PAPUA NEW GUINEA
EXPERIENCE

PAPUA NEW GUINEA TOURISM SECTOR REVIEW AND MASTER PLAN (2007 – 2017)

'GROWING PNG TOURISM AS A SUSTAINABLE INDUSTRY'

FINAL REPORT

19th September 2006

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Foreword

The Government, through the Independent Consumer and Competition Commission ("ICCC") PNG and the Tourism Promotion Authority ("PNGTPA") has requested that a comprehensive review of the tourism industry be undertaken and a tourism master plan developed. This document is the Final Report ("Report") and sets out the findings from the sector review and the tourism master plan. The Government is grateful to the Commonwealth Secretariat for funding the technical assistance provided to develop the tourism master plan.

This Report has been developed through an extensive public consultation exercise, which has included 14 stakeholder workshops, attended by over 400 participants across the country, as well as extensive discussions with individual stakeholders. In addition two Issues papers and a Draft Report were released and written submissions received from a variety of stakeholders.

This Report identifies the tremendous potential, which PNG has to further develop tourism. This potential has long been recognized, but the current limited level of development and relatively low visitor numbers are a reflection of the significant constraints which the sector faces. However, for the first time, this document provides the basis for a comprehensive and '*whole of government*' approach to the development of the sector.

The theme of this Report is '*Growing PNG Tourism as a Sustainable Industry*'. This recognises that tourism offers a sustainable alternative to the traditional resource based industries of PNG and as such is an investment in the long-term economic, social and environmental welfare of the country. This '*triple bottom line*' approach to development of the tourism sector represents the key principle underpinning the tourism master plan.

This Report also outlines a vision for the tourism industry and provides a roadmap on how to facilitate the development of the sector through a series of inter-linked strategies and key recommendations. Institutional arrangements and resources for implementation are also considered within this report, to ensure a coordinated and committed approach by all stakeholders.

The implementation of the recommendations contained within this document would deliver significant economic, social and environmental benefits for the country. In terms of employment alone it is estimated an additional 13,000 jobs would be directly created if the goal of the plan is achieved. However, the development of tourism is inextricably linked to broader macro economic issues such as land reform and competition in the transportation sector, as well as to social issues such as rising crime and HIV infection rates. This Report also seeks to address the macro as well as the micro level issues.

Given the resource constraints which the country faces, a pragmatic and incremental approach has been taken to the development of the sector. With commitment from all stakeholders the recommendations within the Report can certainly be implemented.

There is no quick fix solution, but the country needs action now if tourism is to become a significant sustainable industry.

Finally, the ICCC and the PNGTPA would like to acknowledge the assistance provided by consultants from Deloittes Touche Tohmatsu and TRIP Consultants in the undertaking of this review and the tourism masterplan, and the valuable input made by the staff of the ICCC and PNGTPA.

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Executive Summary and Recommendations

Overview

Partnership

Tourism has the potential to contribute significantly to the development of the PNG economy. Increased foreign travel into PNG can result in greater foreign currency earnings and reserves, higher employment levels and generate demand for PNG culture and other goods and services resulting in broader economic gains for all people in PNG.

The development of the tourism industry is reliant on a **partnership between the government, industry, and the people of PNG.** The proposed replacement of the PNG Tourism Promotion Authority with an industry dominated body, '**Tourism PNG**,' and the chairing of the PNG Tourism Taskforce by the Prime Minister to focus attention on the coordination of the various initiatives that are proposed across a range of Ministerial portfolios and areas of the economy, is an indication of the depth and seriousness of the partnership between government, industry and the people of PNG that this Report envisages. In addition, it is proposed that a new **Tourism Policy Secretariat** be formed to focus on policy development and to separate the marketing and policy functions.

The commitment by **government** needs to occur at national and provincial levels to progress tourism substantially as a potential key driver to the national economy. To facilitate the commitment by government at a national and provincial level, certain structural and policy changes will be required which are discussed in this report. Principally however, there needs to be a public commitment of not only government intentions, but of funding and resources for the implementation of a strategy to see Tourism PNG reach the vision and overall objectives as discussed in this report.

The **tourism industry** itself also has an important role to play in the achievement of the objectives for this sector. The tourism industry cannot simply be complacent and expect government to meet all its requirements and resolve all its problems. Rather, the industry needs to be proactive in seeking out new opportunities and taking on the challenges and risks that are part of any dynamic, innovative and growing industry. In this role, individual businesses in the industry should not see themselves operating in isolation from other parts of the industry. Rather they need to recognise and build upon the strength that comes from cooperative and collaborative effort, particularly in the areas of marketing and promotion, and in jointly negotiating with other sectors that service the tourism industry, in particular the airline industry. There are economies of scale within the airline industry that are available to those who can gather together groups of tourists who are all looking to fly to PNG. Airline travel to PNG by groups of travellers from Australia and linked with domestic travel to locations in PNG offers the opportunity to address the perceived problem of the cost of international fares to PNG while at the same time providing packaged tourism services that would potentially involve several tourism resort and accommodation facilities in PNG.

For the tourism vision to be fully captured and achieved, there is a need for the involvement and commitment to the vision by the **people of PNG.** It is important to recognise that the tourism industry is a 'service' industry. Service takes many forms but it is not just the people who are employed in the tourism industry who determine the perception of PNG carried away by tourists visiting this country. Rather, all people in PNG effectively become ambassadors for their own country. The warm, friendly attitude shown towards tourists, the sense of care and safety that the tourists feel from their surroundings, and a generally supportive environment created by the community all contribute towards a positive and favourable experience that should be part of visiting PNG. The role of the people of PNG goes even further when it is considered that many of the next generation of tourism development opportunities exist in remote and rural areas where there will need to be general community support and commitment to the undertaking and facilitating new tourism related ventures. This requires a vision and commitment that recognises the potential for direct benefits to the immediate surrounding area, while also ensuring an appropriately balanced environmentally sustainable outcome.

A number of the recommendations in this report address broader economic policy issues, and thus have implications for the wider PNG economy. Other recommendations focus specifically upon the tourism sector, but cannot be seen as only benefiting that sector alone. The tourism sector draws on goods and services from other parts of the domestic economy. Thus, there is a flow-on effect to other parts of the economy from the development and expansion of the tourism industry. At the same time, a number of the recommendations and proposals as outlined in this report will have direct beneficial flow-on effects for other sectors of the economy. For example, the proposal to seek to improve the efficiency of the transport sector and the competitiveness of the airline industry in particular, have beneficial flow-on effects to all parts of the economy as they also use these services.

The report acknowledges the economic development initiatives that are already being implemented by the Government and that will have beneficial effects *inter alia* on the tourism sector. An example would be the Government's decision to allow competition in the mobile telephone market. Communications play a vital part in the operation of the tourism industry, and in a marketing environment where many potential travellers use the internet to choose their holiday destinations, PNG has to be at the cutting edge of this technology in order to compete with other countries who are also trying to entice visitors to their tourist destinations. Having come to PNG, tourists also expect to be able to access good communications facilities while in the country. The Government's competition reform program has sought to address the limitations that have existed in the telecommunications industry in PNG by allowing new entrants to provide mobile phone services from within PNG commencing in April 2007. This will immediately benefit the tourism sector, particularly as the competing mobile operators are required and will be rolling out their networks into regional and remote areas where many of the highly attractive tourism opportunities for PNG also exist.

Vision

A tourist development strategy requires a vision. ***The Vision*** is that by 2017 PNG Tourism is a growing and sustainable industry which:

- Is recognized globally as a destination which offers a range of unique niche adventure tourism experiences;
- Generates significant investment and employment through profitable business opportunities and subsequently the development of the economy;
- Celebrates, protects and enhances our unique cultural heritage and natural environment by showcasing these attributes;
- Provides visitors with an enjoyable, distinct and memorable experience;
- Demonstrates partnership and collaboration across all stakeholders; and
- Provides a broad distribution of benefits across PNG thereby improving the lifestyles of rural and urban communities.

Overall Goal

This vision for the industry in PNG can be summarised in terms of the overall goal that should be adopted and targeted for the next ten years. The overall goal is to:

> *Increase the overall economic value of tourism to the nation by doubling the number of tourists on holiday in PNG every five years and maximizing sustainable tourism growth for the social and environmental benefit for all Papua New Guineans.*

Potential Benefits

A vision and overall goal for tourism in PNG will mean little if it does not result in benefits which flow to all sectors of the economy. The potential benefits of implementing the Tourism Development Plan for PNG are considerable. In terms of employment generation alone the impacts would be significant. For example, if the goal of doubling the number of holiday tourists within five years and then doubling the number again after ten years is achieved, the net result would be:

- Tourism would be worth K1.1 billion by 2010 and K1.78 billion in revenue terms by 2015.
- Those on holiday would spend K363 million in 2010 and K727 million in 2015; and
- Total employment in tourism would increase by 4,800 jobs by 2010 and 13,000 by 2015.

These are benefits that can be readily captured by Papua New Guineans with an appropriate policy package designed to mobilise resources and target marketing and industry development activity. Furthermore, there are benefits which will flow though to the people at the "grassroots" level particularly as focus is given to the opportunity for tourism development at the communities and remoter rural areas.

Recommendations

In order to achieve the vision for tourism in PNG, the Report identifies the need to focus the work program over the next ten years on five key areas, namely:

- Marketing the Destination;
- Product Development and Investment;
- Transport and Infrastructure;
- Human Resource Development; and
- Institutions and Industry Partnerships

Key action agendas under each of these areas are outlined in the report and summarised below. These action agendas are not all focussed upon government, but are intended to provide the template for the work programs for the new body Tourism PNG, the new policy group, the Tourism Policy Secretariat, to be located under the Minister for Tourism and Culture, and the PNG Tourism Task Force to be chaired by the Prime Minister. The report identifies those bodies and agencies who are to be responsible for particular recommendations and the approximate timing for these initiatives.

Marketing The Destination

Strategy

Increase tourism demand by raising market awareness of PNG as a destination and increasing product information and distribution.

Key Recommendations

- Replace the existing Tourism Promotion Authority with a new industry driven body to oversee and coordinate destinational marketing, called **'Tourism PNG'** (see Institutions and Partnership section).
- The Board of 'Tourism PNG' should have representation from key industry peak bodies including hotels, airlines, tour operators and niche associations (dive, surfing, Kokoda).
- The Board of the new organisation ('Tourism PNG') should comprise ex-officio members appointed by the major industry association's boards.
- Establish a Tourism Policy Secretariat under the Ministry of Tourism and Culture to be responsible for tourism policy, planning, standards, HRD planning and regulations.
- Review and implement a comprehensive and ongoing research and statistics program to underpin marketing strategy and the evaluation of marketing activities.

- Review the current tourism market positioning and tag line by key source market and test with consumers and the travel trade.
- Implement the niche based PNG five year Marketing Plan based on a strong destination brand and focus resources in key target markets and product areas.
- Develop partnerships with other neighbouring tourism promotional agencies or organisations to leverage market presence and experience.
- Implement a coordinated Internet promotional strategy, supported by coordinated product information collation.
- Build capacity within the new 'Tourism PNG' and Provincial Tourism Bureaus in web based marketing and the collation of Provincial product databases.
- Ensure industry input into the 'Tourism PNG' annual marketing plan through a rigorous consultation process.
- Review the effectiveness of the new 'Tourism PNG' marketing activities including overseas representatives and utilise the results in developing future promotional plans.
- Establish a Special Events Unit within the new 'Tourism PNG' and develop and implement a marketing strategy for the MICE (Meetings, Incentives, Conventions and Exhibitions tourists) market.

Product Development and Investment

Strategy

Encourage investment in new and existing tourism products, which meet market needs, by increasing sector competitiveness and industry standards and profitability.

Key recommendations

The Government needs to facilitate growth of the sector by reducing the risks and increasing the potential returns on tourism investment, particularly those of a large scale nature. This will only happen if the Government demonstrates long-term commitment to a well-defined plan of action as well as showing a willingness to be competitive with regional incentive programs. The implementation of the Tourism Master Plan provides the opportunity to do this. This commitment needs to be cross party so that all parties recognize the importance of tourism.

The table below sets out the key recommendations with regards to product development and investment incentives in the Industry.

	Recommended Investment Incentives
Tax Package for large scale investment projects (ie: resorts and hotels)	Allow 100 percent company tax exemption for new tourism infrastructure developments for a10 year period.

	Recommended Investment Incentives
	Tax credit would apply to high capital and large scale investment infrastructure development • Development projects could include community-based infrastructure such as the building and maintenance of roads, the erection of schools and hospitals and other such community level projects. Set criteria that restricts size and value of projects and that which will only encourage sustainable investments of a high capital nature: • US$5-10 million minimum value • 150 rooms and over
Accelerated Depreciation Allowance	Extend the existing accelerated depreciation allowances to cover new building and refurbishment of all tourism plant and equipment including tourist visitor attractions, with the rate in addition to the normal depreciation to be 55%. This is the rate that is currently applied in Fiji for such purposes.
Tax Deduction for Staff Training	Allow a double taxation deduction for all staff training expenditure at recognised training institutes.
Zero GST – Airfares and Other Surcharges	Ensure zero rating for domestic (tourist fares) and international airfares and seafares is applied and/or introduced

- Facilitate the development of a Police Media Unit and Tourism Police concept similar to that recently initiated by the RPNG Constabulary
- Provide adequate support to the Investment Promotion Authority ("IPA") in ensuring that doing business in PNG, not only for tourism but across multiple sectors, is a streamlined process.
- Facilitate the development of Provincial Tourism Plans which identify assets, opportunities and cohesive actions for development.
- Coordinate information on tourism investment opportunities, funding sources and business support services available in the country.
- Design and implement a Community based tourism program to include:

- Development and training on standards for community based projects.
- Development and implementation of short courses on community based tourism in business, management and key operational areas.
- Development of tourism awareness program and 'train the trainer program at provincial level.

- Establish an independent standards and accreditation body to:
  - Develop regulations and standards for tour operators and inbound tour operators as part of the licensing procedure
  - Develop and implement a national accommodation grading and classification system reflective of international standards
- Introduce a specific fund for new and upgrading existing SME tourism projects, through the Rural Development Bank
- Establish new Tourism Policy Secretariat with responsibilities *inter alia* to negotiate head leases with traditional resource owners and package sites for investment and development.
  - Remove the backlog of cases at the Lands Tribunal relating to tourism investment sites.
  - Develop a pro forma lease and operating agreement for resource owners and investors
- Facilitate the development of a Police Media Unit and Tourism Police concept similar to that recently initiated by the RPNG Constabulary
- Prepare product development guidelines to assist existing and potential operators build, market and deliver sustainable tourism products and communicate to the industry through training workshops.

Transport and Infrastructure

Strategy

Improve the competitiveness and standards of transport and infrastructure, to increase market demand and improve visitor satisfaction levels.

Key Recommendations

<u>Air Transport</u>

- Tourism industry participants to build on the success of others in negotiating cost effective transport/tour packages with competing airlines (both in PNG and overseas) to achieve transport cost savings that can be passed through to tourists. ICCC to facilitate these discussions within the trade practices and competition promotion provisions of ICCC Act dealing with collaborative market behaviour by competing businesses.

  - ICCC to subject the Code Share arrangement between Air Niugini and QANTAS to competition benefits test

- Upgrade and undertake maintenance of existing airport infrastructure to a "fit for purpose" basis backed by a commercial justification for the investment in terms of its future demand prospects.
  - Access to concessional loans and funding to be subject to full cost/benefit assessment
- Develop and implement a ten-year plan for the enhancement and development of the facilities at Jacksons Airport.
  - cost-benefit analysis of options required as a prerequisite
- Support the establishment of new and existing air services with coordinated product and destination marketing

Sea Transport

- Facilitate additional cruise shipping services through the identification and targeting of potential operators and proactive marketing program.
- Reduce the cost of cruise shipping operations by government meeting the cost of providing immigration and customs services for operators in non designated points of entry.

Land Transport

- Implement and enforce standard fares and minimum service standards for PMVs and taxis
- Encourage the development of 'elite' taxi/chauffeured hire car services through existing taxi networks or other tourist facility operators

Visa Processing and Infrastructure Issues

- Introduce a system of visa exemptions based on country risk assessment with initial priority given to major tourist markets of Australia, Japan, USA, and member countries of the European Union.
  - Ensure that the "official PNG tourism destination website" includes PDF formats of:
    - Visa Applications
    - Instructions on the completion of a visa application and related costs
    - General Travel information – ranging from Insurance requirements to medical precautions

        - All of which can be downloaded easily by the end user.

    - Ensure that the "official PNG tourism destination site" lists all the PNG Embassies, High Commissions and Honorary Consuls and has direct links to their websites

    - Ensure that all PNG Embassy, High Commission and Honorary Consul websites have visa applications and associated documentation which can be downloaded.

<u>Utilities</u>

- Give public support for the current business and management reform programs underway within Telikom PNG, PNG Power and PNG Harbours Limited designed to improve their overall operating and incentive efficiency.
    - ICCC to enforce the minimum performance standards required under the existing regulatory arrangement.

- Implement the opening up of the telecommunications sector to competition through the issuance of two additional mobile licences to operate from April 2007
    - Enforce the requirement for the roll out of the new mobile telephony networks to be established by the new entrants into this industry

Human Resource Development

Strategy

Facilitate training and quality education programs, which meet industry needs, improve skill levels and create awareness of the benefits of tourism.

Key Recommendations

- Establish an Industry Advisory Committee to assist in curriculum and policy development.

- Undertake a national tourism industry Training Needs Analysis to identify critical areas of education and training needs for the hospitality and tourism industry in PNG, identify gaps existing in courses currently available and provide recommendations to the education and tourism sectors on policy changes and funding options for the provision of additional courses, teachers and facilities.

- Consider the development of specialist training facilities in the country.

- Introduce a greater focus onto practical learning experiences within existing courses.

- Provide support for existing public institutions to upgrade courses and facilities, to build local institutional capacity and to increase the availability of training opportunities.

- Introduce a basic tourism course into the primary and secondary education syllabus.
- Design and implement short courses for those working in the industry and facilitate distance education.
- Conduct an ongoing employment/labour survey for the tourism sector to monitor and measure employment in the sector.
- Introduce a country-wide ongoing tourism awareness program and build Provincial capacity to deliver awareness programs at the local level.
- Build capacity within existing institutions to deliver short courses in business management, operations, marketing and finance, which are specific to the tourism industry and suitable for community based tourism projects.
- Develop consistent training standards within the country with the introduction of national certification and competency-based training.
- Link training to industry standards and regulations in the accommodation and tour operating sectors.
- Create a website for the public and tourism education practitioners to access available information on training opportunities and material and exchange ideas on best practice.

Institutions and Industry Partnerships

Strategy

Develop institutional structures and capacity within the public and private sector to facilitate tourism development at a national and provincial level.

