues of fleet
- The level of landing fees and port charges
- The level of terminal fees at both domestic and international terminals that are charged on every route.
- Limited competition from airlines on international routes.

The Commission seeks submissions from industry stakeholders on issues associated with current level of airfares, airport infrastructure and related facilities and the significance of these issues in affecting tourist travel.

The Commission also seeks comments from stakeholders concerning the port and berthing facilities in PNG and whether they are adequate to service overseas cruise vessels that call into PNG ports including the availability of supporting infrastructure and authorities in ports of call to provide attractions for visitors to spend more time on shore.

The Commission would like to receive comment on the services provided by existing participants in the international and domestic air transport segments in relation to the structure of passenger fares, ticketing processes, airline quality, service and standards, reliability of routes and safety issues. The Commission is interested in understanding the impact this has on the growth and future sustainability of the tourism industry.

3.2 Promotion & Marketing

In accordance with the Tourism Promotion Authority Act¹², a key function of the TPA is to market and actively promote PNG internationally and domestically as a prime tourism destination in the Pacific region. Currently the TPA receive government funding of approximately K13 million of which 50% is spent on marketing activities comprising advertising, attendance of trade shows and website activities. The TPA has a 5 year marketing plan, a strategic plan and released a draft policy strategy earlier this year.

Understanding the consumer is an important component to effective promotion and marketing. Access to relevant, accurate and comprehensive PNG data and analysis on areas including tourist arrivals, tourism revenue generation by sector, demographics and make-up, understanding selection criteria (why they choose Fiji versus PNG), purchasing patterns (use of internet to make accommodation and tour booking), levels of expectations on service standards and pricing,

¹² Tourism Promotion Authority Act 1993, consolidated to No 3 of 2004, Part II S. 5.

and measuring satisfaction are factors impacting on the ability to market PNG professionally. Appropriate targeting of marketing with tour packages which are relevant to the needs and interest of those markets requires long term commitment and focus in marketing efforts. The TPA requires greater market research to understand its role and the targeting of its expenditure in this area.

3.2.1 Niche Industry

Product marketing ie: the promotion of niche industries has in the past been the responsibility of the individual segments of the industry. The effectiveness of this is dependent on two factors, the functioning and operation of the representative association and whether they have access to effeceint funds to allow them to carry out their tasks. The Surfing Association and to an extent the Divers Association have attempted to promote their product actively in overseas markets, with varying degrees of success. Both these niche market activities receive funding from the TPA. Other industries, including trekking, have not received such funding and equally have not been as aggressive in promoting and marketing their products.

PNG's strategic competitive advantage was appearing to be multifold. However, appropriate market targeting will help to build initial successes in certain market plus build a base for new products.

The Commission seeks comments and submissions from stakeholders and industry on the rate of TPA support in the promotion and marketing of niche industry and products to the domestic and international market.

The Commission seeks submissions on the potential net benefits from more focussed or targeted support activities and what these might comprise.

3.2.2 Destination PNG

The TPA have representative offices in the key source markets of Tokyo, Los Angeles, Frankfurt and Stockholm that are responsible for PNG destination marketing. Available statistics indicate that whilst European tourist activity is generally growing, they are not however choosing PNG as a destination, and instead are favouring Australia and other Pacific countries.¹³

Effective branding and promotion of PNG as the preferred tourist destination in the Pacific is generally accepted as being essential if PNG is to make inroads into and increasingly competitive tourism market. The Commission seeks on whether the current branding - "Discover PNG" is the most appropriate given that tourist have market and products that re being promoted.

Utilisation of the internet and Website is an essential tool in the promotion and branding of PNG. The European and American markets utilise internet as the primary mechanism for gathering information and booking travel on-line. This is one of a number of possible marketing

¹³ TPA, Monthly Arrival Summary, December 2005

options being used by TPA. However, the Commission is seeking to determine whether this is the best focus for the marketing that is being undertaken.

The Commission seeks comments from stakeholders and industry on the effectiveness of the TPA in promoting PNG as a destination of choice to overseas markets.

3.3 Security

The official travel page of the Australian Department of Foreign Affairs strongly advises tourists to exercise a high degree of caution in PNG due to high levels of serious crime. The travel alert goes on to describe the forms of common crime (carjacking and theft) in Port Moresby and other urban centres of PNG. Additionally, general media coverage of PNG has been poor in Australia, Europe and overseas. This type of negative publicity creates a heightened *perceived* risk (as opposed to actual risk) faced by individual travellers.

This poor international image of PNG in relation to it being a high-security risk country, in particular in the major urban centres, will continue to be a challenge to combat. Until stakeholders recognise and move to rectify the negative image and the associated perceived risks, it will remain an obstacle to growth and promotion of the industry.

Security police or rangers that escort tourist groups or individuals are a reality in countries such as South Africa and Kenya. This may be an appropriate response in PNG or there may be alternatives that would help to overcome the 'fear' factor about travelling to PNG.

The Commission is interested to receive comments from stakeholders on the impact of negative publicity and poor PNG image as an impediment to tourism development.

The Commission is also seeking comments on the role of Government through the RPNGC and the TPA in the creation, implementation and promotion of a secure and safe PNG image to the tourist market.

3.4 Industry and Representative Associations

The PNG Tourism Industry Association was established in 2001, as a vehicle to represent tourist industry members and to present a united voice to Government. The objectives and purposes of the Association are outlined in its Constitution and cites its primary role as to develop, promote, encourage and stimulate the tourism industry in PNG and its associated services for its members. Current members total 30 of which 90 percent are foreign members and only 10 per cent is local, despite over 200 local tour operators, hotels and other service providers operating in the tourism industry.

Over the last two years the TIA has been the vehicle for the distribution of TPA allocated funds to industry members only. This restricted allocation process contrived with the limited

representation of local business in the association may be diverting TPA resources to business that have less need for the subsidy funding.

The Commission invites submissions from the industry, public and other stakeholders as to the role, structure and functioning of the Tourism Industry Association and its effectiveness in representing its members and in facilitating the growth and sustainability of tourism.

The Committee would like to receive comment from the public as to how well TIA promotes and represents ALL of industry.

Additionally, the Commission seeks comment on whether the appropriation of TPA funds is a transparent process and if funds are allocated aptly across industry and core market segments within the tourism industry.

3.5 Government & Statutory Bodies

In 2004, structural and organisational changes lead to improvements in the efficiency and operation of the Tourism Promotion Authority and the Governments' tourism policy and programs. The TPA Act (1993) states that the function of the Authority is

“to foster the development of tourism in PNG so as to maximise the economic benefits of the industry to PNG whilst minimizing any disruption to society, culture and the environment”.

The Act highlights the role of the TPA as the representative government body responsible for the formulation and implementation of policy and promotion of PNG as a destination both at an international and domestic level. The functions of the Authority in accordance with the Act are to:

- formulate a tourism policy for the consideration of the National Executive Council (“NEC”)
- implement the tourism policy approved by the NEC
- promote PNG overseas as a tourist destination
- enhance awareness overseas of PNG as a tourist destination
- co-ordinate the overseas promotional efforts of the PNG tourist industry in co-operation with governmental bodies at all levels and with other bodies
- encourage the provision, development and expansion of tourism infrastructure, facilities and products in PNG

- encourage , assist and promote appropriately high levels of service, education and management within PNG tourism facilities and products
- assist, guide and facilitate new investment by local and national tourism entrepreneurs and by overseas investors
- enhance awareness within PNG of the tourism industry and tourism opportunities, and
- monitor and report the effects of international tourism on PNG society, culture and environment.

The TPA have developed a National Tourism Policy, a Five year Corporate Plan (2005-2009), a National Tourism Development Master Plan and have initiated the Provincial Model/Hub concept and a Travel Writers and Film Crews (VJP) program that invites journalists, travel agents and wholesalers to PNG.

The Commission seeks comments and submissions from the public, stakeholders and any interested parties on the structure and effectiveness of the TPA and the performance of its roles and functions in efficiently promoting and encouraging tourism and investment to PNG.

In particular, the Commission seek comments on the effectiveness of the TPA in understanding PNG's competitive advantage and successfully promoting products and niche industries internationally.

The Commission is interested to receive submissions on the effectiveness of the TPA offices located overseas in Europe, Japan, USA and Australia and their role in educating, cross selling and promoting products specific to the target market.

The role of local and provincial governments in tourism has been dependant on the funding and interest of the provincial government. Milne Bay and East New Britain provinces have been somewhat unique in their active promotion and development of tourism. Dialogue between Provincial Government, industry and National Government through the TPA is also ad hoc and restricted due to current legislation. Dialogue with provincial TPA office and provinces is encouraged either by the private sector or by individual tour operations. There is little evidence of an integrated strategy to market the provinces by TPA.

The Commission would be interested in obtaining comment on the effectiveness of the TPA five "model provinces" and in particular the promotion and marketing of each province both at domestic and international levels.

The Commission seeks submissions from industry and the public on the level of input provided by Provincial Government and its impact on developing tourism across provinces.