Key Recommendations

- Replace the existing Tourism Promotion Authority with a new industry driven body to oversee and coordinate destinational marketing, called 'Tourism PNG' (see Institutions and Partnership section).
- The Board of 'Tourism PNG' should have representation from key industry peak bodies including hotels, airlines, tour operators and niche associations (dive, surfing, Kokoda).
- The Board of the new organisation ('Tourism PNG') should comprise ex-officio members appointed by the major industry associations board.
- 'Tourism PNG' would have responsibility solely for the marketing of PNG as a tourism destination. This would include:
    - Preparation of a five year marketing strategy and annual marketing plan
    - Coordination of all destinational marketing activities including;

        - Marketing research
        - Market representation in key source markets
        - Travel shows and road shows
        - Visiting journalists programs and travel trade familiarisations
        - Internet marketing
        - Coordination of cooperative campaigns and advertising
        - Public relations
        - Coordination of all marketing activities with the private sector at a national and provincial level

- Establish a Tourism Policy Secretariat under the Ministry of Tourism and Culture to be responsible for tourism policy, planning, standards, HRD planning and regulations. The Tourism Policy Secretariat would specifically be responsible for:
    - Tourism policy analysis and development
    - Tourism planning and coordination with the Provinces and other key agencies;
    - Secretariat Services to the Tourism Task Force;
    - Development of industry standards, regulations and licences;
    - Tourism investment policy; and Tourism training policy and coordination.

- Facilitate the development of a Police Media Unit and Tourism Police concept similar to that recently initiated by the RPNG Constabulary

- Strengthen capacity and role of industry institutions and continue with targeted funding (through 'Tourism PNG') as means of encouraging relevant associations and groups to form and undertake marketing activities.

- Encourage industry to establish a national Hotels Association to provide a forum for information exchange on standards, research, and marketing and product distribution.

- Facilitate the establishment and capacity building of Provincial Tourism Bureaus and Provincial Tourism Industry Associations.

- Establish a forum for the national coordination of tourism conservation initiatives

- Encourage the establishment of an association for every major niche product, which will facilitate networking, education and cooperative marketing opportunities.

- Establish the PNG Tourism Task Force to coordinate tourism development and implementation of the Tourism Master Plan under the Chairmanship of the Prime Minister.

Coordination, Monitoring and Action Plans

Recommendations and proposed initiatives are of little value unless they are acted upon. As the basis for implementation of the recommendations outlined above, a series of action plans have been developed for each strategy and individual initiative. In addition a sector development program has been prepared which identifies a number of priority projects to assist the country achieve its Vision for the tourism sector. The actions and priority projects focus on the next five years.

A key mechanism to coordinate the implementation of the Plan will be the establishment of the **PNG Tourism Task Force** under the chairmanship of the Prime Minister. The importance of this Task Force cannot be understated. It is intended to demonstrate an absolute commitment by the PNG Government to the development of a sustainable and dynamic tourism industry, and to provide a national focal point for resolution of issues of a practical or policy nature that are impacting adversely on the industry and influencing the outcome of the Master Plan for the industry.

The Tourism Development Master Plan requires a partnership commitment by Government, Industry and the people of Papua New Guinea if it is to achieve the Vision and overall goal For this partnership to take on form and become active requires leadership from the government and in particular from the Prime Minister and his senior ministers. The Government response to this Report should represent a watershed in industry policy and the future of the tourism industry in Papua New Guinea. The plan identifies the way in which the government can build upon the current strong economic conditions to launch a major initiative that is consistent with its Medium Term Development Strategy and with its commitment to providing new employment and business opportunities for the people from rural and remoter areas of the country. With strong leadership from the government, the partnership with industry and the people of Papua New Guinea will follow.

Indicative Funding

The Report provides some indicative budget cost estimates. However these are primarily based on a re-allocation of existing government budget commitments so as to achieve efficiencies and improved outcomes from funding already made available. Estimates are also provided for assumed funding from external donors or from within the industry itself.

It is important that the indicative costs will need to be confirmed as part of the process of reform and change proposed by this Report. The Report has not sought significant funding increases, preferring to focus upon benefits that can be obtained by a more efficient use of existing funds and a more targeted approach to the marketing of tourism in PNG.

1. Introduction

This document sets the framework for the development of tourism as a major sustainable industry in PNG. The document provides a blueprint for the development of the sector, which has been prepared through a participatory review and planning process. This process and the outcomes contained within have been coordinated by the PNG Tourism Promotion Authority (PNGTPA) and the Independent Consumer and Competition Commission (ICCC) on behalf of the PNG Government.

This report outlines the broad economic rationale and direction for tourism over the next decade together with a Tourism Master Plan for Papua New Guinea (the Plan) for that period. The report sets out the findings from the review of the sector and provides a policy framework which sets the future direction for the growth of the tourism sector in PNG. This document summarises the direction and key components of the Tourism Master Plan, including the vision, context, objectives and action plans provided for implementation.

TRIP Consultants have undertaken the development of this Plan with funding assistance provided by the Government of PNG and the Commonwealth Secretariat, Deloittes PNG have independently provided advice and participated in consultation with various stakeholders and interested parties within PNG, and agency support has been provided from the PNGTPA and ICCC.

1.1. Purpose

The overall objective of the Tourism Sector Review and Tourism Master Plan is to identify opportunities to improve the competitiveness of the sector and provide an integrated framework for industry development in PNG in the next ten years.

This document provides a vision and framework for the development of tourism in Papua New Guinea in the longer term. The focus of the strategic recommendations and initiatives is on the short to medium term. A pragmatic and incremental approach has been adopted, which outlines a number of strategic and tactical recommendations. There is no 'quick fix' approach to the development of a vibrant and sustainable tourism sector in PNG; however a strategic and sustained commitment by all stakeholders will bring significant benefits for the country.

1.2. Overview of respective Terms of References

Terms of Reference (TOR) for the PNG Tourism Sector Review and Master Plan has been based on the original TORs as set out by the Department of Treasury, PNG Tourism Promotion Authority and the Commonwealth Secretariat.

The principle objectives of the Tourism Sector Review and Master Plan are to:

- Review and report on the current operation of the tourism industry;

- Identify the potential for further development of tourism over the next 10 years i.e. a national tourism master plan for the TPA;

- 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.

1.2.1 Scope of Work

The review is intended to look at a wide range of issues relating to the current structure of the tourism industry and will focus on:

- Key impediments and barrier 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 investment framework, 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

- Its competitiveness in the international market

Additionally, the national master plan will provide a strategy for the development of the tourism sector for the next ten years including:

- Market analysis and development

- Product development

- Niche' analysis

- Community based tourism

- Infrastructure development

- Human resource development

- Public and private institutional roles and set up

The respective terms of references are outlined in the attached Appendix A and B.

1.3. *Approach and Methodology*

A highly participatory and consultative approach has been undertaken to the tourism sector review and development of this Tourism Master Plan. The PNGTPA, with the assistance of TRIP Consultants, commenced work on the development of a Plan earlier this year. The ICCC commissioned Deloitte to assist in the development of a broader economic and policy overview in May. In total fourteen workshops have been facilitated to ensure that the views of key stakeholders across the country have been taken into account in drafting this Plan. Over 400 people have participated in the series of Provincial Workshops and extensive individual consultations have supplemented these.

A Strategic Planning Workshop was held in Port Moresby in June and attended by a range of stakeholders, including representatives from the industry, government and the provincial authorities. In addition a literature review has been conducted and two Issues Papers[1] were circulated to a wide range of stakeholders and the views expressed though written submissions have also been incorporated into this Final document. The Draft Report has also been made available for public comment prior to finalisation in this Final Report in mid September 2006.

[1] PNG Tourism Master Plan Issues Paper – April 2006 – PNGTPA and Issues Paper – Tourism Industry Review – ICCC May 2006

2. Current State of the Tourism Industry

2.1 Economic Overview

PNG is located on the eastern half of the island of New Guinea located to the north of Australia. PNG comprises both the mainland and some 600 offshore islands. According to the 2000 National Census, PNG's population was about 5.2 million[2] of which around 15 percent of the population live in the ten major urban areas. The major city and capital of the country is Port Moresby with a population of just over 220,000. Other main towns and cities include Lae, (population around 90,000), Madang (30,000), Mt Hagen (40,000), Wewak (23,000) and Goroka (25,000). Other main centres include Rabaul/Kokopo, Alotau and Kimbe. Arawa, the once thriving urban centre and provincial capital of Bougainville and neighbouring townships of Kieta and Panguna have been deserted due to the Bougainville conflict. The township of Buka is now the new centre for government and commerce of that island province.

PNG has a dualistic economy with a traditional quasi subsistence rural sector, which provides the livelihood for about 85 percent of the population while the balance is employed in the formal monetary sector. The formal sector provides a rather narrow employment 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.

After several years of economic contraction, the PNG economy grew by 2.8 percent in 2003, and 2.6 percent in 2004[3]. Other macroeconomic indicators have also improved with both inflation rates and interest rates declining. Despite this more positive outlook, the PNG economy continues to be highly dependent on 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, logs, coffee, copra and cocoa, and petroleum products. Oil, agricultural and mineral exports are equivalent to 42 percent of PNG's GDP, and account for 90 percent of its exports.

The geography of PNG consists of volcanic mountains and low coral atolls. There are 20 provinces of which 15 are located on the coast. As a result of the difficult geography, air transport plays a predominant role in terms of passenger transportation and to certain extent cargo and freight movement including the delivery of labour and inputs for the mining and minerals sector.

2.2 Overview of Government Policy

Policy development in the tourism industry had attracted little focus in recent years and policy implementation has been uncoordinated. There has however been some success in recent policy initiatives with regards to the introduction of IRC tariff reductions on items in the hospitality industry and double deduction allowances on promotion and

[2] NSO Final Figures for 2000 Census
[3] PNG Department of Treasury Budget Papers- 2004

marketing development expenditure. However incentives with respect to GST issues on airfares are yet to be implemented.

Last year, a Ministerial Committee on Tourism, was set up with the intention of bringing together multiple Government agencies to address issues faced on a broader scale by the tourism industry.

The Medium Term Development Strategy (MTDS) 2005 – 2010, released by the Government in November 2004, identified the potential for the tourism industry to contribute significantly to the economic, social, cultural and environmental well being of PNG. The MDTS makes the following observations:

> *"Over the period of the MTDS, the service industry should develop to be a significant driver of the economy, particularly in relation to tourism. Given PNG's abundant natural beauty, unique environment and cultural diversity, the potential for the tourism industry is considerable. In a number of niche markets, such as trekking, diving and village based tourism, Papua New Guinea has the potential to be a world leader. As well as those directly employed in the hospitality industry, tourism will also generate considerable opportunities for PNG's world-renowned artisans and artists and for small holders supplying produce to motels and guesthouses.*
>
> *As yet Papua New Guinea has not exploited the opportunities that tourism has to offer.'*

In November 2005 the Government released the National Government Tourism Policy, which established a number of high-level objectives in relation to the further development of the sector. This Report builds on and expands upon the objectives established in that Policy statement.

On-going policy formulation between industry and Government departments is important in ensuring that matters which can assist in developing the industry are addressed and implemented by relevant authorities. This requires coordination between Government departments and high-level policy initiatives creating opportunities for tourism to be put on the agenda.

2.3 *Industry Overview*

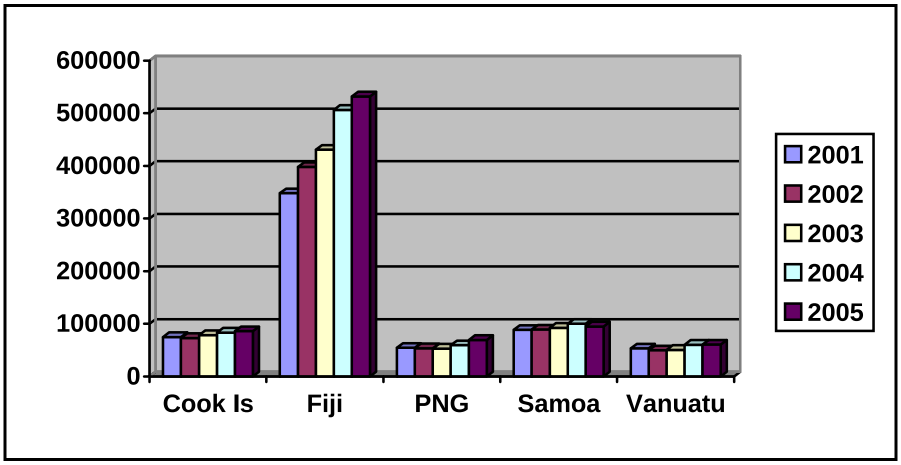
The tourism industry is one of the fastest growing industries worldwide, with over 808 million tourists travelling in 2005 and a global value in excess of US$500 billion. In the South Pacific region, tourism accounted for US$1.52 billion of expenditure in 2004.[4]

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. Fiji now has a major tourism industry with a value exceeding US 570 m, which is currently creating around 4,000 direct jobs a year. Even small island nations, such as the Cook Islands and Vanuatu have significant tourism industries, which contribute up to 50 percent of gross domestic product and 75 percent of foreign exchange to the economies concerned.

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

The graph below indicates the level of holiday arrivals for selected countries in the region.

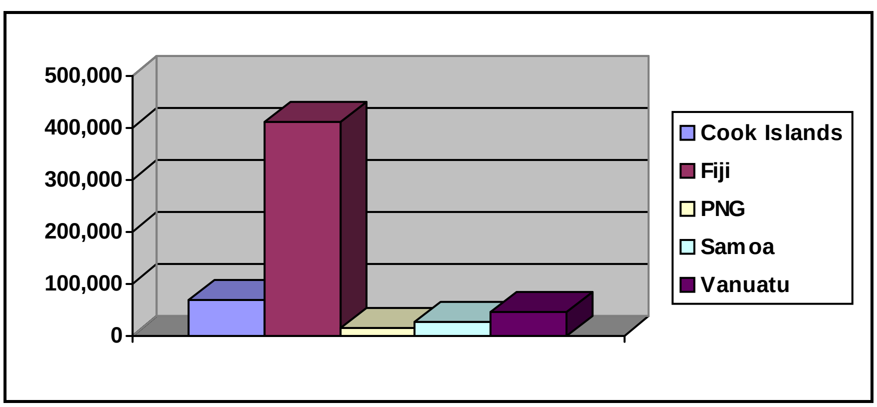
Figure 2.1: Holiday Arrivals 2005: Selected South Pacific Countries



PNGs' share of the (South Pacific) regional market is very small, at only 5 percent of total arrivals, and less than 2 percent of the holiday market. This indicates the low level of development of this market compared to other neighbouring countries, as well as the importance of the business market to PNG.

Tourism development in PNG has failed to keep pace with the rest of the world and the region; in the Cook Islands, Fiji and Vanuatu holiday arrivals account for almost 80 percent of all visitors, whilst in PNG this market accounts for only 26 percent of the total level of arrivals. The next graph indicates the level of holiday visitation for selected neighbouring countries.

Figure 2.2: Holiday Arrivals 2005: Selected South Pacific Countries



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.[5] 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 travel[6] 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.[7]

Tourism shares many of the constraints of other industries, some more so, and it is essential that any improvements or suggested removal of impediments has the effect of providing macro economic benefits that extend across the wider PNG economy. Tourism has the economic, social and environmental potential to contribute to PNG's development. The Government is aware of this and as part of the Medium Term Development Strategy is committed to developing tourism by examining the impediments to its sustainable growth and identifying appropriate actions the Government might adopt in order to encourage the industry's development. 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 the Government in reviewing the industry and through its efforts in marketing and promoting PNG indicates a resurgent and positive commitment from within Government to supporting this growth.

Currently the tourism industry in PNG is underpinned by the business travel market, which accounts for almost 70 percent of all visitors and provides the major market for many hotels, as well as the international and domestic airlines. The level of holiday visitors is small at an estimated 18,000[8] in 2005. In recent years growth has been slow, with evidence of a slight decline in some key markets (such as diving)) whilst some products which are at an early stage of development have continued to grow (i.e. surfing and the Kokoda Trail). Whilst demand has shown a decline in PNG, the sector continues to expand globally, with an estimated 120,000 divers visiting the South Pacific alone (compared to PNG's estimated 4 – 6,000 divers).

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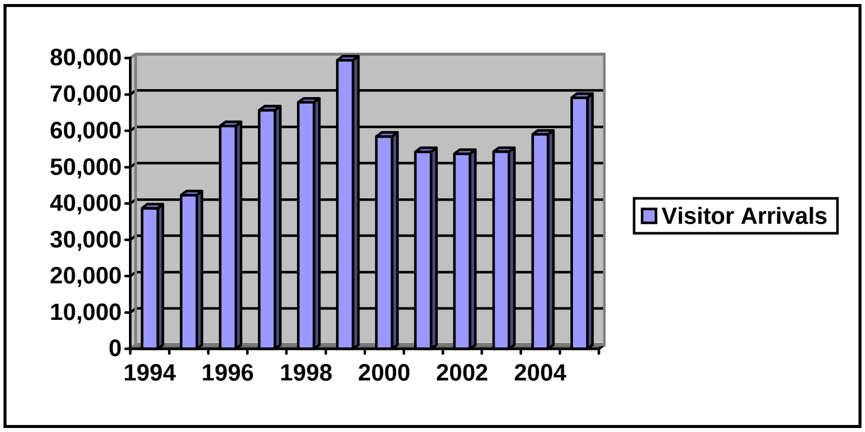
[5] The Post Courier, Focus, PNG Arrivals Improve, Barnabas Orere, 10-12 March 2006

[6] International Visitor Arrival Report, TPA, 2005

[7] Tourism Development in Papua New Guinea, University of Hawaii, 1995

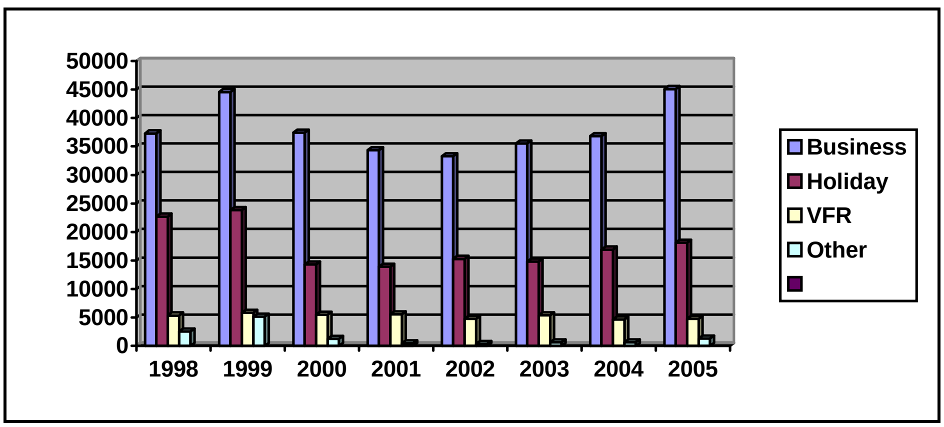
[8] Official statistics include cruise ship visitors; the breakdown is approximately 3,250 cruise ship visitors and 14,750 annual arrivals by air; however it is generally accepted by the industry that a significant number of those entering on holiday visitors are in fact visiting for business purposes. Unofficial estimates place the number of genuine holiday tourists at around the 10 – 12,000 level.

Figure 2.1: PNG Visitor Arrivals 1994 – 2005



Only 26 percent of visitors to PNG are on holiday and five percent come for other reasons, such as visiting friends and relatives. Holiday visitors grew by 7 percent in 2005, although in real terms there has been a decline since 1999 when there were over 24,000 holiday visitors.