There are several bodies that are involved in tourism at some level, namely the;

- Ministerial Committee for Tourism, and the
- Consultative Implementation and Monitoring Council's ("CIMC") Tourism Sectoral Committee.

Both these committees invite and encourage participation from both government and industry. However there appears to be a lack of consistent commitment and ownership in responsibilities from key government counterparts. Participation from stakeholders is disjointed and concerns has been expressed about the evidence of government and industry working cohesively toward key objectives. The effective removal of barriers that are impeding the growth and sustainability of the tourism industry potentially requires a united "whole of government" approach. Departments that are required to have input into the development of the industry include but are not limited to:

- Department of Foreign Affairs and Immigration
- Department of National Planning and Rural Development
- Internal Revenue Commission
- Investment Promotion Authority
- Local Government including National Capital District Commission
- Provincial Government
- Institute of National Affairs
- Civil Aviation Authority
- Investment Promotion Authority

The Commission seeks comment on the role of government in facilitating growth in the niche segments of the industry.

The Commission is interested in seeking submissions on the effectiveness of the various committees on promoting, actively engaging and obtaining commitment from stakeholders in the removal of impediments facing the tourism industry.

The Commission wishes to address the need for a “whole of government” approach and seeks to understand the level of ownership of individual departments in fostering the development of a sustainable tourism industry.

3.6 Landowners and Community Development

Landownership both in relation to sea and land, is a complex cultural and economic issue in PNG with over 95 percent of land being held by customary tenure either by individuals, clans, tribes or villages. Developers must obtain land through the government which first must acquire it from customary owners through an alienation process. Since foreigners cannot acquire land freehold, their only option is to enter into a long term lease agreement with government. It is recognised that this process represents a critical element in tourism development. However the government’s capacity to provide land to meet both public and private sector use is also limited. It is critical therefore for any tourism development and investment to have an understanding of the land ownership systems and the potential complexity in negotiation to ease through any new investment initiatives. Education and awareness programs targeted to members of the industry as well as to potential investors needs to be given due consideration if there is to be any progress in the establishment of a sustainable tourism industry.

The Surfers Association, PNG Divers Association, and to an extent the Kokoda Trail Authority are examples of industry groups that encourage landowner interaction and promote strengthening of relationships with landowners in their respective niche industries.

The Commission seeks the on issues relating to land tenure and land owner negotiations and the extent to which this acts as an impediment to new investment.

Development, education and awareness of landowners is deemed to be minimal with a heavy reliance on industry players. for example, Tufi Dive Resort has actively sought to forge relationships and encourage landowner to be advocates of tourism. There are currently, 20 villages in Oro Province that are proactive in building guesthouses to cater for the influx of visitors to the Province. The direct economic benefit that is passed on to the community and landowners is essential in its growth and autonomy.

Industry has also become a key driver in informing and educating the landowners on social issues such as HIV AIDS and environment conservation. A section in the PNGDA code of ethics states that:

“Recognise the importance of consulting with village people and promote education in the conservation of the local marine resources, the activities of tourist divers, and the benefits that they may gain through tourists visiting the area.”

Additionally, opportunities exist for private sector to facilitate Aid’s awareness and education at village and community levels.

The Commission seeks comment on ways of identifying an effective mechanism to facilitate interactions between industry and landowner on landowner issues with a view to minimising disputes.

Conservation of natural resources needs to be monitored and regulated by government, industry and community. Negative impacts of large scale mining, manufacturing, fisheries and logging need to be correctly managed in order to ensure sustainability of tourism as an industry.

Opportunities for grass roots level development and education through funding from donor agencies may exist and potentially need to be further explored as viable options for the industry.

3.7 Capacity and Accreditation

Accreditation and benchmarking in the tourism industry is vital in ensuring high standards of services and delivery to meet consumer expectations. As tourism develops in PNG, the growth in the number of tour operators, service providers and hospitality outlets will require continuous skills training and capacity building of those that are employed in these organisations.

Potentially all participants in the industry should be made aware of standards in the industry and possibly have their performance, human resources, product and services against these quality criteria on an on-going basis. Certain niche industries such as diving are required to meet international regulations with adherence to best practice safety standards. There is no PNG body or mechanism in place that checks compliance of these standards.

The Commission seeks the views on the necessity of creating and operating a standards and accreditation body specific to all aspects of the Tourism industry. In particular, the Commission wishes to establish who would be responsible for establishing and operating such a body.

Constant education and training is needed at all levels of the industry to promote the benefits of tourism and increasing productivity. A shortage of skilled manpower affects many parts of the PNG economy and at all levels of the tourism industry.