Figure 2.2: PNG Visitor Arrivals by Purpose of Visit – 1998 – 2005



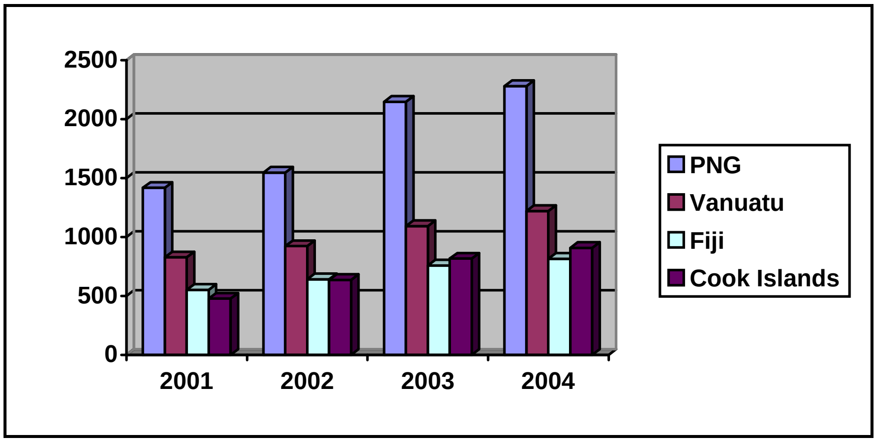
Visitor expenditure to PNG was worth an estimated K596 million in 2005, with holiday visitors spending approximately K220 million. A comparison of expenditure levels[9] (on ground content only) indicates that PNG is an expensive destination. The average expenditure per visitor in PNG was over double the level for Fiji, (US$ 1,220 against US$ 815) in 2004; out of 12 countries monitored by the SPTO, PNG was ranked 10th in terms of tourist expenditure levels, just behind New Caledonia and French Polynesia.

In terms of the provincial distribution of holiday visitors, Port Moresby provides the gateway to PNG, but East New Britain, Madang, Milne Bay, West New Britain and New Ireland are indicated as the primary destinations visited by over 70 percent of the remaining visitors. Available information shows that there are approximately 2,850

[9] The Economic Impact of Tourism in the South Pacific – South Pacific Tourism Organisation – July 2004

rooms of tourist accommodation in 212 accommodation facilities throughout the country. Currently no system of classification has been established to grade the quality and facilities of individual operators; this can lead to some confusion in the market place and irregular pricing of accommodation products.

Figure 2.3: Average Expenditure per Tourist 2001 – 2004



PNG tourism products are primarily special interest or 'niche' market based; this offers advantages in terms of marketing, as these segments are often highly specialized in terms of visitor profile. Whilst PNG's tourism assets are many and varied, the core products are essentially based around nature and culture; these include diving, culture and village based tourism, special interest flora and fauna including bird watching, trekking, sport fishing, surfing and WWII history.

Globally there is increasing interest in adventure based activity tourism and PNG has some competitive advantages in this market. Expansion of the opportunities within these market segments will be a critical component of the future development of tourism; the extent to which products can be delivered cost effectively and within a safe a secure environment, will ultimately be key drivers in a highly competitive international market place.

2.4 Key Tourism Products

2.4.1 Accommodation

In 1987, there were approximately 2,450 rooms available in PNG[10]. In 2005, data indicate that there has been only a marginal increase, despite the growth in tourist figures, with a total of 2,850 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.

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[10] Tourism Development in Papua New Guinea, University of Hawaii, 1995

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.. A number of hotels in the Port Moresby area have already commenced expansion and redevelopment programs for increasing room numbers.

There are approximately 212 hotel and accommodation outlets in PNG, although only 65 are featured on the PNGTPA website.

2.4.2 Tour and Inbound Operators

The PNGTPA estimates that there are approximately 13 travel agents and 25 tour operators operating throughout PNG. The PNGTPA has supported the establishment of the PNG Tour Operators Association (PNGTOA), which currently has twelve registered members.

The majority of tour operators are small and focus on tour operations, with approximately ten operating as inbound operators; larger tour operators include Melanesian Tourist Services and Trans Niugini Tours, who own and operate their own resorts as well as their own tours; these latter two companies in particular have taken a proactive role in promoting PNG as a tourism destination over the last twenty years through international trade shows and consumer and trade marketing.

2.4.3 Key Product Segments

Papua New Guinea's has a wealth of nature based and cultural products, which form the basis of the tourism product. A summary of the key product segments is presented below:

Diving

PNG has been recognized as a world class dive destination on many occasions by dive industry bodies and publications. The dive sector is well organized through the Dive Industry Association (DIA), which coordinates the promotion of diving and has been successful in gaining recognition for the quality of diving in PNG. The DIA receives support funding from the TPA of K150,000 per annum for promotional purposes. An important component of the dive sector is the live aboard operations.

Divers visiting PNG tend to be experienced, with a high level of disposable income. Current estimates of the PNG dive market are 4 – 6,000 per annum, with the primary markets being split between USA, Australia, followed by Japan and Europe. The market appears to have declined in the last few years due to increased competition in the region.

Trekking and Climbing

Trekking represents a growth market in PNG. The PNG product is generally placed at the 'hard adventure' end of the market. The development and promotion of the Kokoda Trail has been particularly successful in the last four years; it is estimated that approximately 3,000 tourists will trek Kokoda in 2006. Other treks have also been developed including around Mt Wilhelm and the Black Cat trek.

WWII History

WWII history is an important sector for PNG. Although restricted primarily to the Japanese and Australian markets, the WWII history product impacts upon all the other major segments (ie diving, trekking etc). For example the primary motivation for undertaking Kokoda is because of its association with WWII rather than because it might be the most interesting scenically. The current WWII heritage market is centred in Rabaul, Milne Bay and Kokoda. Concerns have been raised about the longer-term sustainability of this product due to the lack of conservation/protection measures in place in PNG.

Surfing

Surfing represents an emerging market for PNG. Surfing is currently focused on Kavieng and Vanimo, with the Nusa Island Resort catering for the majority of surfers travelling to PNG. Although surfing is seasonal, it is estimated that the number of surfers has grown to between one to fifteen hundred per annum.

The PNG Surfing Association is a new and well organised industry body. The primary potential market is Australia, followed by Japan. The Surfing Association is also developing a number of special events, which also have potential to be developed to increase the number of visitors and provide greater media exposure for PNG.

Culture

PNG's diversity of culture is unique in the world and provides the destination with a unique selling point. The cultural shows in PNG such as Mount Hagen and Goroka, draw in many visitors (mainly from Europe and the USA).

Bird Watching

PNG has approximately 13 percent of the world's exotic bird species (equates to 1,296 birds); this is higher than the whole of Australia (8 percent). Bird watching is an extremely significant segment within the nature based recreation market. For example, in the USA 'birding' is one of the fastest growing pastimes, with approximately 20 –35 percent of respondents to a large survey of recreational activities indicating that they regularly watch birds and the main bird watching association in the USA recently doubled its membership in a single year. Birdwatchers are well educated (two thirds of US 'birdies' hold degrees) and have a high level of income (33 percent in Australia have an income over $AU 60,000 pa).

Flora and Fauna

PNG has a range of specialist flora and fauna products which have potential to attract a greater number of tourists. PNG is able to offer a significant diversity and concentration of many rare plants and animals, including orchids, insects, butterflies and bats. In addition PNG has outstanding natural areas, which appeal to a wide range of tourists.

Much of the PNG tourism product is 'research based'. Further opportunities exist for specialist groups to study PNG's unique flora and fauna as a separate segment.

Fishing

PNG has an excellent sport-fishing product (eg for spotted bass and barramundi), which is gradually developing, together with game fishing. The major source market is Australia, although there are opportunities to attract specialist fishermen from the USA and Europe. The Australian fishing market is large with approximately 3.56 million fishermen; approximately 38,000 Australians (Roy Morgan Research) participated in fishing on their last overseas holiday.

Meetings, Incentives, Conferences and Exhibitions (MICE)

Whilst PNG can infrequently attract large international conferences and exhibitions, it is well positioned to bid and host regional (Pacific and APEC) conferences. This is particularly the case where PNG is a member of a regional/international organisation. PNG has recently hosted the South Pacific Tourism Conference in 2005 and the EU/ACP Meeting in 2006. In addition the corporate motivation and incentive market to Kokoda business has recently been growing significantly.

Cruise Ships

The cruise shipping market is one of the fastest growing segments globally for the tourism industry. The market has been growing, from a relatively small base in PNG; cruise ship visits have increased from three in 2005 to a scheduled twelve in 2006. Cruise ships have the added advantage of often requiring littlie infrastructure apart from adequate wharf facilities and day tours. PNG is well positioned to capitalise on the growth in smaller special interest cruises, which are generally high yielding and relatively low volume.

3. Future Growth Potential

Tourism in Papua New Guinea is still at an embryonic stage; there is no doubt that PNG has significant potential for tourism given the diversity and uniqueness of its natural and cultural resources. Clearly the sector has not developed in a way that has allowed it to maximize the potential that exists and therefore to deliver the range of potential benefits for the people of PNG. The current Government is committed to achieving growth in the sector and working with all the stakeholders to achieve this goal.

Tourism is an industry with many aspects, which includes air, land and sea transportation, accommodation, tours and handicrafts, as well as the primary and service sectors, which both support and benefit from the sector. Tourism is a sector that potentially has strong backward and forward linkages, which support the viability of associated primary and service sectors, which are suppliers of goods and services to the sector.

The further development of the tourism industry offers potential to deliver major benefits to the people of PNG including:

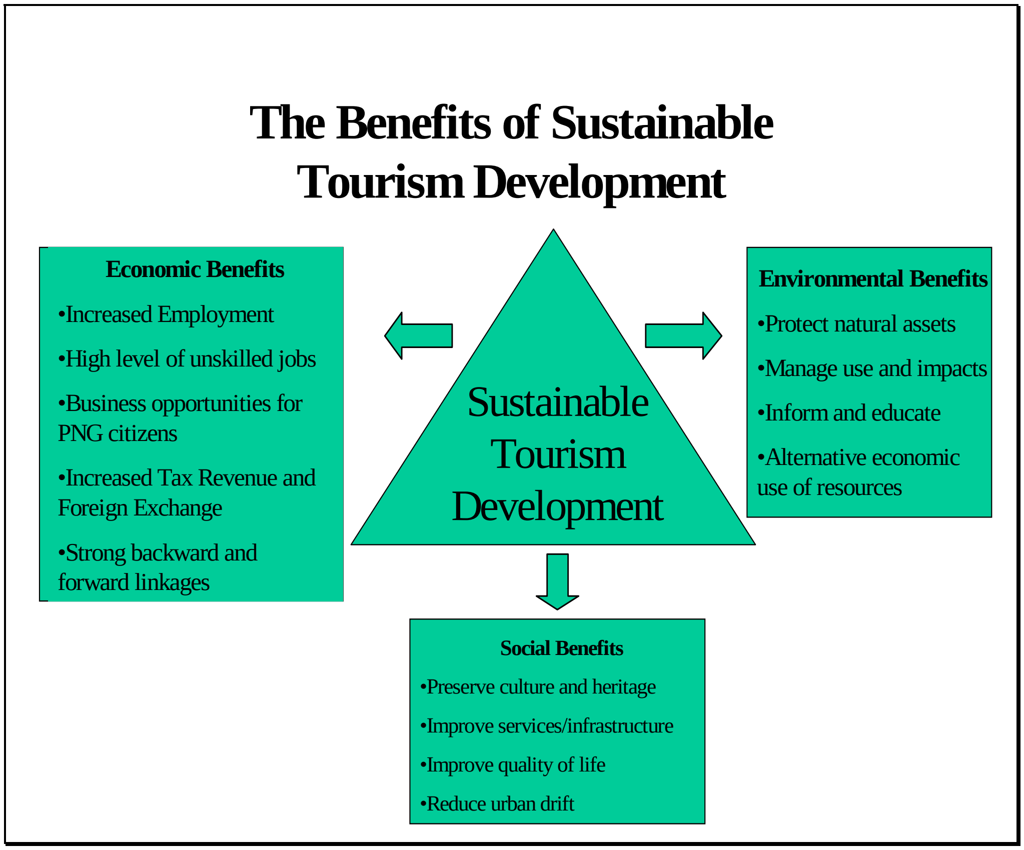
- Providing significant employment throughout PNG:
- Developing income generation opportunities, leading to a reduction in poverty levels and a reduction in law and order problems;
- Development of rural economies reduce urban migration;
- Providing a sustainable alternative which contributes to the management and retention of the country's outstanding natural resources;
- Reinforcement of the country's unique culture and handicrafts, which are a tourism asset in their own right;
- Promoting law and order through cultural exchange and a recognition that a safe and secure environment for visitors can bring significant economic advantages;
- Supporting the costs of transport infrastructure and international and domestic transport services;
- Supporting the development of linked economic activities such as agriculture, fishing, and other services which support tourism;
- Providing a major source of direct and indirect tax revenue for the government to support the delivery of social services such as health care and education.

Tourism offers one of the main potential economic activities capable of contributing to the reduction of poverty in PNG; tourism as a sector is labour intensive, provides jobs at relatively unskilled levels for men and women and the multiplicity of potential backward and forward linkages create spin off employment and income in other sectors.

The complex interrelationships that characterise the industry require a sophisticated and collaborative approach to planning and industry development.

The sustainable development of tourism requires a balanced approach which integrates and manages the three pillars of sustainable development; namely economic, social/cultural and environmental outcomes. The sustainable approach adopted throughout this Report and associated Plan is incorporated through the goals, strategies and actions detailed in the proposed development Strategy.

Diagram 3.1: Benefits of Sustainable Tourism Development



The PNG Internal Revenue Commission estimates that 57 percent of government revenue currently comes from sources that are potentially unsustainable in the longer term, including mining royalties and logging and fishing licences. The development of tourism offers the major alternative for the Government to develop a sustainable source of revenue and employment opportunities for future generations.

3.1 Future Vision, Goal and Planning Principles

A strategic Vision has been developed for the tourism sector through an extensive consultation process, which has included a series of provincial workshops, which have been attended by over 400 participants.

The Vision is that by 2017 PNG Tourism is a **growing and sustainable industry** which:

- Is recognized globally as a destination which offers a range of unique niche adventure tourism experiences;
- Generates significant investment and employment through profitable business opportunities;
- Celebrates, protects and enhances our unique cultural heritage and natural environment by showcasing these attributes;
- Provides visitors with an enjoyable, distinct and memorable experience;
- Demonstrates partnership and collaboration across all stakeholders;
- Provides a broad distribution of benefits across PNG and improves the lifestyles of rural and urban communities.

To achieve this PNG must offer tourism products, which are:

- Competitive internationally;
- Marketed effectively;
- Sustainable in impact.

Overall Goal

The overall goal for the Tourism Master Plan is:

To increase the overall economic value of tourism by doubling the number of tourists on holiday in PNG every five years and maximizing sustainable tourism growth for the social and environmental benefit for all Papua New Guinean's.

Planning Principles

The following **Principles** underpin the components of the Plan:

- A market driven approach which meets visitor requirements;
- Sustainable and responsible tourism which delivers economic, social and environmental outcomes for the people of PNG;
- The retention and equitable distribution of benefits from tourism;
- Tourism which supports and engages the community;
- A strong partnership approach by all stakeholders.

These principles underpin the strategies and actions, which form the basis of the implementation program for this Plan.

3.2 SWOT Analysis

An analysis of the strengths, weaknesses, opportunities and threats of the tourism sector in PNG is presented in the table on the next page.

Strengths	Weaknesses
• Unique range of nature based and cultural attractions • Recognized world class dive location • Some well organised industry associations including PNGDIA and PNGSA • WWII sites and icons eg Kokoda Trail, Rabaul • Well established cultural events • Comprehensive domestic air transport network • Broad range of international markets and international air access • Increasing support from central government for tourism (and some provincial governments) • Products focus on identifiable special interest niche markets • Increasing strength of Tourism Industry Association • Relatively unspoiled environment • Tourism Master Plan will provide basis for sector development	• Low levels of holiday visitation and low market awareness • Security risk for tourists in cities and negative perception/image • Relatively high cost of international and domestic airfares • Reliability of domestic and international air services • Limited capacity within government to plan and market tourism sector • Low community and government awareness of tourism benefits and needs • Consumer concerns over malaria and HIV/AIDS • Lack of market research/weak statistical base • Weak provincial tourism bureaus and associations • No system of accommodation and product standards • High cost of operations eg security and utilities • Poor access to internet in rural areas • Poor coordination and historically a low government priority for tourism • Complexity of land tenure system and site access issues • Limited private sector involvement in destinational marketing
Opportunities	**Threats**
• Increasing government focus on tourism • Growing global interest in activity based special interest tourism • Strengthen capacity within PNGTPA, industry associations and provincial governments • Increase competition in key areas ie accommodation, airlines, utilities • Growing iconic status of Kokoda Trail • Development of community based products • Coordinated marketing with a focus on niche markets • Increased internet marketing activities • Facilitate Provincial government role in product development, information services and training through capacity building program • Increase coordination of marketing and industry participation • Positively manage image in key markets through PR program • Implement 'whole of government' policy approach through coordinated at highest level • Strengthen coordination through existing industry associations • Increased air services and competition into the Australian market	• Global and regional competition and increasing competitor marketing • Potential for further decline in law and order • Increasing costs will reduce competitive position • Growing HIV/AIDS epidemic or other pandemics will deter visitors • Potential loss of exiting investment and plant due to decline in competitive position • Increasing global oil prices • Terrorist or security related incident would deter travellers • Increased adverse publicity • Reduced funding for development and promotion • Airline failure/reduction in services • Lack of sustainability for tourism operations

4. Key Strategic Issues, Strategies and Actions

There are a wide range of internal and external strategic issues and trends, which will influence the sustainable growth of tourism in Paua New Guinea. These are summarised below:

***Whole of Government Approach*:** Countries, which are successful in developing tourism, place the sector as a high priority within all government policies. The cross sectoral nature of tourism means that a coordinated approach is required across various government agencies and stakeholders, to remove impediments to development, facilitate investment and ensure that a memorable and enjoyable experience is assured for visitors. This 'whole of government' approach has to be driven from the very highest level and has to include commitment to tourism development at a local, provincial and central government level.

Benefiting Local People: Resource owners in PNG have a key role in determining the future of tourism. Tangible benefits from tourism must reach local people if development is to be sustained. Involving people in tourism in meaningful ways and harnessing the tremendous enthusiasm for tourism in the provinces is a real challenge for the future of the sector. Raising awareness of the broader benefits of tourism, as well as the needs and expectations of tourists will better assist local people to understand their respective roles in developing tourism.

Increasing Destinational Competitiveness: Tourism is a globally competitive market place, both in terms of promoting the destination, competing for visitor expenditure and in terms of attracting both domestic and international investment into the sector. Increasing the level of competition in sectors such as airlines, accommodation, tours and associated sectors such as utilities can have a significant impact on product quality, reliability and price.

Developing Partnerships: Tourism development must be a partnership between the private sector and the public sector. Usually the public sector provides the infrastructure and policy framework to allow the private sector to operate and invest in the tourism plant. Both parties have to identify and work towards common goals to achieve sustainable growth of the tourism sector.

Effective Marketing and Distribution: PNG suffers from a low awareness and poor image. Effective marketing can create awareness and drive demand for tourism products. A sound strategy is required based on a clear understanding of the product, the needs of identified target markets and the most effective methods of communicating the sales message. Increasingly the internet is driving tourism marketing to consumers as well as the trade. Internet marketing however, needs to be supported by more traditional forms of marketing to create higher levels of destinational and product awareness.

***Investment Growth*:** Growth of the tourism sector in PNG is constrained by low levels of investment in new plant, either via the mobilisation of domestic investment or via foreign investment. The reluctance of lending institutions to finance tourism ventures, relates to the high risk and low return profile of the sector, which needs to be reversed.

Industry Standards: Too much of PNG's tourism product currently falls short in terms of quality standards when measured against price and consumer expectations. There is no system of standards in place or grading for accommodation or tour operators, which can lead to a lack of value for money.

***Managing Impacts*:** The fragile environment of PNG requires a balanced and sustainable approach to tourism development, which needs to be reflected in national and provincial policies. Ensuring that benefits are provided to resource owners and creating awareness of broader benefits will be critical in managing impacts. Fragile attractions need to be managed to sustain the nature based and cultural products in PNG. A balance needs to be found between a relatively small number of sustainable conventional hotels and the development of SMEs including eco-tourism and community-based tourism, which integrate cultural and environmental preservation, with economic viability. These trends and issues are depicted below.

Diagram 4.1: Trends and External Influences

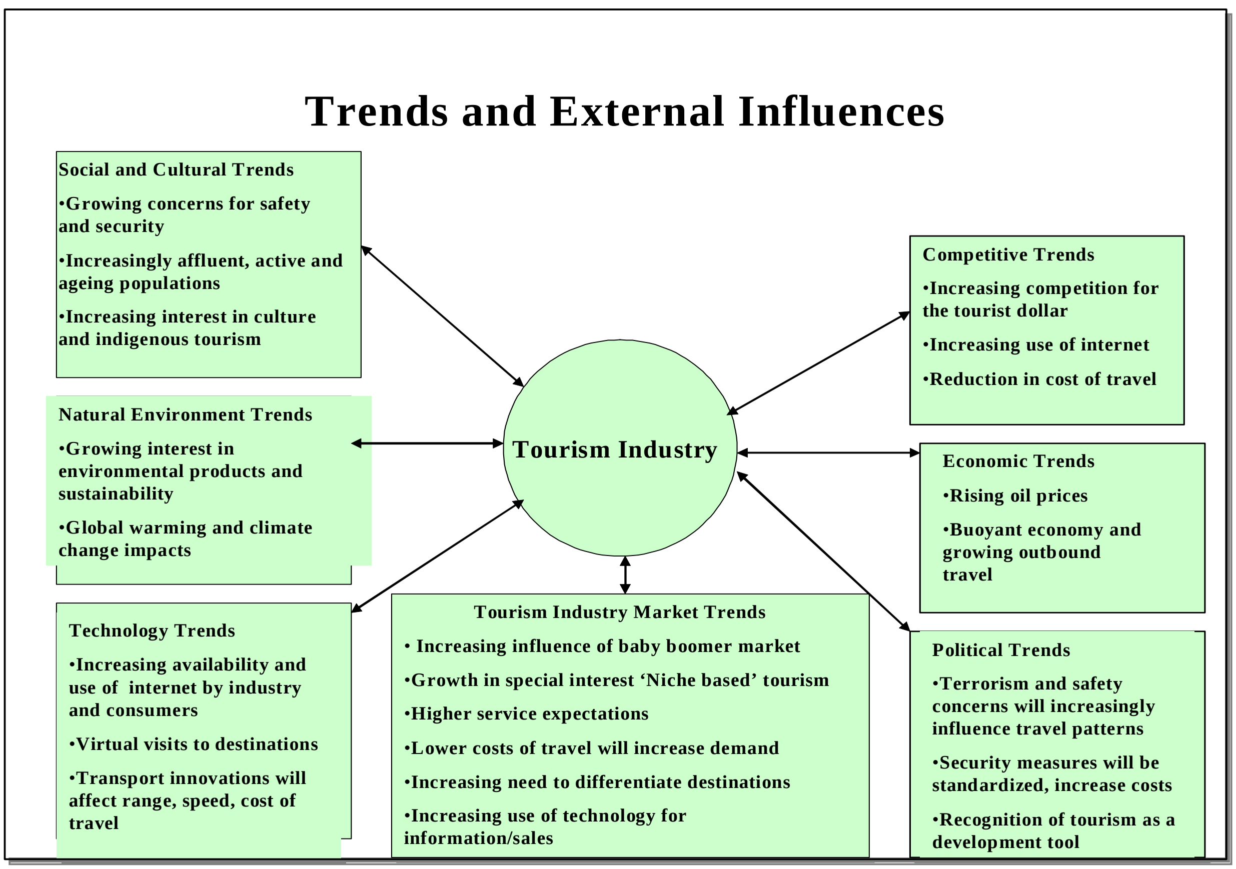
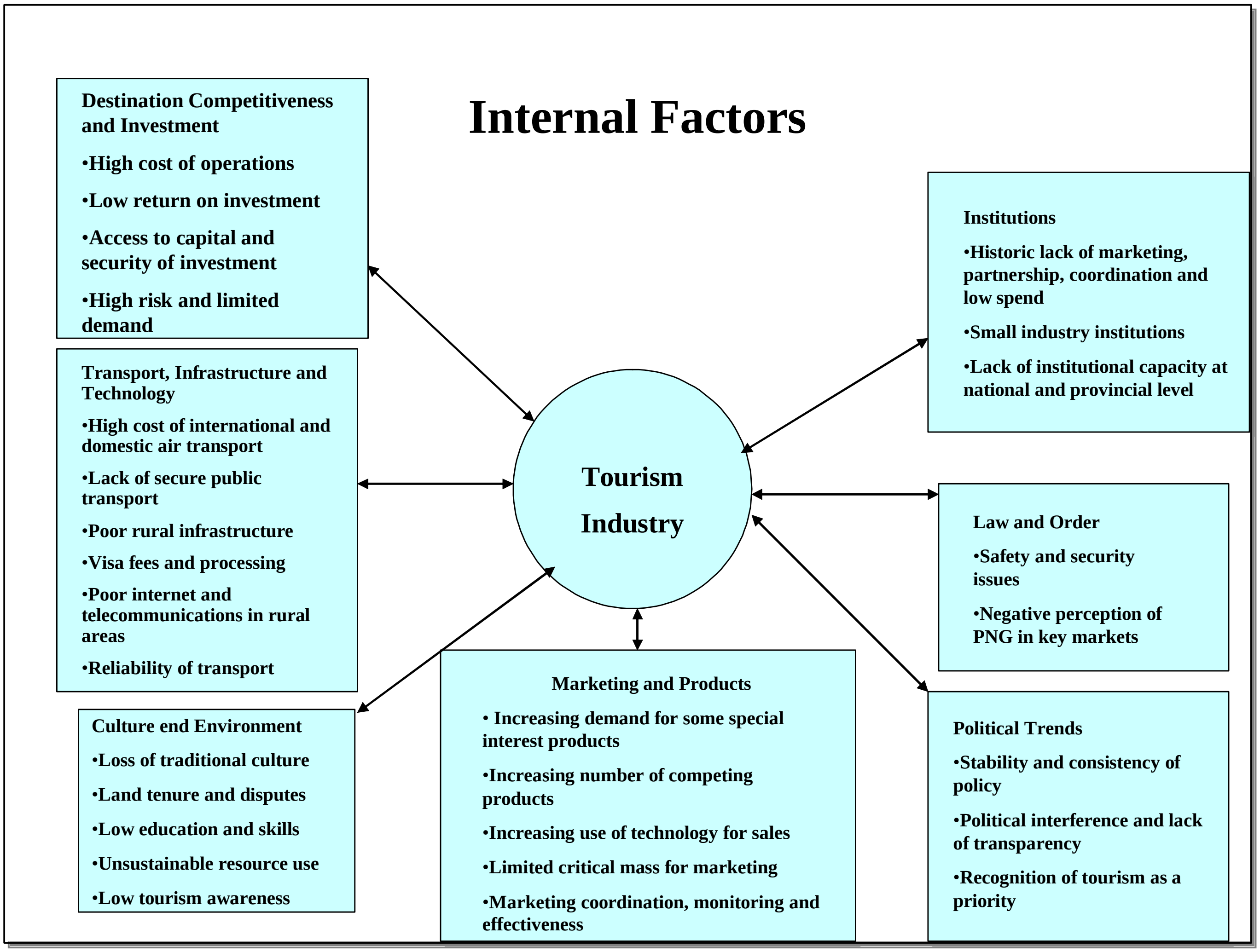


Diagram 4.2: Internal Factors



A more detailed assessment of the key issues and context for development is provided in the following section as background to the development of sector specific strategies and recommendations. These strategic issue areas can be grouped into the following five strategic theme areas:

- Marketing the Destination
- Investment Incentives & Product Development
- Transport and Infrastructure
- Human Resource Development
- Institutions and Industry Partnerships

Each of these areas are discussed in more detail below.

4.1 *Marketing the Destination*

Increase tourism demand by raising market awareness of PNG as a destination and increasing product information and distribution.

Objectives

- To encourage more effective and targeted marketing based on sound market research and understanding of consumer needs.
- To establish a stronger, more systematic basis for destinational marketing of PNG by facilitating greater industry co-ordination and liaison;
- To increase awareness of the country by creating a strong and distinct image and clear positioning in target markets.
- To facilitate coordinated joint marketing and promotional activities with all stakeholders and partners.
- To maximise the potential of the Internet as an effective marketing tool and source of comprehensive visitor information.
- To positively manage the impact of major internal and external events which may threaten the market for the country's tourism product.

The effective promotion and marketing of tourism products and services, opportunities for investment, and the economic strengths of PNG, are critical if PNG is to sell itself as a competitive, attractive country for foreign investment and as a prime tourist destination.

Effective destination marketing facilitates the achievement of tourism policy, which should be coordinated with the National and regional development plans. Destinations are, however, difficult to manage and market due to the complexity of the relationships of local stakeholders. Basic marketing concepts suggest that it is necessary for TPA and the various industry associations to understand the strategic competitive advantage of PNG and formulate a strategy accordingly. [11] It also implies understanding the consumer in order to effectively target promotions to maximise reach, conversion and action.

Increasingly Destination Marketing Organisations (DMO's) are using several models for strategic marketing that balance the objectives of all stakeholders as well as the sustainability of local resources. Destinations need to differentiate their products and develop partnerships between the public and private sector locally in order to coordinate delivery[12].

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[11] Michael Porter, Strategic Competitive Nations, 1996, USA
[12] Dr D Buhalis, Marketing the competitive destination of the future, 2000, Tourism Management Vol 97-116

The TPA is currently the Government's tourism marketing and policy arm and was established in 1993 to provide support to the tourism industry. The TPA's primary function is to maximise the economic benefits of tourism to PNG through[13]:

- Provision of tourism policy advice and its implementation,
- Promotion of PNG as a tourist destination,
- Encouraging the provision, development and expansion of tourism infrastructure, facilities and products,
- Assisting, guiding and facilitating new investment by local and national tourism entrepreneurs,
- Increasing awareness, encouraging, assisting and promoting high levels of service, education and management within the industry, and
- Monitoring and reporting the effects of international tourism on PNG

The Government has encouraged a cooperative marketing policy targeting partnership between the PNGTPA, provincial tourism bodies and the private sector. However it is reported that the current relationship between industry representatives, associations and TPA continues to be strained. Inadequate management of conflicting stakeholder interests has led to a lack of partnership making the promotion and development of tourism extremely difficult.

A combination of insufficient funding and inefficient utilisation of funds has led to feedback from industry stakeholders that indicates that there has been under achievement in the core functions and objectives of TPA.

A suitable model needs to be developed to address these obstacles in order to allow the Government and industry to focus on the fundamental issues of policy and promotion for tourism development.

4.1.1 Marketing Strategy

PNG currently has a relatively low level of awareness in the international marketplace as a potential destination for tourism .[14] This limited awareness can be attributed to several factors including the relatively small budget historically provided by the government[15] and industry for destination marketing, lack of strategic planning, no strong tourism brand[16], and limited coordination of marketing activities between the government, airline and industry. Although increased funding has been provided in recent years for marketing and new activities to increase the profile of PNG, much of this activity has only been undertaken in the last two years; a more consistent and sustained campaign will be required to increase market awareness.

[13] TPA Act, 1993
[14] South Pacific Travel Trade Survey 2005 - SPTO
[15] Prior to 2003 the total PNGTPA budget was less than K4m for all activities including training, awareness, planning, policy and marketing, although in 2006 this has increased to approximately K6m for marketing.
[16] WTO – Development of Community Based Tourism in Papua New Guinea - May 2006

PNGTPA is the lead agency responsible for promotion of PNG as a tourism destination. The PNGTPA has developed a Tourism Marketing Plan[17] for the period 2005 – 2010, which outlines defined market opportunities, target markets and a program of marketing actions. This TPA Marketing Plan provides the basis for the destinational marketing of PNG and a copy is attached as Annex IV. In summary the Marketing Plan proposes that marketing should focus on:

- The key target markets of Australia, USA, Japan, UK and Germany;
- The primary niche markets of diving, trekking and World War II heritage;
- Secondary niche markets of bird watching, fishing, surfing, special events, climbing, canoeing, cruising, yachting, flora/fauna, caving and rafting;
- Revision of the current PNG positioning statement and branding;
- Greater focus on PR, the internet and visiting journalist programs and cooperative advertising;
- Greater use of research and evaluation of activities.

The five year Marketing Plan sets the broad direction for destination marketing activities. The Plan identifies that an additional K10.1 million in funding is required to implement the activities. There is a need for TPA to produce a fully costed annual marketing plan (based on the five year plan), but specifying the precise activities to be undertaken. This plan needs to be undertaken in close consultation with the industry and needs to include cooperative marketing activities undertaken jointly by TPA and the industry.

If tourism in PNG is to develop more rapidly the five-year Marketing Plan needs to be adequately resourced and the effectiveness of activities reviewed regularly. The implementation of this marketing strategy needs to be primarily underwritten by government but also co-financed and supported by the industry. Marketing funds are limited and the market place is highly competitive; PNG needs to be highly selective and focused on those target markets, product segments and marketing activities that will produce a return on investment in terms of visitation and expenditure.

4.1.2 Market Research

Understanding the demographic composition and consumer behaviour of the potential "PNG tourist" is an important component to effective promotion and marketing. Access to relevant, accurate and comprehensive PNG data and analysis on the following factors is necessary in order to determine:

- Consumer profile (age, gender, qualification, occupation etc. A business visitor is different profile than an ex-army veteran who is walking the Track);
- Tourist arrivals from core markets, distribution and patterns;

[17] PNGTPA Marketing Strategy 2005 – 2009 – Global Tourism and Leisure Pty Ltd 2005

- Purchasing patterns and preferred method of booking (how they book travel e.g. use of internet for research and booking);
- Consumer decision making (what makes them choose PNG compared to Bali or Fiji);
- Measuring (and delivering) levels of expectations on service standards and pricing;
- Spending power (the amount spent by a single backpacker is considerably less than the new vogue 'flash-packer' or a older retired couple, and this affects how they travel, where they stay, preferred accommodation style, and how much they spend when on holiday);
- Tourism revenue generation by sector; and
- Feedback and evaluation on PNG marketing and the holiday experience.

These factors directly impact the ability to market PNG effectively. Appropriate target marketing with tour packages that are relevant to the needs and interest of targeted groups requires long-term commitment and focus.

Therefore, the starting point for the marketing of PNG as a destination is to have a clear understanding of the target markets that should be pursued through a coordinated strategy. Currently there is limited research available upon which to develop a sound marketing strategy, both in relation to the travel industry and to the needs of key consumer groups. The PNGTPA has recently commenced an exit survey of tourists, which is an excellent initiative, but needs to be improved in terms of the sample size and depth of information produced. Some trade research has been conducted by TPA as part of the development of this Plan but this type of information needs to be gathered and analysed on a regular basis, to provide a solid platform for marketing decision making. Little information exists in relation to consumer needs and perceptions.

Market research and visitor statistics are fundamental tools, not only for marketing but for tourism planning as well. TPA has made improvements to the level of information available in the last couple of years but some refinement and improvement is still required. Correct statistics on the level of holiday arrivals, cruise ship visitors and detailed visitor preferences need to be established on an annual basis through revision of the immigration cards and the implementation of detailed visitor exit surveys. Market research also needs to be undertaken on a more regular basis to ascertain the impact of marketing activities and the perceptions and buying behaviour of key target market groups.

4.1.3 Target Markets

Based on an analysis of the destination strengths and weaknesses, the product segments and the existing and potential markets to PNG, a number of primary and secondary markets have been identified.

These segments should form the basis of the destination marketing strategy for PNG and are shown in the next table[18];

Table 4.1 Primary and Secondary tourism markets

Market Segment	Australia	USA	Japan	UK/Germany	Other
Primary Product Segments					
Diving	⊕⊕	⊕⊕	⊕⊕	⊕⊕	
Trekking	⊕⊕		⊕		
WWII History	⊕		⊕		
Culture/Village Stay	⊕	⊕	⊕	⊕⊕	
Secondary Product Segments					
Bird Watching	⊕	⊕	⊕	⊕	
Other Nature	⊕	⊕	⊕	⊕	
Surfing	⊕⊕	⊕	⊕		
Fishing	⊕⊕		⊕		
Cruising	⊕	⊕	⊕	⊕	
MICE					⊕

The basis for the destinational marketing of PNG should be higher spending special interest (activity based) segments in the four core geographic areas as:

- There is a worldwide trend towards activity based adventure holidays and adventure tourism is one of the fastest growing sub-sectors of worldwide tourism;
- PNG is able to offer (world class) competitive advantage in the (above) identified activity based segments;
- Activity based segments are (generally) less susceptible to negative publicity regarding security;
- Activity based segments are less price sensitive;
- Activity based segments are increasingly being combined together by travellers;
- Activity based segments provide a focused marketing target, with clearly identifiable promotional and distribution channels; and therefore
- They provide a cost effective target for marketing purposes.

The destinational marketing of PNG therefore needs to focus on growing the market in the identified key segments.

[18] A double target indicates a primary market segment, whilst a single target indicates a secondary market segment.

4.1.4 Marketing Activities

PNGTPA coordinates the marketing of PNG as a tourism destination. In recognition of the importance of tourism the government increased the budget of TPA to K12 million in 2005, of which K6 million is spent on marketing activities including overseas representation, the internet, trade shows, brochures, visiting journalist and travel trade programs and other promotional material. It should be recognized that historically the funding available for marketing has been significantly lower than in recent years. As a result TPA has recently expanded its activities to include a wider market representation base and additional activities. This includes the appointment of a representation company in Australia.

TPA also provides funding directly to industry associations (i.e. PNGDA and SAPNG), to undertake specific niche marketing activities. Associations need to provide annual submission and acquittals and undertake an evaluation of the individual activities.