An increasing number of educational institutes are beginning to offer vocational training in tourism and hospitality in the country. Divine Word University in Madang and Lae Technical College are two such institutions. Basic entry level skills for the workforce and those with specialised skills are needed to meet replacement and expansion needs within the industry.

Service providers, especially within the hospitality sector are finding that there is a growing need for service and skills based training to build capacity of human resources within their organisation. Most education is informal through setting up in-house workshops, on-the-job training and management development programs. Small to medium service providers also find themselves playing an educator role with the villagers and landowners in order to bring a certain degree of quality to products and services that are being offered.

Inclusion of the informal sector in the education process would help to extend the benefits to the niche markets that are built around their sector. Other related issues which must be considered are:

- Data collection and storage
- Sanitation
- Water purification
- Environment friendly practices
- Conservation of environment and tradition
- Recycling
- Sustainable practices
- Health and hygiene

Awareness and implementation of standards and benchmarks play an important role in the reduction of discrepancies between consumer expectation and service quality. Education is empowerment.

3.8 Investment Incentives and Competitiveness

The cost of doing business and government “red tape” in PNG is a potential impediment to the growth of the tourism industry by hampering or limiting investment. In benchmarking studies, PNG rates as one of the more expensive countries in which to set up a business. Cost of utilities alone is a significant portion of expenses. This includes tariffs paid on electricity and the cost of providing adequate back up power generations. For larger hotels and rural resorts the tax on

electricity/fuel is estimated to increase by K1 million¹⁴ per hotel per year. Fuel surcharges have tripled over the last 12 months although these increases primarily reflect the growth in the international price of oil and the heavy reliance of PNG on diesel generated electricity. A company tax of 30 percent is higher than for local organisations. These taxes combined with IPA registration, training levy and GST further increase costs for business operating in the tourism industry.

There has been some government initiative in assisting the tourism industry through recently introduced double deduction for expenses incurred in marketing and training, and the lowering/waiving of import duty on certain hospitality related items. Recommendations by TPA have been put forward to government which include tax holidays for the first five years, tax free importation of capital equipment for tourism projects with 50 per cent or more national equity and investment allowances for new foreign investment projects.

The availability of concession arrangements to counter the impacts of other costs and taxes in PNG is one mechanism to alleviate the claimed higher costs of operating in PNG. The overall economic impact of such concession however needs to be considered in the context of the net contribution that tourism makes to the national economy. Furthermore, consideration needs to be given to whether the subsidies that are provided are the best alternative available to address perceived high domestic costs.

The Commission is seeking submissions on the cost of operating in PNG including use of subsidies to counteract the effect of perceived high costs.

The commission is also seeking views on the need and economic benefit offered by investment incentive mechanisms.

¹⁴ The Intercontinental Hotels Group, Port Moresby

4 Appendices

Appendix 1: Official Terms of Reference



DEPARTMENT OF TREASURY
Office of the Secretary

Telephone: (675) 328 8812
Facsimile: (675) 328 8804

Vulupindi Haus
PO Box 710, WAIGANI, NCD

TERMS OF REFERENCE

Review on the Issues affecting the Tourism Industry

Background and Purpose

The Government has asked the ICCC to undertake a review of the Tourism Industry in Papua New Guinea ("PNG") with a view to considering the current state of the industry and existing impediments to its growth, and identifying any appropriate actions the government might adopt in order to foster the industry's development.

The Government recognises the Tourism Industry's enormous potential to contribute to economic development and growth in PNG, particularly through the creation of employment opportunities and related spin-offs into other sectors of the economy. Given PNG's location, geography, cultural diversity and its richness in biodiversity, PNG has a considerable tourism potential within the region and beyond. Among the unique and spectacular tourism products available throughout PNG are diving, cultural and village tourism, nature and special interest activities, trekking, kayaking and access to World War II sites of historic significance.

Notwithstanding this potential, the Government is aware of concerns being raised by industry participants and key stakeholders concerning impediments to the growth of the tourism industry, including as a result of policy, social, cultural, regulatory and administrative factors. Practical issues such as access to adequate infrastructure and to affordable transport, security and physical safety concerns of visitors, and ready access to the necessary documentation and approvals for travel to and within PNG are also cited as key inhibiting factors. These concerns have been expressed not only by tourism service providers, including community based and rural tourism service operators seeking to lure more tourists and visitors into the country in order to expand their business as well as service and product offerings from PNG, but also by the Tourism Promotion Authority, provincial and regional tourism organizations, local government authorities and other relevant organizations who are seeking to promote and harness the economic gains and development outcomes that can be delivered by an effective and sustainable tourism industry.