In addition, the TPA has representative offices in the "key" source markets of Tokyo, Los Angeles, Frankfurt and Stockholm that are responsible for PNG destination marketing. These offices operate jointly with Air Niugini under their General Sales Agents agreement. According to TPA, the budget for Australia is K1 million and an insubstantial amount for the Unites States, Japan, and Europe of K400,000 each.

The effectiveness of these offices would depend largely on the employment of a suitably qualified individual who has both the knowledge of PNG and access to data sources on the market in order to promote the product and services that PNG has to offer.

Increasingly, international destinational marketing bodies are less reliant on overseas offices and focus on promotion and marketing through alternate means primarily through the internet, advertising (through various media) and exchange programs that invite industry and retailers/wholesalers/media to the country.

Destination marketing is highly competitive; it is worth noting that the Government of Fiji provides a grant of approximately K23.5 million a year for marketing, which is then supported on a one third/one third basis by the airlines and tourism operators. In PNG's case the proportion that needs to be provided by government will be higher (than one third) due to the current small scale of the industry.

With the recent increased capacity and reduction in international airfares that has taken place on the PNG to Brisbane route as well as the Port Moresby to Cairns route, there is a strong case for additional marketing funds to be provided to further support development of the Australian market. Significant potential also exists to develop the independent traveller market out of Cairns and Brisbane[19].

[19] Both Tropical North Queensland and Brisbane regions receive approximately 200,000 backpackers a year according to Tourism Queensland – International Backpackers Report 2006

4.1.5 Branding and Imaging

Strong branding and promotion of PNG as a preferred tourist destination in the Pacific is required if PNG is to make inroads into an increasingly competitive tourism market. Branding of other countries is reflective of how the country wants to be positioned and viewed by the rest of the world and should entice potential tourists to visit the country; "100% New Zealand", "Where else but…Queensland", " Mauritius…south of the equator and close to heaven" are all brands that are familiar and effective.

Up to mid 2006, TPA has used the branding "Papua New Guinea Experience", combined with a graphic logo. With the recent appointment of Lime Tree Consultants in Australia, there has been a push for new branding and website development. In recent weeks, it has been noted that there have been advertisements in The Australian newspaper's Weekend Magazine with the tag line "Like Every Place You've Never Been"[20].

PNG needs to be positioned as a premier adventure destination with diverse cultural and natural attributes, which provide a sense of discovery and a memorable and unique experience. Ultimately the optimum positioning, brand and TAG line for promoting PNG as a destination needs to be developed by an experienced creative agency and tested in the market place with potential consumers and the travel industry.

4.1.6 The Internet

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 options being used by PNGTPA. It is claimed that the PNGTPA website receives up to 250,000 hits per month, however until the website is improved, there is little information that is useful for the potential tourist.

In general there needs to be a greater focus on the Internet as a marketing tool at all levels of the tourism industry in PNG; the PNGTPA site should aim to be a 'leading edge' destinational site with comprehensive product information, virtual tours and detailed supporting information for all key product segments. Up to date and accurate information on the safety and security situation for tourists is essential and currently lacking[21].

The Internet is an increasingly important source of information for travellers, but also as a mechanism for distributing products and taking bookings. For example, 79 million Americans use the Internet for travel information and 82 percent of those now book parts of their travel online[22].

[20] There have been two advertisements placed in the Weekend Australian Magazine, commencing in July 2006.
[21] PNGTPA Travel Trade Survey - 2006
[22] Travelers Use of the Internet – Travel Industry Association of America 2005

The TPA Internet site has the potential to play a vital role in providing information on all products in PNG; the site should be the first point of entry for all those interested in travelling to PNG and allow potential tourists to then connect to more specific product driven internet sites and Provincial government information sites. However the website as it currently stands is not user-friendly, does not have links to tour operators, travel agencies or accommodation providers to enable on-line bookings directly with tourism providers. Further, PNGTPA relies on Provincial Tourism Bureaus, Associations and individual operators to supply and update relevant product information and currently this level of information is inconsistent at best. Capacity needs to be developed at Provincial levels to allow this to happen.

In addition, the visibility of the PNGTPA site needs to be enhanced through a coordinated campaign of advertising on the Internet and a strategy to improve the ranking on major search engines. This will require the reallocation of resources within the marketing budget.

Market research[23] indicates that the overwhelming barrier to development of tourism in the Australian market is concerns regarding safety and security. If PNG is to develop a viable tourism industry the country needs to counter this image by undertaking a whole of government PR campaign in key source markets; this campaign needs to be aimed at key influencers including the overseas general and travel trade media. The use of the Internet can play an important part in this campaign. A comprehensive visiting media program and a program aimed at bringing travel industry representatives to PNG to enjoy the unspoiled and unique products that the country has to offer should support this campaign.

Further damage to the image of PNG has been done by overseas government travel advisories, which can fail to differentiate between circumstances in particular provinces and may take an over precautionary approach. Travel advisories should follow the recommendations of the WTO[24] and be prepared after discussions with the host governments and the industry; advisories should be strictly restricted to the geographical area where a higher security incidence have occurred. This issue needs to be taken up at appropriate diplomatic level

The negative image of Port Moresby has been one of the major motivations for individual provinces to develop direct international access. There is a danger however, that the capacity of PNG as a destination to compete in the international marketplace may be weakened by fragmentation into a number of uncoordinated Provincial marketing campaigns, this is particularly so as PNG as a destination is yet to be successfully marketed holistically. Port Moresby will remain the major international gateway for PNG for the foreseeable future; additional efforts to improve the security situation, to beautify the city and to develop tourism products need to be supported by all stakeholders. The reality is that currently, few provinces have either the critical mass in terms of supply (accommodation and attractions), or demand, to be able to compete as stand alone destinations, or to sustain regular direct flights from overseas markets. This is not to say that limited charter flights to

[23] PNGTPA Perceptions Audit Report – July 2004 – Gavin Anderson and Company
[24] World Tourism Organisation – Global Code of Ethics for Tourism - 2001

selected provinces, supported by suitable marketing, will not provide a stimulus to tourism and the basis for further development in the future.

Global events have had a major impact on tourism in the last few years and the tourism industry is increasingly operating in a fragile environment where external 'shocks' can have a major impact on consumer behaviour and profitability. PNG must ensure that it can respond in a timely manner to significant threats to the tourism sector that may occur, such as incidents of terrorism, civil unrest, disease or other disasters. PNGTPA should take on the role of a spokesperson for the industry, when crisis or disasters happen which threaten the sector. This will require the support and collaboration of other relevant government agencies.

4.1.7 Co-ordination of Destination Marketing

There is a clear need for a single central agency to coordinate destination marketing;. Mechanisms need to be set up to increase the involvement of the private sector in destinational promotional activities as industry operators can bring both expertise and funding to bear in destinational campaigns. Consideration needs to be given to the creation of a new marketing body for tourism and this is discussed further under the section 'Institutions and Industry Partnerships'.

Individual operators and the airlines can also play a significant role in overseas marketing; as marketing costs are high, and budgets are small, a coordinated approach needs to be taken to the promotion of PNG as a preferred destination. Cooperation and a high degree of industry input are vital, to ensure that the relatively small budgets available are effectively spent

As mentioned previously, the TPA provides funding to the private sector for marketing through the existing network of industry associations. Both the PNGDA and SAPNG conduct cooperative marketing, which has in the past produced positive results and generated significant publicity for their niche products and for PNG as a destination. Opportunities exist for other industry sectors to follow this model, (subject to evaluation of the proposals and activity results) and this should be encouraged. The optimum process for the administration and management of funding allocation needs to be considered. and it is proposed that the board of the new 'Tourism PNG' could fulfil this role.

There is a need to improve the capacity for coordination of marketing activities in TPA and to improve skills in technical marketing areas including research and internet marketing. Donor support and technical assistance should be sought to build individual capacity in these key areas.

Key Recommendations

- Replace the existing TPA with a new industry driven body to oversee and coordinate destinational marketing, called 'Tourism PNG' (see Institutions and Partnership section).
- The Board of 'Tourism PNG' should have representation from key industry peak bodies including hotels, airlines, tour operators and niche associations (dive, surfing, Kokoda).

- The Board of the new organisation ('Tourism PNG') should comprise ex-officio members appointed by the major industry association's boards.
- Establish a Tourism Policy Secretariat under the Ministry of Tourism and Culture to be responsible for tourism policy, planning, standards, HRD planning and regulations.
- Review and implement a comprehensive and ongoing research and statistics program to underpin marketing strategy and the evaluation of marketing activities.
- Review the current market positioning and tag line by key source market and test with consumers and the travel trade.
- Implement the niche based PNG five year Marketing Plan based on a strong destination brand and focus resources in key target markets and product areas.
- Develop partnerships with other neighbouring tourism promotional agencies or organisations to leverage market presence and experience.
- Implement a coordinated Internet promotional strategy, supported by coordinated product information collation.
- Build capacity within the new 'Tourism PNG' and Provincial Tourism Bureaus in web based marketing and the collation of Provincial product databases.
- Ensure industry input into the 'Tourism PNG' annual marketing plan through a rigorous consultation process.
- Review the effectiveness of the new 'Tourism PNG' marketing activities including overseas representatives and utilise the results in developing future promotional plans.
- Establish a Special Events Unit within the new 'Tourism PNG' and develop and implement a marketing strategy for the MICE (Meetings, Incentives, Conventions and Exhibitions tourists) market.

4.2 *Investment Incentives and Product development*

Investment Incentives

Improve the business environment and increase investment incentives for domestic and foreign companies in the tourism sector making PNG a competitive and safe destination in the region.

Objectives

- To improve the business procedures for setting up and operating business in PNG, through a streamlined process and coordination with relevant agencies primarily IPA.
- To provide investment incentives to the industry and to new foreign investors encouraging large-scale commitment enabling the development of the sector

- Reduce the cost of business operations for entities in the tourism sector through an industry wide taxation based initiative.

Sustainable growth in the tourism industry in PNG will require investment from both domestic and overseas businesses. It is widely accepted that sustained economic growth depends upon a dynamic private sector that creates employment and income opportunities thereby increasing the nation's prosperity. For this to occur in PNG mechanisms must be in place that encourage investment, and facilitate carrying on business through transparent and streamlined procedures and regulations.

The role of Government should be to develop long-term strategies and create a suitable environment that will attract investment from both domestic and overseas entrepreneurs looking to create business opportunities.

At an individual business level, such an environment should include ensuring that a framework and procedures for starting a business are in place incorporating procedures for registration, licensing, credit facilitation (loans or other financial incentives), through to negotiating with land owners, taxes and enforcement of contracts.

From a macro perspective, issues of managing governance, controlling law and order, access to an educated and employable labour force, and ensuring that basic infrastructure (roads, telecommunications and power) are fundamental to encouraging investment and growth in the private sector. Failure to address these issues relating to the macro level investment climate is fundamental to explaining why reforms adopted in the tourism industry to date have not had a more discernable impact on economic growth. It is acknowledged that there are no simple solutions but it is a widely held belief within the PNG business community that improving the broader economic environment will expand investment opportunities and lead to the PNG becoming a more competitive tourism destination.

The development of the tourism sector relies upon investment by the private sector in accommodation, tours, transport and a whole range of associated activities. PNG is competing with other countries to attract international investment and to retain and generate domestic investment. Tourism is by its nature a high-risk investment, as external and internal factors can have a negative impact upon future demand. The market can be fickle and delivery of the product is complex, because it consists of many components. Because of this, investors tend to expect a relatively high return, compared to real estate or other relatively secure forms of investment.

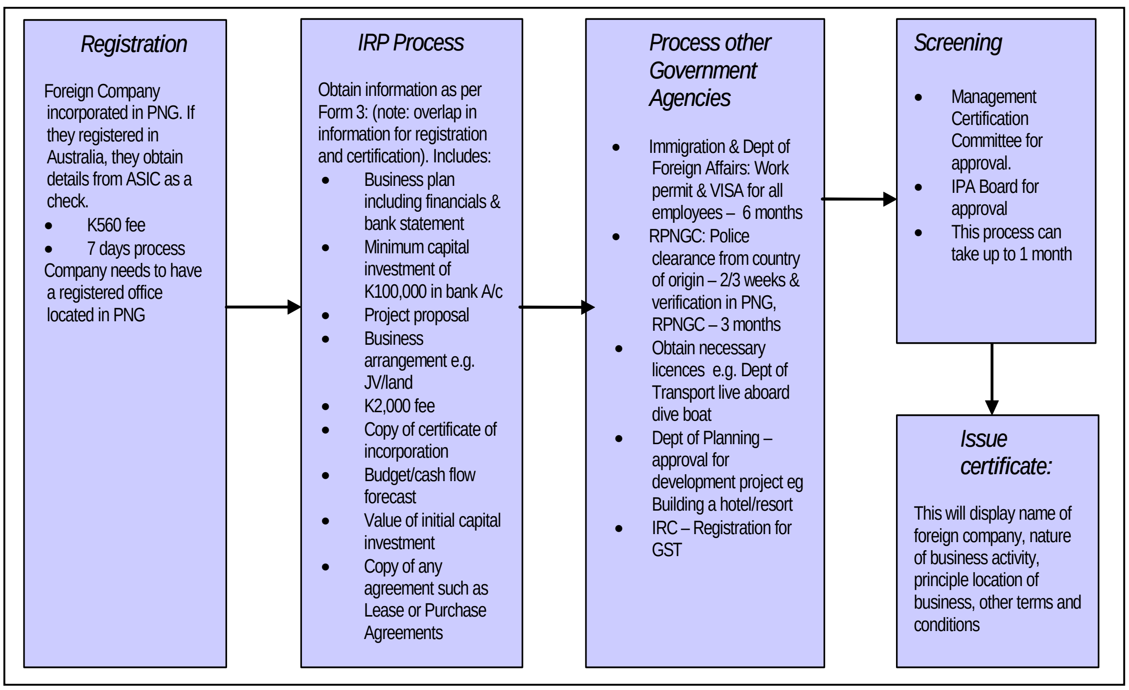
PNG is currently a high-risk tourism investment destination for a number of reasons, including low market demand and relatively high costs of operation. Most hotels and airlines in PNG rely not upon international holidaymakers, but upon the domestic corporate and government business. The current number of tourists is too low to support most forms of new investment that rely mainly on international tourism. Product development opportunities, which are commercially viable, are extremely limited due to the limited size and demand of the current market. There is a real need to drive the market to increase demand, profit and investment. Whilst these three factors are inextricably linked, increasing the demand and number of tourist, will stimulate the latter two factors.

The Government needs to facilitate growth of the sector by reducing the risks and increasing the potential returns on tourism investment. This will only happen if the Government demonstrates long-term commitment to a well-defined plan of action. The development of the Tourism Master Plan provides the opportunity to do this. This commitment needs to be cross party so that all parties recognize the importance of tourism.

Doing business in PNG

In general the Government needs to cut the red tape involved in setting up and running a tourism business in PNG. Research by the World Bank [25]indicates that PNG still has a long way to go to be competitive in this area and that both the costs of setting up and the process of establishment are slow and expensive compared to other neighbouring countries. The flow diagram below details the lengthy and potentially expensive process involved in establishing a company in PNG:

Diagram 4.3: Business Registration Process



Tourism is essentially private sector driven; government's role is to create a conducive environment for private sector investment through enabling policies, whilst ensuring that the environmental and social impacts of tourism development are positively managed. Currently the cost of operating tourism enterprises in PNG is relatively high compared to other countries; for example utility/fuel costs can typically be as high as 20 percent of expenditure in PNG for rural resorts, in comparison with typically only 5 percent for resorts in Australia. Security costs in PNG are also significant financial burden for most operators. Airfare prices both domestically and internationally are also relatively high in comparison to other

[25] Doing Business in 2006: Country Data Reports – World Bank 2006

competing destinations in Asia and the Pacific (see Transport and Infrastructure section 4.3 below).

4.2.1 Tourism Incentives

In order to encourage investment and growth in the tourism industry, the Government introduced a number of sector specific investment incentives in January 2006, aimed at both new and existing domestic and foreign establishments in the tourism sector. These will be discussed in the following sections and include:

- double deduction for marketing expenses
- accelerated depreciation for capital investments
- tariff and duty exemptions for hospitality related items

Whilst these incentives are welcomed, PNG has to be competitive with neighbouring countries if foreign investment is to be stimulated, with a particular focus on how to attract new large scale investment in the area of resort and hotel development. It should also be noted that in many of these countries, issues such as law and order and lack of infrastructure and communications is not on the agenda, and hence bringing PNG to the international market becomes even more difficult. While we can wait for improvements to be made in basic infrastructure and hopefully in law and order in the next decade, is it possible to put forward other incentive initiatives in the immediate term.

Access to capital can also be a limiting factor on domestic investment and the government needs to consider introducing more creative mechanisms for stimulating investment, including making available soft loans for tourism projects, through the Rural Development Bank as well as mobilising domestic capital to invest in viable projects, which improve the competitive position of the country as a tourism destination. Tax incentives could also be provided to encourage domestic funds such as superannuating, to invest in the tourism sector.

The Investment Promotion Authority also provides other "soft" incentives such as fast-tracking registrations, waiving deadlines to be met under certain circumstances, hand-holding potential investors to guide them through other processes and government departments provide ongoing logistical support to business that are looking at investing in the tourism sector.

4.2.2 Taxation Based Incentives

Whilst is it recognised that fiscal incentives, such as tax concessions, are often not the most effective means of achieving increased investment, it can be argued that if an industry such as mining, agriculture and tourism was to grow, then a focused approach (as opposed to a more broad based approach) to taxation based incentives are an alternative. This has been seen effective in PNG in the mining and agricultural industries.

That is not say however, that other problems for businesses do not need to be resolved (as noted above). Additionally, it is acknowledged that businesses with limited taxable profits cannot benefit from tax incentives, particularly in the tourism sector where many operators are small businesses. It should also be noted that smaller businesses, particularly community based operators, do not pay tax and hence are not burdened by significant tax obligations.

Tax Package for Large Scale Investment Projects

PNG must be internationally competitive if it is to stimulate inward investment, particularly large scale projects, and additional incentives should be offered to facilitate this.

The proposed tax package for new large-scale investments in the tourism sector (eg: resort or hotel) would incorporate:

- A competitive 10 year tax concession
- Tax -Credit for infrastructure development
- A restriction placed on the value and size of the investment through a set of criteria

A Competitive 10 Year Tax Concession

Currently other countries are able to offer a more attractive investment climate. IRC have recognised that the international tourism fiscal environment is very competitive in many Pacific (Fiji, Solomon Islands, New Caledonia, Vanuatu and New Caledonia), Caribbean and some Asian countries due largely to generous tax holidays. For example Vanuatu has no capital gains tax or company tax and full duty exemptions are available for new buildings and refurbishment of existing properties and for equipment associated with tourism. Fiji has a range of specific incentives which encourage investment in all hotels, as well as specific incentives for larger and up market facilities.

Whilst it is recognised that tax exemptions over a period of 5 years may affect revenue (although it can also be argued that most large scale businesses would not be generating any profit during this period in any case and hence would not ordinarily be contributing to tax revenue), it is clear that these countries have succeeded in attracting large scale foreign investment and have directly contributed to a substantial growth in tourism. For many of these countries, tourism is now a key source of GDP and overall economic growth.