For the purposes of this review, the tourism industry encompasses the entire tourism industry in PNG including the provision of tourism goods and services and other related services such as tour operations, community based tourism, travel agents and tourist guides as well as catering and the wider accommodation/hospitality services. Consideration will also need to be given to the roles and effectiveness of the current Statutory body responsible for tourism matters including marketing and promotion, and Government policy and procedural matters including visa and travel requirements, availability and appropriateness of infrastructure and tourism related facilities, cost and access to transport and other support services linked to the tourism market. In response to the review's conclusions and recommendations, the Government will consider what if any policy responses will be required to address issues raised.

Terms of Reference

The terms of reference for the review are:

- Undertake a review of the current composition and state of the tourism industry in PNG, identifying its various strengths, weaknesses and opportunities for growth;
- Report on the threats and impediments to the PNG tourism industry achieving its potential for growth, including but not limited to, regulatory, infrastructural policy related, and administrative matters;
- Identify issues and areas where industry or Government action may be appropriate to address these threats and impediments to the achievement of this potential, including but not limited to, action to encourage investments in the industry, improve efficiency and marketing effectiveness while retaining appropriate environmental, cultural and other standards; and
- Make recommendations on what action by the industry or Government may be appropriate to rectify these problems and impediments with a view to improving international perception and competitiveness of the industry, and facilitating investments and the effective promotion of PNG as a tourist destination of choice.

3. Specific tasks to be undertaken

This study is to be undertaken on behalf of the Treasury but under the direction of staff from the Independent Consumer and Competition Commission. The review is to be a public process in that the opportunity is to be provided for input from not only the tourism industry but also from the wider public. To this end, it is envisaged that an Issues Paper will be prepared and released as the formal commencement of the study, the Issues Paper to be prepared as part of the study process. A Draft Report will be prepared which will also be released for public comment. There may be need for a conference or public meeting at which comments on the Draft Report can be made.

The Final Report will be delivered to the Government through the ICCC. While the ICCC staff will provide input and comment on the draft materials, the report is to not necessarily be an official report of the Commission.

Specific tasks to be undertaken as part of this review include:

1. Review and report on the current operation of the tourism industry in PNG including but not, limited to:
 - a. The existing structure, size and operation of the industry;
 - b. The contribution that the industry makes to the domestic economy;
 - c. The international competitiveness and perception of the industry against similar industries in other countries within the region;
2. Identify the potential for the further development of the tourism industry in PNG over the next decade, including:
 - a. Likely developments or changes in the existing activities and structure of the tourism industry including the market for tourists to PNG and possible growth in tourist arrivals;
 - b. The potential for the development of the range of products and service offerings, over the next decade;
 - c. Flow on opportunities to other sectors of the economy from achievement of this potential; and
 - d. Potential net national benefit from these activities and growth opportunities.
3. Review and report on the current impediments to the industry achieving its potential, including but not limited to:
 - a. Infrastructure issues relating to transport, accommodation, tourist activities, and general support activities;

- b. The effectiveness of promotional and marketing activities undertaken by the Tourism Promotion Authority, its agents, overseas diplomatic missions and other tourism operators within PNG and abroad;
 - c. The implications of other possible barriers and impediments such as law and order issues, cultural constraints with respect to land tenure issues and other relevant cultural and socio economic factors; and
 - d. The impact of other legislative, regulatory, statutory, or governmental policy issue on the efficient operation of the tourism industry.
4. Make recommendations on what if any action can be taken by the industry or the Government to address impediments to the industry achieving its potential or enhance the prospects for increasing attractiveness of PNG as a tourist destination including but not limited to:
- a. Administrative, legislative, policy, statutory or regulatory arrangements that are impeding tourism promotion, or attractiveness of PNG as a destination of choice for tourists;
 - b. Barriers to the emergence of new or improved tourism or tourism related facilities or activities which achieve a net national benefit;
 - c. Enhancement and capacity building of domestic skills and knowledge supportive of a stronger, viable tourism sector;
 - d. Development and enhancement of PNG's tourism promotion and marketing activities

4 Deliverables

The deliverables from this review will encompass the following:

- Verbal presentation with overheads and other summary material on the findings from stages 1 and 2 of the tasks to be undertaken as outlined above and preliminary comments on stage 3
 - To be made to the authorising department (ICCC) and to occur prior to the finalisation of the Draft Report and in ample time for the authorising department to make comments on the findings of these initial stages
- Preparation and presentation of a written Draft Report for consideration and comments by the Government and other interested parties
 - The presentation to be by way of a public presentation to a select audience and discussion on the Draft Report
 - Opportunity for submission of written comments on the Draft Report
- Preparation and presentation of a fully documented written Final Report to Government