In order for PNG to be competitive, it is suggested that an attractive package comprising a 10 year tax break for new large scale investments be offered. A trade off between a shorter-term tax break and a longer-term break would have to be considered in the context of the likely 'competitive disadvantage 'that this places on PNG as a location for tourism based investment. At the same time, the extent to which PNG offers niche market opportunities that are not necessarily available in other locations would need to be considered as the importance of necessarily matching every aspect of the tax arrangements in other competing tourist locations may not be as important when considered in this context.

Tax- credit for Infrastructure Development

Tax credits can only be properly utilised in industries characterised by large enterprises with significant tax obligations. Whilst the tourist industry itself comprises largely SME's, there are also a number of large scale infrastructure developments such as the building of resorts or new hotels which are required to provide the initial infrastructure to match the marketing program identified elsewhere in this report. For these type of new large scale projects, incentives can extend beyond the infrastructure directly associated with the tourism resort or facility itself. For many projects, there may be a need to build other associated infrastructure in support for the establishment of a tourism resort in a particular location and in this instance, tax credits can be sought.

The mining industry provides numerous examples of the use of tax credits, which effectively supports the main activities being undertaken at the mine although not directly part of the mine operation. Thus, the type of tourist investment could include community-based infrastructure such as the building and maintenance of roads, the erection of schools and hospitals and similar community type facilities which are part of the support structure for the community in which the tourism resort is to be located.

An appropriate tax credit scheme for this form of tourism investment in PNG could be developed and applied, using as the template the arrangements that already existing for the mining sector. Rather than create equity differences between the mining and the tourism sector, the tax arrangements should at least be similar so as not to distort investment decisions and the generation of future economic activity in the country.

Set of Criteria

It is understood the Government through IPA and Department of Trade and Industry are leading several projects within the tourism sector for hotel development and are currently negotiating a ***15 year tax-free arrangement***.

This would suggest a shift toward the allocation of tax holidays in an ad-hoc manner, which potentially results in some investments being favoured over others, and the potential for corruption and misallocation of resources. It is recommended that for the proposed form of tax holiday, the rules and eligibility requirements should be common to all applicants so that there is no chance of 'special treatment' being given to competing projects in the industry.

Additionally, this tax concession would be targeted only to large scale longer-term investment projects encouraging significant capital investment and involving longer term payback of the investment to the investors. This would remove the threat of attracting smaller short-term/payback operators and reduce the potential for abuse of the scheme.

A set of clear standards and set criteria in applying for this form of tourism project scheme, particularly for high revenue and employment generating developments, would alleviate any confusion for investors and ensure standardisation for all such projects within the sector. Such arrangements should be processed through the IPA as the primary government body for investment and development.

The type of criteria that can be included to eliminate smaller scale business and encourage large capital investments may include:

- Size and/or scale of project: eg a hotel or resort with over 150 rooms
- Capital investment over US$5-10 million
- Community service obligations (in line with the tax-credit scheme)

Double Deductions

Since January 2006, double deductions on certain costs are being offered by the Government to the tourism industry. This is an alternative to tax-based incentives and the advantage is that it provides additional deductions on particular expenses that can be off set against income thereby reducing the total taxable income and directly stimulating expenditure in areas considered a priority.

The tourism sector in PNG has been eligible to receive double the amount of deductions against certain expenses incurred in export marketing, promotion and development for the tourist trade and includes:

- Publicity and advertisements
- Market research
- Participation in trade shows
- Public relations work connected with the 'export' market
- Maintaining sales offices overseas for the promotion of tourism in PNG
- Bringing travel agents or wholesalers to PNG for the purpose of promoting PNG tourism

There is a focus on proactively marketing and promoting business overseas that larger businesses can benefit from, but the small scale nature of many businesses in the tourism sector in PNG limits their ability to benefit from such a measure. This view was shared also by the IRC in their submission.

The effectiveness of such measures relies on the businesses in the tourism industry being aware of the benefits of double deduction and the IRC to communicate these benefits and concession allowances to the industry effectively.

As yet, there is no data available[26] to assess the success of this initiative and make any analysis on the number of businesses that have benefited from this incentive, however continuing the double deduction of expenses on market development in its current format is supported by this report.

[26] The IRC have confirmed that the first likely data to be made available for analysis would be following the completion of the 2006-7 financial year.

Accelerated Depreciation

Forms of concession widely considered effective are those that focus on encouraging capital investment through accelerated depreciation or write-offs. In PNG, accelerated depreciation was extended to the tourism industry in the *Income Tax (2006 Budget Amendment) Act 2005* covering hotels, restaurants and recreational tourism facilities such as for diving and game fishing.

These businesses are eligible to receive an additional 20 per cent depreciation deduction on the cost price for capital investments (with an effective life of more than 5 years), reducing the number of years over which the investment is being depreciated. This form of incentive is particularly appropriate for businesses in the hospitality sector where large capital costs are incurred.

Fiji offers an even greater accelerated depreciation incentive, allowing a write off of an additional 55% of the capital expenditure incurred by the tourism industry. This higher rate of accelerated depreciation creates a more competitive investment environment for potential investors comparative to PNG.

Zero–Rated Tariffs

In 2003 a review of the Tariff Reduction Program (TRP) sought to assess the effectiveness of the reduction of tariffs on the domestic economy and PNG's interaction with international markets. The purpose of the TRP was to:

> *"Encourage a more efficient and productive private sector through greater exposure to international competition and reduce the burden of tariffs on consumers and businesses"*[27]

Tariff reductions proposed under the TRP encouraged decreases in 'prohibitive', 'protective' and 'intermediate'[28] tariff rates from 55 to 35 percent down to 40 and 15 percent respectively by 2006. Tourism related industries such as air transport, hotels, restaurants and fast food outlets are faced with considerable negative rates of assistance of 21 percent, 14 percent and 12 percent respectively (that is, the impact of the high tariff rates on inputs into these activities effectively put them at a cost disadvantage with similar industries in other countries which do not have tariffs on imported goods). The IRC have acknowledged that although there have been sharp declines in the negative rates of assistance applying to these activities with the reductions in the tariffs in PNG over the last four years, there still remains some negative assistance effects. Notwithstanding the tariff reductions that have occurred and aside from goods identified as luxury items, only imported goods that are produced or could potentially be produced in PNG continue to attract duties leaving the majority of imported goods as being duty free.

These tariffs negatively impact all sectors of the tourism industry. They are particularly restrictive for hotels and resorts which rely heavily on a range of imported items including high cost food and beverage items for their operations.

[27] A Review of the Tariff Reduction Program, 2003 Tariff Review

[28] A protective rate is intended to provide protection for producers of finished goods. The intermediate rate applies to inputs into the production process that are produced or could be produced in PNG. The prohibitive rate is designed as a major deterrent to imports of certain goods for which local production has been deemed to be especially valuable.

Trekking based tour operators also attract a 15 per cent tariff on camping gear and clothing that is provided to customers and local employees and is essential in running their business professionally to international standards.

A genuine zero-based tariff for ALL items that are imported would benefit not only the tourism sector but other sectors and the general consumer, reducing overall costs and contributing to more competitive pricing of goods and services within PNG. In particular it would benefit the hotel sector and room rates, potentially addressing the negative perception that hotel room rates in PNG are considerably higher than in neighbouring Pacific countries. A perception of better value for money would assist in generating tourist demand for travel to PNG.

Goods & Services Tax exemptions

The Government has moved to allow a zero GST rate to apply to certain transactions in PNG which would otherwise attract GST. In particular, the Government has allowed a GST exemption on domestic airfares where these fares are booked as part of a package involving incoming international fares. Desirably this should flow through in terms of lower domestic fares for international tourists provided the industry and the IRC can apply the policy. For the moment there appears to be some administrative problems which may be limiting the intended benefits from this policy initiative.

For a concession of this nature to function effectively there need to be clear guidelines as to how the exemption is to be accounted for in the IRC's administration of the GST. The airline industry also still needs to be able to claim a credit on all the GST it has paid on inputs, be they for exempt services or non exempt services. The practical reality is that the industry can not differentiate between the various input costs for individual seats on domestic flights, and without a refund of the GST paid on these inputs, the industry would not have an incentive to 'facilitate' the pass through of the GST exemption.

Extension of the GST exemption to cover other forms of tourist expenditure is a possible option for consideration and has been raised by the industry. To the extent that international tourists are exempted from GST payments, puts the industry on an equal equity footing with other industries which sell product or services overseas without incurring GST on the sale. The practical difficulties with such a system, particularly differentiating between legitimate 'tourists'; and people travelling to PNG for business or non-tourism related purposes would create difficulties for such a program's administration. In other countries this issue has been addressed by allowing recovery of GST costs on certain products and services (and above certain minimum levels of expenditure) via special tax refunding facilities located at international airports. In the PNG context, the cost of administering such a system may be high and may outweigh any perceived benefit in terms of attracting tourists (as distinct from giving any traveller into and out of PNG a financial benefit from the fact that they travel at regular intervals and hold an international passport.

4.2.3 Factor Based Incentives

Factor incentives that are currently applicable to the tourism industry include:

Staff Training: a double deduction against company income is allowed for tourism businesses for the following staff training expenses:

- Salaries paid to full-time training officers
- Wages for PNG national staff attending full-time courses at prescribed institutions
- Salary and wages paid to registered apprentices

This encourages businesses to provide training and capacity building in a sector that needs to develop an enhanced pool of suitably educated and trained human resources.

It is proposed that this incentive be extended to include the additional costs incurred by businesses for the provision of educational fees, tuition, training and travel allowance for staff to attend recognised training institutions (see further discussion under Human Resource Development). Such a deduction may provide additional incentive for businesses in the tourism industry to train its staff and build a skilled workforce that will be able to provide improved service quality to tourists and other customers. The IRC have pointed out in their submission that Barbados, for example, do include costs other than wages and salaries in the 150% deduction it grants for training costs for the tourism industry.

4.2.4 Land Tenure

Land tenure is a complex and critical issue for investors contemplating new development activity in PNG. Within the country and throughout the Pacific, customary land ownership is complex and deeply embedded in the culture. Traditionally, ownership of land has provided a lasting safety net for communities helping to shield them from poverty.

In PNG, close to 97 percent of land is held under customary tenure very little of which is registered with the relevant Government authority (refer Table 4.2 below). This customary land cannot be bought or sold and remains a part of the community. The legal system in PNG recognises this form of land ownership and, to protect local villagers, it is illegal for foreigners to purchase or lease land directly from them. Normal practice is to obtain Government approval allowing the investor to negotiate directly with the representatives from the community, after which the Government acquires the land and leases it back to the investor. For large-scale projects, the Government may also take on the role of the negotiator, but for smaller investors, the problems and costs associated with on-going negotiations and claims are left to the individual investor to resolve.

Table 4.2 - Land Tenure Arrangements in Pacific Island Nations

Table 4.2 - Land Tenure Arrangements in Pacific Island Nations		Land tenure		
	Registered	Customary	State	Free
	%	%	%	%
Melanesia				
Fiji	Most	83	8	9
Papua New Guinea	Very little	97	2	1
Solomon Islands	12	95	-	-
Vanuatu	Very little	97	-	-
Polynesia				
Cook Islands	Most	100	<1	0
Samoa	-	81	16	3
Tonga	Most	-	-	-
Tuvalu	Most	-	-	-
Micronesia				
Kiribati	Most	-	66	-
Micronesia, Fed States of	Very Little	100	-	-
Marshall Islands, Rep of	Little	Most	-	-
Nauru	Most	-	-	-
Palau	>10	-	70	-

Source: Pacific Islands Forum Secretariat (2001)

There is general agreement within the business community that the customary land system as it stands is not conducive to meeting emerging needs of the land owners, private sector, investors or the PNG Government. The challenge for the PNG Government is to steer changes in land tenure arrangements in support of economic growth so that investors including tourism related businesses are able to access the development potential of the land while protecting the customary ownership structure.

Many development initiatives prove problematic due to the system of land ownership. Tourism investors require security of tenure for a duration, which allows them to obtain a reasonable return on their investment. Investors also need a system that quickly addresses land disputes; unfortunately too often in PNG land tenure is not secure and disputes can block investment. There is a also little understanding of the value of land in relation to tourism development, leading to on the one hand unrealistic expectations by land owners and on the other hand speculation from developers. Considerable education is required, specifically in the area of tourism awareness and the development process. In addition the Government must be prepared to put additional resources into resolving land disputes in relation to potential tourism investments.

The Government has established a Land Reforms Task Force to look into these issues and recommend any appropriate actions that the Government should take to entice investments whilst at the same time embracing customary rights. The key objectives of the Taskforce are to implement the main policy recommendations arising from the National Land Summit which were to:

- Establish subcommittees on land administration, land dispute settlement and customary land reform
- Review and recommend legislative amendments
- Oversee the implementation of new policy and laws

In addition to the above, and in order to assist future development proposals, a number of initiatives are proposed:

- The Lands Tribunal should be better resourced and encouraged to resolve existing disputes over ownership of sites which have proven interest from potential tourism investors;
- A pro-forma lease and operating agreements should be developed, which would be used by resource owners as a basis for negotiation; and
- A Tourism Land Development Board should be established to undertake negotiations with traditional owners and establish a head lease for the purposes of on selling to potential tourism investors; the Fiji Native Land Trust Board provides a model for the development of this concept.

4.2.5 Safety and Security

Global events in recent years have led to increased concerns from tourists regarding their own personal safety and security. PNG suffers from a poor reputation in some key markets (particularly Australia) from negative media reporting and overly prescriptive overseas government travel advisories. However there are real safety issues that need to be addressed in PNG by the Government and local communities, as even isolated incidents involving tourists can have a major impact on the market.

Law and order is a key determinant that influences the tourist in selecting a travel destination. A negative image no matter how contrived should be a major concern for any destination that is serious about attracting tourism.

Effective marketing campaigns can improve tourism arrivals and continue to be sustainable if the underlying problems of law and order are effectively combated. PNG suffers from a negative image in terms of law and order, largely because of the negative media and regular “travel warnings” issued by a number of countries, particularly Australia. In addition, travel guides, both on the internet and in respected publications such as the Lonely Planet, highlight safety as a higher than usual issue for PNG in comparison to other destinations.[29] PNG has to accept that it has serious law and order issues that it has not so far successfully managed to contain.

Crime levels in the urban areas of Port Moresby and Lae are particularly high; however outside of these major urban areas PNG is no more threatening than many other countries in the world which have developed major tourism industries. In many rural areas there is no doubt that the people of PNG are exceptionally welcoming and hospitable and that traditional culture establishes the importance of looking after visitors.

However the fact remains that the marketing of tourism and building confidence in the market place is a substantial task, which can be undermined by incidents of violence against tourists, negative reporting and over prescriptive travel advisories. PNG needs to undertake a major public relations and repositioning exercise, particularly in the Australian market. Markets, which are less susceptible to safety and security concerns, need to be developed, such as special interest and independent adventure travellers. Crimes against tourists need to be punished severely, with strong mandatory sentences.

Many countries have introduced specially trained 'tourist police' to increase the level of security for visitors and improve responsiveness and communications between police officials and visitors. The establishment of a tourist police unit can focus resources and efforts to provide safety and security for tourists, deter criminals, but significantly can also provide a level of comfort for visiting tourists; it would also send a very positive message to the tourist industry. The fact remains though that the Government must strengthen the capacity of the police force to maintain law and order throughout the country if tourism is to develop into a large and viable industry.

Key Recommendations

The Government needs to facilitate growth of the sector by reducing the risks and increasing the potential returns on tourism investment, particularly those of a large scale nature. This will only happen if the Government demonstrates long-term commitment to a well-defined plan of action as well as show that they are competitive with regional incentive programs. The development of the Tourism Master Plan provides the opportunity to do this. This commitment needs to be cross party so that all parties recognize the importance of tourism.

The table below sets out the key recommendations with regards to product development and investment incentives in the Industry.

	Recommended Investment Incentives
Tax Package for large scale investment projects (ie: resorts and hotels)	Allow 100 percent company tax exemption for new tourism infrastructure developments for a10 year period. Tax credit for high capital and large scale

[29] Wheeler T and Murray, 1993, Papua New Guinea- a Travel Survival kit, Lonely Planet, Melbourne

	Recommended Investment Incentives
	investment infrastructure development • Development projects could include community-based infrastructure such as the building and maintenance of roads, the erection of schools and hospitals and other such community level projects. Set criteria that restricts size and value of projects and that which will only encourage sustainable investments of a high capital nature: • US$5-10 million minimum value • 150 rooms and over
Accelerated Depreciation Allowance	Extend the existing accelerated depreciation allowances to cover new building and refurbishment of all tourism plant and equipment including tourist visitor attractions, with the rate in addition to the normal depreciation to 55%. This is the rate that is currently applied in Fiji for such purposes.
Tax Deduction for Staff Training	Allow a double taxation deduction for all staff training expenditure at recognised training institutes.
Zero GST – Airfares and Other Surcharges	Ensure zero rating for domestic (tourist fares) and international airfares and seafares are applied and introduced

- Facilitate the development of a Police Media Unit and Tourism Police concept similar to that recently initiated by the RPNG Constabulary
- Provide adequate support to the Investment Promotion Authority ("IPA") in ensuring that doing business in PNG, not only for tourism but across multiple sectors, is a streamlined process.

Product Development

Target key product development opportunities with a view to ensuring a balanced marketing strategy.

Objectives

- Facilitate Provincial support for tourism planning and product development.

- Encourage the development of sustainable community based tourism products.
- To increase customer satisfaction by improving product standards to meet visitor expectations.

Private sector competitiveness is at the heart of the development of any industry. This is especially so for the tourism industry, as it is a highly competitive international market place and most countries are supporting the development of their own tourism sector. PNG is competing not just with regional neighbours such as Fiji and Vanuatu, but due to the specialist nature of the tourism products on offer, is also competing worldwide with countries further away, which offer other highly competitive products (for example Indonesia and the Maldives for diving, New Zealand and Nepal for trekking and India and Asian countries for culture).

Opportunities need to be taken to build on key products such as the Kokoda Trail, which has recently started to increase the number of visitors significantly. Additional products should be packaged and sold to trekkers and other potential markets explored. In countries such as Nepal, Thailand and New Zealand, trekking is a major tourism product employing many thousands of local people. It is worth noting that trekking in Nepal still continues despite a state of almost civil war between the government and rebel fighters. This indicates that well packaged products which offer uniqueness, are cost competitive and supported by effective marketing, can still compete even when there are significant safety and security issues. Other treks in PNG also have potential for development (including Mt Wilhelm, Sir Peter Lus and the Black Cat), but each product needs to have a development program prepared and implemented.

Kokoda has significant potential for development, however issues of carrying capacity and local participation need to be addressed. Kokoda is fast becoming a key 'icon' for the tourist industry in PNG and the importance of the Track to the further development of the Australian market to PNG in particular, should not be underestimated. Efforts by the Kokoda Track Authority and World Bank to upgrade the Track facilities and improve access and management of the resource need to be encouraged. The development of national regulations for tour operators and additional tour guide training will also be important to ensure that the benefits to PNG are maximised and that product and safety standards are at acceptable international levels.

4.2.6 Environmentally Based Tourism Products

The relatively untouched environment and biodiversity of PNG represent one of the 'unique selling points' of the country. PNG has tremendous diversity of natural and cultural attractions, with over 800 indigenous languages, 15,000 species of plants, almost 644 species of breeding birds and 214 species of breeding animals, 282 species of breeding fish and 505 species of amphibians and reptiles. Protection and sustainable management of these resources, is fundamental to the long-term development of tourism.

In developing tourism in PNG the Government should aim to build upon the recommendation from the World Summit on Sustainable Development (WSSD) to '*develop community based initiatives on tourism by 2004 and build the capacities to diversify tourism products, while protecting culture and traditions and effectively conserving and managing natural resources*'.

Tourism offers the potential to sustain the natural resources of PNG and to support the traditional resource industries upon which the economy currently relies. However activities such as mining, logging, fishing and oil palm can potentially have negative impacts on key tourism assets such as reef and rainforest habitat and wildlife when sustainable resource good management practices are not followed. There is a need to ensure that in harvesting the abundant natural resources of PNG, through for example its burgeoning mining sector, legislation relating to sustainable management and sound practices are followed and enforced. Tourism adds economic value to natural resources, though income generation and hence it is critical that key tourism resources are conserved and maintained for the future development of the industry. This applies to both the land and the sea.

4.2.7 Culturally Based Tourism Products

Tourism can also reinforce and assist in the preservation of the unique and diverse cultures of PNG, by adding economic value to cultural aspects and promoting cultural events and traditions. At the same time Melanesian culture, including the system of land ownership and cultural obligations and decision-making can work against traditional 'Western' concepts of business development.

Ecotourism and community based tourism offer some inherent advantages as a form of tourism that encompasses community values and the broad distribution of benefits. It is apparent that these forms of tourism development provide a strong basis to address many of the environmental and cultural issues relating to tourism in PNG.

There is some antipathy that the benefits derived from tourism are not evenly spread. This can result in resentful host communities, who feel that tourism is primarily being developed for the benefit of foreigners. Much is being done by the tourism operators to rectify this imbalance and to educate the host communities and there are many good examples of partnerships in tourism which are working. The PNG Dive Association has recently increased dive fees to rectify and increase the benefits for host communities. The Surf Association of PNG has developed a 'reverse spiral' model to ensure benefits are provided to landowners and host communities. Other accommodation operators, such as Tufi Resort are involving village stay operators and village visits in their product packages. All potential ecotourism activities rely upon the cooperation of the local communities; this is particularly true for trekking and hiking.

Considerable effort and resources will be required for awareness and education programs to support existing products as well as develop new ones. The Kokoda Track is only one example where major efforts are being undertaken by the Kokoda Track Authority to manage tourist impacts and spread the benefits to host communities. There is a need to learn from these examples and for Government to support the efforts of the private sector in this regard though an ongoing comprehensive tourism awareness campaign.

4.2.8 Community Based Tourism

There is tremendous interest in village and community based tourism at a local level and this area is clearly one which will experience significant growth in the new few years.

Feed back through the initial Provincial consultation process indicates that 'grass roots' people want to develop tourism enterprises, but in the main lack capital and expertise in marketing, business management and product development. The Plan needs to develop policies and initiatives, which support the development of tourism in communities and ensure that the benefits of tourism are equitably spread.

Community based tourism has been identified as a key form of development in the consultation phase of this Plan and under the proposal developed by the World Tourism Organisation for this sub-sector[30]. *'Community-based tourism initiatives aim to increase local people's involvement in tourism.'*[31] Community based tourism projects in PNG are often located in areas of high conservation value and the land is often under traditional ownership. A key to any community based tourism project is that the natural and cultural heritage is conserved, but at the same time the business has to be like any other: it has to have an identified market and it has to be well managed. The country has a number of community-based projects, which are not sustainable for reasons that include:

- They were devised by external specialists or government without adequate community involvement or sufficient understanding of the concept of community based tourism;
- Donor funding was provided for the initial set-up costs, but there was no follow through in terms of operational support, training, product distribution and marketing;
- The market demand for the project was insufficient.

Successful community based tourism projects need careful planning at the local level and a program of assistance needs to be developed to support local community based tourism projects. The types of support that are required include:

- The development of community based tourism standards
- The development and implementation of awareness programs for communities on the benefits of tourism
- The development and implementation of training programs for community based tourism operators
- The provision of product distribution and marketing support for community based tourism operators

Donor assistance should be sought to design and implement this program.

[30] Development of Community-based Tourism in Papua New Guinea – WTO UNDP – May 2006
[31] Pro Poor Tourism Development – Overseas Development Institute 2004

4.2.9 Provincial Level Tourism Development

Unfortunately Provincial Governments have progressively increased local licensing costs for hotels, restaurants and other tourism related activities, thus increasing operating costs further. In return most Provincial Governments provide few, if any, resources to local Tourism Bureaus or local information offices, and so even the most basic services are not provided at a local level. Local Chambers of Commerce need to be more involved and Provinces need to demonstrate financial commitment towards the development of tourism.

In developing a policy of Model Tourism Provinces, TPA has identified four Provinces as priorities for tourism development. These are:

- Eastern Highlands
- East New Britain
- Madang
- Milne Bay.

In selecting four provinces for priority TPA is seeking to establish a pilot program that can be extended to and adapted for other provinces across the country. The benefits of becoming a Model Tourism Province have not been well defined, but would appear to include central government support for infrastructure development, training and development of provincial tourism plans.

The criteria for selection of the Model Tourism Provinces needs to be clearly defined; if visitation by holiday tourists is the key criteria then local data collection needs to be improved. Similarly the analysis of existing tourism products is not complete in many provinces (which could be used as another criteria). In essence the concept of prioritising resources into provinces that have potential for tourism development is sound, but tourism in all provinces will not take place unless there is a level of commitment by the local stakeholders, including the Provincial Government and the local industry.

A clearer policy needs to be developed to facilitate provincial tourism development. It would be more effective to provide support to those Provinces that have potential, but can also demonstrate commitment to the development of tourism. Criteria for demonstrated commitment could include:

- Establishment of a Provincial Tourism Bureau or active Provincial Tourism Association;
- Development of a Provincial Tourism Plan which identifies local assets, products and priorities for development;
- Funding provided by the Provincial Government for the local Tourism Bureau and/or Tourism Industry Association and local priority tourism projects.

A competitive Tourism Development Fund should be developed to allow Provinces to make proposals based on the above criteria. This fund could be used to support

Provincial priority tourism projects in areas such as training, marketing, planning and policy development. Provinces should, in the first instance, be encouraged to develop Provincial Tourism Plans and funding should be made available to allow this to happen as a first stage.

4.2.10 Cruise Shipping

The cruise shipping sector provides valuable income to urban and rural areas in PNG. Whilst still relatively small, the cruise-shipping sector has grown recently in PNG; calls by cruise ships increased from four in 2005, to twelve in 2006. Special interest educational cruises are growing globally and PNG is well placed to capitalise on this market.

Recent announcement for a passenger ship by a PNG-Australia joint venture for 2000 person capacity is a positive contributor to the growth in this area of tourism. It is anticipated that the service between Lae-Alotau- Port Moresby will commence later this year.

Potential operators need to be targeted to further develop this sector and encourage additional calls by existing operators. Port facilities need to be upgraded to take account of future potential cruise ship business. When it comes to onshore excursions, it is imperative that visitor safety is ensured. As with other forms of tourism enormous damage can be done by one or two isolated incidents involving the safety of tourists and operators will quickly move to alternative destinations if problems arise.

The benefits of cruise ship visits would be significantly enhanced if better coordination were undertaken at a provincial level. Private sector operators need to be made aware of cruise ship schedules in advance, so that efforts can be made to provide goods and services, even on weekends if necessary. In order to encourage cruise ship operators to visit more remote locations and spread the economic benefits of such calls, the costs of providing local customs and immigrations clearance should be borne by the Government; this would be in line with the proposed policy of other countries (eg Australia).

4.2.11 Product Standards and Classification

Currently PNG has no system of accommodation grading or classification. Similarly there are no regulations in place regarding the licensing of tour operators, other than through the business licence process. This can be disadvantageous for the consumers, who are not able to buy with certainty or make fair comparisons across properties or operators. Currently some overseas tour operators offer tours in PNG, without having any registered local operation.

The PNGTPA and PNGTIA have initiated the development of an accommodation grading and classification system and this needs to be implemented as soon as possible. In addition the issue of licensing and bonding of tour operators and inbound operators needs to be reviewed and regulations developed. Different models exist in relation to the development and implementation of industry standards at all levels; the industry and government need to work together to find a workable model and process, which could be based around a system of industry accreditation and standards or it could be based around a regulatory model, which could be linked to business licences. There would also be advantages in linking any marketing support available to operators through the government or the industry associations to the required standards. In terms of the best way forward, it is suggested that the new Tourism Policy Secretariat in close conjunction with the tourism industry, would be responsible for development of the system of regulations and standards, and that both the accommodation and tour operating sector should be the priorities in this regard in the short to medium term.

4.2.12 Meetings, Incentives, Conferences, Exhibitions and Special Events

PNG has recently hosted a number of major conferences and events, including the ACP/EU Meeting and the South Pacific Tourism conference. Opportunities exist for the country to host additional regional meetings and events, particularly where the country is a member of a global or regional organisation. Country representatives involved in international organisations need to be proactive in lobbying for additional events. In addition the country needs to have a strategy to target specific events, which should be developed and implemented by TPA and the PNG National Events Council.

Key Recommendations

- Facilitate the development of Provincial Tourism Plans which identify assets, opportunities and cohesive actions for development.
- Coordinate information on tourism investment opportunities, funding sources and business support services available in the country.
- Design and implement a Community based tourism program to include:
    - Development and training on standards for community based projects.
    - Development and implementation of short courses on community based tourism in business, management and key operational areas.
    - Development of tourism awareness program and train the trainer program at provincial level.
- Establish an independent standards and accreditation body to:
    - Develop regulations and standards for tour operators and inbound tour operators as part of the licensing procedure
    - Develop and implement a national accommodation grading and classification system reflective of international standards
- Introduce a specific fund for new and upgrading existing SME tourism projects, through the Rural Development Bank

- Establish new Tourism Policy Secretariat with responsibilities *inter alia* to negotiate head leases with traditional resource owners and package sites for investment and development.
    - Remove the backlog of cases at the Lands Tribunal relating to tourism investment sites.
    - Develop a pro forma lease and operating agreement for resource owners and investors
- Facilitate the development of a Police Media Unit and Tourism Police concept similar to that recently initiated by the RPNG Constabulary
- Provide adequate support to the Investment Promotion Authority ("IPA") in ensuring that doing business in PNG, not only for tourism but across multiple sectors, is a streamlined process.
- Prepare product development guidelines to assist existing and potential operators build, market and deliver sustainable tourism products and communicate to the industry through training workshops.

4.3 Transport and Infrastructure

Improve the competitiveness and standards of transport and infrastructure, to increase market demand and improve visitor satisfaction levels.

Objectives

- Facilitate the ease of entry procedures for key target markets
- Grow visitor demand by encouraging competition in transport services
- Ensure airport and port facilities meet international facility and safety standards
- Increase visitation to key Provinces through upgrading airport facilities to be demand driven
- Increase the number of cruise ship passengers visiting PNG
- Create efficiencies in tourist visa processing particularly for tourists from key source countries
- Reduce the cost of utilities and increase the availability and reliability of telecommunications and Internet services

Transport and services must be cost competitive, effective, efficient and reliable. PNG's public infrastructure requires massive re-investment. However commitment at government level needs to acknowledge the problem and begin to implement changes. International experiences have demonstrated that the existence of appropriate, affordable and attractive transportation alternatives has a direct influence on the growth and development of the tourism industry.

Adequate air, road and sea transport facilities enable the efficient flow of visitors to and from a destination. Pricing and availability are key considerations for tourists in their travel decisions. In PNG, the absence of transport alternatives has been identified as an impediment to the development of tourism. In this section, available transport alternatives in the international and domestic sectors will be discussed

4.3.1 International

Air travel is the main form of transport into and out of PNG from any international destination. International arrivals of tourists through cruise ships and via road from Indonesia are minimal. In the PNG aviation sector, the major international operators are Air Niugini Limited ("Air Niugini") (in conjunction with QANTAS on the Australian routes) and Airlines PNG Limited (Airlines PNG). Air Niugini holds 80 per cent of the international market and is wholly owned by the Government through the Independent Public Business Corporation ("IPBC"). Details of the current fleet of Air Niugini and the international destinations that it operates to are set out in Table 4.2 below:

Table 4.1: Air Niugini Fleet

Aircraft	Number
B767-300 (Leased)	1
F100 (Leased)	4
F28- 4000 (Owned)	4
DHC- 8 (1 owned, 3 leased)	4

Table 4.2: International destinations

Destination	Country
Brisbane, Sydney, Cairns	Australia
Honiara	Solomon Islands
Manila	Philippines
Narita	Japan
Singapore	Singapore
Hong Kong *	China*

** Hong Kong route commencing in August 2006*

Table 4.2 provides details of the flight destinations for Air Niugini flights from PNG. Air Niugini services the Australian destinations under a code share agreement with QANTAS Airways Limited ("QANTAS"). The Port Moresby – Cairns sector is serviced by its Fokker 100 aircraft, the Honiara sector by F28 aircraft whilst the other destinations are serviced by the B767 aircraft which is leased from a third party and currently maintained by Air New Zealand.

Airlines PNG is the country's largest privately owned airline and is also involved in providing services to Australian destinations. It competes with Air Niugini and QANTAS on the Cairns sector and more recently has commenced direct services on the Brisbane sector using a leased B737.

4.3.2 Domestic

In the domestic sector, air transport plays a pivotal role in transportation of both passengers and freight due to:

- The absence of an effective national road link or rail system; and
- The difficult geography and topographical conditions of PNG.

Air Niugini operates a comprehensive network of both scheduled and charter services to various domestic destinations. Airlines PNG and other third level airline operators such as Airlink also operate scheduled and charter services to certain domestic destinations.

In urban centres, the public transportation system (buses and taxis) are operated mainly by individuals and small businesses in the private sector. Seating capacity for buses are 15, 25 or 30 seaters and operate on some of the major national highways in PNG as well as within the major urban areas. Although these services are 'regulated' in terms of their prices and the service that they provide, the unreliability, safety and general appropriateness of these Public Motor Vehicles ("PMV's") for charter by international tourists has been the subject of extensive discussion and recent concern with respect to the development of the tourism industry in PNG.

Various shipping operators provide passenger ferry services between the main ports on the mainland as well as inter-island ferry services. The major providers of scheduled and chartered passenger ferry services include Rabaul Shipping, Lutheran Shipping and Bismarck Maritime.

The major issues of concern associated with the transport system raised in consultation with interested parties can be summarised as follows:

- Cost of air fares on the domestic and particularly the international routes, including taxes and surcharges
- Privatisation of Air Niugini and competition issues
- The quality of PMV's, taxis and sightseeing buses as appropriate forms of local transport for international tourists; and
- The need for the development of the cruise ship sector.

At the request of the Government, the ICCC is currently undertaking two comprehensive reviews into the Airline and Coastal Shipping industries in PNG, with a view to identify regulatory impediments and competition constraints. As part of its legislative mandate, the Commission is also currently in the process of concluding a major review into the PMV's and tax fares in the major urban centres as well as for major national highways and inter-provincial routes throughout PNG. The conduct of these studies at the same time as the conduct of the tourism review reflects the Government's recognition of the importance of transport as a facilitator of further economic development and a means whereby the benefits of economic development can be more widely spread across the broader population.

4.3.3 Cost of Airfares

A principal driver of tourism growth is the affordability and access to airfares by domestic and international target markets. Tourism or leisure travel is traditionally considered price sensitive, largely due to the discretionary nature of travel. The level of airfares has a direct correlation on the number of tourists visiting a particular destination. Due to the lack of comprehensive tourism related data, it is difficult to directly assess how applicable this price sensitivity is in PNG.

Many submissions received were critical of the current airfare structure of both the domestic and international segments of the aviation industry in PNG. As noted above, the Commission is currently undertaking a detailed review of the Airline industry addressing regulatory impediments, competition constraints, and the current level of airfares. The conclusions drawn form this report are relevant to a consideration of the pricing of airfares for tourist travel purposes. These matters are broadly addressed under the following headings:

- Regulation of airfares;
- Removal of the taxes and other statutory imposts on airfares;
- Subsidisation of fuel to reduce airfares; and
- Privatisation of Air Niugini.

Regulation of Airfares

Prior to 2001, domestic airfares were subject to price control under the auspices of the former Office of Price Controller. The price control methodology used at that time was not consistent with 'best practice' regulation in that it was less transparent, applied on an ad-hoc basis and poorly designed to refect the pass through of efficient costs incurred in providing the air transport service. This severely affected the operations of the airlines, restricting capital expenditure and fleet replacement decisions and contributing to less than efficient operating decisions and planning.

In 2001, the Government decided to remove the price control, arrangements on airfares, reflecting in apart the difficulties incurred in applying regulation in a meaningful way, and opted to rely upon competition in the market to set airline fares. Competition desirably should be fostered and encouraged as a more efficient mechanism to set fares and to realise greater levels of economic efficiency and cost competitiveness. At the time of the removal of price regulation, it was felt that the market for air travel including the availability of competing suppliers was such as to drive prices to an efficient cost level, thereby giving the best possible outcome to consumers and to the economy as a whole.

The ICCC's recent examination of this issue has highlighted the fact that within PNG, domestic airfares are in the main on a par with airfares in other Asia Pacific countries, That is, on a passenger /kilometre basis, the airfares in PNG are equivalent to what would apply in other nearby countries, some of whom are competitors (and some targets markets for tourists) for the PNG tourism industry. That does not resolve the problem that PNG faces in its competition with a number of these countries in that their tourism facilities do not necessarily require lengthy domestic flights to access having arrived into the country. Thus for example, in Fiji, having arrived in Nadi, for many tourists no further air travel is required to access the main tourist resorts on the Coral Coast and even those who have to make internal domestic flights, the distances are short and thus the relative actual cost is less than that in PNG where the distances to be travelled are greater.

On international flights, the Commission's analysis has highlighted the fact that flights into and out of PNG are relatively expensive on a passenger cost per kilometre basis by comparison to nearby countries although there are some African countries which have similar high average per kilometre costs. Air Niugini has argued that the fares that it charges largely reflect the additional costs that it has to meet in PNG to provide air services, and cites the African examples as countries which face similar internal costs including law and order costs The Commission has concluded that the higher average per kilometre fares to and from PNG in part reflects the lack of competition on these routes. Whereas on the domestic routes there is at least two if not three potential competitors for a particular route, on the international routes until recently the only service provider has been Air Niugini, although under the Code Share arrangement it has with QANTAS, there is the potential for competition between these two operators using the same aircraft.

More recently, Airlines PNG has commenced flights to Cairns from Port Moresby and more recently still has commenced a new service to Brisbane which will initially fly twice a week but is expected to be extended possibly to five times a week. It would appear that the entry of Airlines PNG has had an effect on the marketing of fares by Air Niugini, as more prominent advertising of discount fares is being undertaken by Air Niugini on the POM/Cairns and POM/Brisbane routes. Notwithstanding the more recent advertising of competing discount airfares to and from Australia, the inquiry was told by PNG Dive Industry Association that it had successfully negotiated significant discounts on Air Niugini flights between Australia and PNG in the late 1990s. These discounts are still being received by the Association and have played an important part in the industry achieving high penetration into the tourist market for travellers to PNG.

The current high public prominence being given to discounts on fares on the PNG/Australia route are a positive outcome of the entry of a new participant in this market. There are also suggestions of a further new entrant on the Port Moresby and Cairns route, although at this time no formal announcement has been made. The existence of significant discounts for certain travel groups pre the entry of Airlines PNG on the PNG/Australia route and the more public promotion of discounted airfares currently being offered by the industry suggests that there are opportunities for the tourism industry to negotiate both international and domestic airfare packages that would be competitive with the fare packages available on other tourist routes out of Australia. The Commission needs to maintain a monitoring program to ensure that the latest period of faring discounting does not results in predatory pricing practices designed to eliminate competition and allow prices to return to pre competition levels. On the basis of evidence given to the Commission as part of the airlines inquiry, it is expected that there will be a continuing program of fare reductions over the coming months and that these developments will help to strengthen the ability for the tourism industry to build its market penetration into those target markets identified elsewhere in this report.

The ICCC has also identified in the Airlines Report some concerns about the Code Share arrangement between Air Niugini and QANTAS on the Australia/PNG route. Under the provisions of the ICCC Act, the Commission has power to take action against this arrangement should it be considered as being contrary to Section 50 of the Act. Provision also exists under the Act for the Commission to give a clearance to the arrangement should the Commission consider that there is a net benefit to the nation any restriction in competition that the Code Share creates.. The Code Share arrangement between Air Niugini and QANTAS is to be subject to an internal review by the parties prior to mid 2007, and the ICCC has foreshadowed its view that the arrangement if renewed should be referred to the Commission for consideration as to whether an authorisation under the ICCC Act should be given. Under the Act, any person can challenge the Code Share arrangement under the provision of Section 50 if they believe that it effectively substantially restricts competition. The Courts will ultimately make a decision on this matter. However, it is only the Commission which can give an authorisation which effectively protects the parties from such court action. However, to obtain an authorisation, the Code Share agreement would have to be referred by the parties to the Commission for consideration. It is entirely up to the parties as to whether they wish to take such a step.

The reintroduction of price regulation for air travel is not an option that is favoured, especially in an environment where competition appears to be emerging. A competitive market has a better prospect of delivering cost efficient prices without the added cost of regulation. However, within the existing powers of the ICCC, there is the opportunity for the Commission to maintain an ongoing supervision of the behaviour of the industry and if it appears that competition is being hindered or thwarted by the actions of one or more of the participants in the market, the Commission has the ability to seek a reference from the Treasurer to examine whether price regulation would then be required and if so in what form. For the moment, the Commission should continue to pursue the issue of the impact of the Code Share arrangement on competition to ensure that there is every opportunity for a competitive market to operate for domestic and international fares in PNG.

Taxes and Surcharges

Taxes and government charges on the airline industry are passed on by the airlines to the consumers through their pricing structures. The prevailing government charges and taxes imposed in the industry (both domestic and international) and built into the airfares are:

Table 4.3: Taxes and government charges

Taxes	Government charges
International Departure Tax	Airport Facility charge
Goods and Services Tax ("GST")	Screening/Security charge
Taxes on fuel and insurance surcharge	

Not all 'charges and taxes' reported by the airline industry as 'add on' costs to airfares are in fact government charges. The airline industry has a habit of bundling various costs and loosely using the term 'charges and taxes' implying that these are government costs. The ICCC's Report on the Airlines Industry has highlighted the fact that less than 15% of the 'taxes and charges' added to fare costs from Port Moresby to Brisbane are in fact PNG Government related costs (including g CAA costs). The primary additional on-costs are fuel surcharges which comprise about two thirds of the additional costs. Then there are foreign government charges such as security and exit fees from the countries concerned. Thus the ability of the PNG Government to have a greater influence on the final airfares charges is extremely limited.

The incurring of government charges and taxes by the airline industry which are subsequently recovered from passengers is not a unique situation to PNG. However, it does provide an opportunity for Government to grant concessions where there is the opportunity to encourage greater tourists travel reaping potentially a greater benefit for the country than the 'loss' of the taxes or charges foregone by the Government.

Recently Treasury and IRC have announced the provision of certain tax incentives in the tourism industry. These changes include no GST being charged on all domestic travel by tourists when it is booked in conjunction with an international flight. However it appears that there have been some administrative problems with this policy announcement as GST is reported as still being charged on domestic flights. Action needs to be taken to address this problem and allow the benefit of this tax concession to flow through to international visitors as intended.

International departure taxes are imposed by governments on departing passengers in many countries. In PNG the rate is K30 per head. It is noted that the current level of departure tax imposed by the PNG Government is lower in comparison to other jurisdictions within the region such as Australia. Removal of this charge would be inconsequential in terms of the total cost of the fare and would only serve to require an increase in the cost to be recovered form other travellers.

Included under the broad heading of government charges are CAA charges including domestic and international terminal fees and fees for supply of airport services and maintenance of airport infrastructure. These charges are intended to recover the costs of the services provided by the CAA, services that are integral and essential to the operation of the airline industry. It is noted that the airline industry has expressed concern about the magnitude of these charges and the level of services provided by CAA. The findings of the Airlines Review are that the ICCC should take a more active role in the determination of the fees and charges imposed by the CAA. This in part reflects a desire for greater discipline in the transparency of the setting of these charges, but also reflects a desire from the industry to have an independent arbiter review the efficacy of the costs that are being incurred and passed through to passengers by way of the CAA fees charged to the airline industry. These charges cannot simply be withdrawn for the industry as a whole or for a particular category of traveller. However, they can be set at levels to recover the efficient cost of delivering the essential services that the CAA is called upon to provide, and to this end a move to a more independent determination of these costs would be beneficial to all air travellers.

In part, the CAA cost issues for the airline industry also reflect a confusion of the various roles of the CAA within the one organisation. The CAA has recently reported that it is embarking on a program to separate the various regulatory, safety and commercial operations of the Authority from each other and from its other activities. This, along with a complete restructuring of the financial accounting system of the organisation, has some prospect of addressing the issue of where CAA costs are less than efficient. The Airlines Report examines this matter further and makes a number of appropriate recommendations for the future.

Government taxes on fuel are often targeted by commentators as an area where government can reduce the cost of airfare. In the PNG context, the Government's charges on Jet A1 fuel which is the main fuel used throughout the country, is zero. There is a charge of 2 toea per litre on fuel carried out of the country, which represents less than 2% of the cost of fuel. The other fuel type, Avgas, is wholly imported into PNG and is used primarily for piston driven aircraft on internal domestic routes and charter work. A duty of 2 toea per litre also applies to this product, but again represents a minuscule proportion of the total cost of fuel. Thus the opportunity for the Government to remove taxes in this area is for all intents and purposes nil.

The main component of 'taxes and surcharges' are additional fuel costs. This mechanism for adjusting fares is widely used throughout the world to allow the airlines to recover the additional cost of fuel when these costs are rising rapidly. The industry prefers to use this approach rather than change their 'standard' airfare rates, although it causes confusion to the wider travelling public. In the PNG context, airfares are unregulated. Thus, the industry is able to apply additional charges as and when it requires subject to competitive pressures. Thus, in these circumstances it has been the objective of the ICCC to generally monitor the pricing behaviour of the airline industry and to look for ways of encouraging new entrants into the market or other forms of competitive pressures to be brought to bear on air travel costs.

A further surcharge made by the airline industry is for insurance. According to the industry, the insurance surcharge is imposed in order to cover risks associated with airports in PNG that are non-compliant with new civil aviation legislation. Aircraft that utilise these airports are subject to higher insurance premiums. This issue can be directly addressed by the Government, particularly in terms of the allocation of resources for the upgrading and repair of airports. It is noted however, that this charge has been applied across all forms of travellers using all airport in PNG, whereas the additional insurance costs should not apply to Jacksons Airport which has been certified by the CAA. The remaining airports need to be upgraded and maintained by the CAA so that they comply with the legislation and required safety and security levels.

Fuel costs

Fuel is a significant component in the overall cost structure of operating an airline. Increasing global fuel prices have resulted in higher costs for airlines which must either be absorbed by the airlines themselves through an erosion of margins reducing the rate of return on invested capital, or by passing on the cost increase to consumers through higher fares.

The establishment of the Napa Napa refinery in PNG has changed the way pricing for petroleum products is determined in PNG and the sourcing of supply of petroleum products for the economy. The ICCC undertook a major review of the pricing arrangement for petroleum products at the time the Napa Napa refinery was commissioned[32]. The outcome from the Commission's review was a reduction in the price of petrol and dual-purpose kerosene (that is kerosene for household use and use as Jet A1) for retail consumers in PNG. However, these changes also occurred at a time of significant upheaval in the international oil market. Any consideration of the impact of the commissioning of the Napa Napa facility needs to be considered in the context of the effects of the changes in international oil prices, and the flow through effects of these changes on the PNG economy. Also, the price reductions that were achieved by the Commission in its 2004 Petroleum Review may not have been as significant for large commercial consumers of petroleum products. The costs savings were primarily in the wholesale and retail margins on petroleum products sold at service stations. For commercial users who had previously negotiated a wholesale margin that was below the standard set for retail consumers, this cost saving may not have been passed through as the margin was already significantly below the rates set by the Commission.

As was shown in the ICCC's 2004 report, the Napa Napa facility did not necessarily increase the price of fuel to users in the main centres in PNG. However, it did have an effect on prices for users in many of the outer areas and smaller towns. This in part reflected the cost of transport within PNG, a cost that has to be recovered when fuel is transported significant distances from the refinery in Port Moresby.

Internationally, prices of petroleum products have increased significantly since 2000. In PNG, the price of Jet A1 has increased from $US20 (K60) per barrel in early 2000 to an average price of approximately $US85 (K254) per barrel over the first four months of 2006. Over the same period worldwide prices for Jet A1 have increased by 325%. The price of dual purpose kerosene in PNG over the same period has also increased by 170%, reflecting in part the cost savings that were passed on to the consumer that were achieved by the ICCC pricing review in 2004. Nevertheless, fuel prices in PNG and overseas have increased significantly and appear likely to increase further, impacting the operational viability of airlines worldwide. This impact has been significantly noticeable in PNG as it has occurred during a period in which visitor arrivals to the country have not been as strong as in previous years.

It is often argued that governments should subsidise fuel costs as a way of encouraging travel by tourists. This has superficial attraction, particularly when the significant contribution that fuel costs make to the cost of travelling by air is

[32] ICCC *Petroleum Industry Pricing Review* August 2004

acknowledged. However, the PNG Governments should not be encouraged to subsidise fuel costs. Essentially the reasons are twofold:

- Subsidising of airfares in a market where the cost of fuel has gone up for air travel to all parts of the globe will not necessarily ensure that PNG receives additional travellers adding a net benefit to the economy that will outweigh the cost that the PNG Government will have to incur up front to subsidise the fares, and

- The ability of a country such as PNG to fund such a cross subsidy when it has significant internal funding problems in terms of its own health, education and general facilities infrastructure, would not be an appropriate cost/benefit trade off, nor a long term viable financial option.

The experience in other countries of subsidising fuel (for example, Indonesia and Malaysia where there were riots and other civil disturbances when the governments concerned sought to remove the subsidy as the price of fuel rose to previously unrecorded levels) has not been satisfactory, and the lessons learnt in these countries would equally apply in PNG.

Privatisation of Air Niugini and Competition Issues

A number of submissions have been received expressing a view in support of the privatisation of Air Niugini. It is argued that this would ensure an "even playing field" in terms of the air travel market and thereby foster effective competition which will encourage a downward drive in the cost of airfares over time. The need for privatisation is argued on the basis of:

- the need to ensure that the major purchaser of air travel in PNG, namely the government, does not favour its own airline when there are other alternate service providers available, and

- the need for greater efficiency in the operation of Air Niugini which presumably will result in more cost efficient pricing of airfares.

There is some evidence of private airlines being more efficient than government owned airlines[33] although these efficiencies do not necessarily translate into more internationally competitive fares in the absence of effective competition. It is just as possible for privately owned service providers to capture monopoly profits on certain routes as it is for a government owned monopoly operator.

There is some substance also to the argument that the government owned airline in PNG may be favoured by government departments and agencies when booking air travel, and as a consequence a new entrant may find that the main users of air travel in PNG are effectively locked in to the use of Air Niugini's services. There has been evidence of this experience in Australia, and in particular on the Sydney/Canberra route where the competitors to the government owned airline, QANTAS, have withdrawn from the route because of lack of patronage.

[33] (Qum and Yu 1997)

However, privatisation of Air Niugini would not necessarily resolve the issue of more efficient cost reflective pricing, particularly on the international routes into and out of PNG, and the favouring of one airline over another by the main purchaser of airfares in PNG, namely the government. Certainly privatisation would not represent a short-term solution to these problems and may not even represent a longer term solution. In order to give the tourism industry the fillip it needs in the short term, attention needs to be given to the issue of pricing by the present incumbent, Air Niugini, and the potential for greater competition and contestable behaviour on air routes particularly into and out of PNG. A more effective and achievable objective will be the encouragement of greater competition within the PNG airlines industry. Evidence already exists that operators are taking up the challenge of the open skies policy adopted by the government, and the government's recent statement about lifting the standards of airports across the country so that they meet international requirements. The Report on the Airlines Industry has highlighted the potential for new competition, and in particular for competition which is designed to increase the overall level of passenger numbers rather than simply reallocating the current passenger numbers between two or more service providers.

Greater competition and more internationally comparable prices are possible through the combined efforts of the tourism industry and the airline operators. Rather than simply focus on the existing market for business travellers and travellers who are being funded by the government or their employers, there is the potential for the tourism industry and the airline industry to form appropriate alliances to ensure full passenger numbers on selected dedicated flights and link this with domestic accommodation and internal transport packages. There is evidence to suggest that Air Niugini has offered these types of discounts in the past, and with the current new entrants into the market, the opportunity exists for similar arrangements to be negotiated between the tourism participants and the airline operators.

This is an option which can be acted upon by the industry without the need for government action or funding. Thus, it is more likely to be something that can commence relatively quickly and, through the profit motive, be more likely to succeed and continue of its own volition rather than be dependent upon the uncertainties associated with government funding arrangements, or with the delays and uncertainty that a reliance upon the privatisation of Air Niugini would create. That does not mean that privatisation of Air Niugini might not be reconsidered at some time in the future. But for the moment, the success of the tourism strategy and Plan does not rest upon this issue, but in terms of the question of airfares, lies in the hands of the tourism industry itself.

4.3.4 PMVs and Taxis

The Public Passenger Transport industry is diverse, with stakeholders and participants from both the private and public sectors involved in providing services to consumers (both individuals and businesses) throughout PNG. The service providers of the industry are primarily private operators and business entities, which enter and leave the industry subject to the terms and conditions of their business licences. The long-term viability of the industry depends on the efficiency of individual stakeholders in operating their businesses.

The Land Transport Division within the Department of Transport is the lead Government agency, responsible for formulating policies and general administration of the various Acts under its jurisdiction dealing with public transport. Other statutory authorities are involved in the areas of safety, technical and service standards, licensing, registration and insurance. In the absence of a Government authority providing Public Passenger Transport, private PMV's are the main providers of passenger services operating over designated routes within the populated rural and urban areas. Taxis generally operate within urban areas as designated by their Licence.

Under the Prices Regulations Act 1949 (as amended), both PMV and taxi fares are subject to price control. The ICCC is presently undertaking a comprehensive review of the fares for both PMVs and taxis and will soon be releasing a draft report of findings and a determination with respect to prices.

Concerns have been expressed regarding the standard of service provided by PMVs and taxis and whether these refect a standard that is suitable for the tourist industry. There can be little doubt that the quality of service provided by the industry leaves a lot to be desired. PMVs are all too often seen as being mechanically and physically in poor condition and taxis are often un-metered with some degree of concern about the physical safety of passengers who use this form of transport. To some extent this reflects the failure of the current accreditation and enforcement process to ensure that regulatory service standards, that are part of licence conditions, are actively applied. However, there is also a direct link between the ability of PMV operators to recover their operating costs and their ability to maintain their vehicles and meet the required service standards. This raises broader issues regarding the cost of providing such a service and the level of service and operating standard that is regarded as sufficient by general users of these vehicles as a trade off against the price that they need to pay.

The action required involves intervention by the National Land Transport Board in conjunction with the ICCC, the Police, National Road Safety Council and Motor Vehicle Insurance Limited, to ensure that the standards that are currently in existence for these vehicles are fully enforced and that the fares charged reflect an appropriate balance between the efficient cost of providing the service at a level of service that the general consumer is willing to pay. For the tourist traveller in general, there may be greater value in encouraging the emergence of 'elite' forms of taxis or chauffeured hire cars which provide a greater degree of personal comfort and safety for the traveller but are still priced at a level that is commensurate with what a tourist would pay in other markets. Not all countries offer cheap forms of domestic road transport. However, greater variety and options that are available to the tourist will help to alleviate a concern that currently exists about access to land transport within PNG of a type that will be acceptable to the general tourist.

The tourist industry itself can help to initiate some of these options. In particular the emergence of 'elite' taxis or chauffeured hire cars is a service that is us usually linked to hotels and similar accommodation venues and already has some precedence in services that are available in PNG.

4.3.5 Cruise Ships and Maritime Tourism

Benchmarked against other comparable countries within the region, PNG still has an underdeveloped cruise shipping sector. According to the PNG Tourism Promotion Authority, about twelve cruise ships on average visited PNG in 2005 carrying on average about 4,000 short term visitors per year, contributing about 10% of all short term visitor arrivals. The table below sets out the total number of short term visitors travelling by sea according to their purpose of visit between 2004 and 2005.

Table 4.4: Cruise Ship Visitors

Purpose of Visit	Visitors by Sea
Business	*4,561*
Holiday	*3,250*
Visiting Friends and Relatives	*87*
Other	*19*
TOTAL	***7,917***

Consideration has previously been given as to whether or not the Government should abolish all port and related charges on cruise ships in order to increase the number and frequency of cruise ships calling into PNG ports[34]. It is not readily apparent how this of itself would encourage greater numbers of cruise ships to visit PNG. The cost of providing port infrastructure ultimately has to be recovered from users of the port facilities and the exemption of cruise ships from paying port wharfage and berthage costs together with other port charges would have to be recovered from other users. Ultimately these higher costs would be passed on to PNG consumers in the prices that they pay for imported goods and services.

The cruise shipping sector provides valuable income to urban and rural areas in PNG. Whilst still relatively small the market is growing. Special interest educational cruises are growing globally and PNG is well placed to capitalise on this market. Potential and existing operators need to be targeted to further develop this sector and encourage additional calls by existing operators. Port facilities need to be upgraded to take account of future potential cruise ship business. Coordination of calls at a Provincial level needs to be improved to ensure that industry opportunities are maximised when it comes to on shore excursions and expenditure and that visitor safety is ensured. As with other forms of tourism enormous damage can be done by one or two isolated incidents involving the safety of tourists and operators will quickly move to alternative destinations if problems arise. Adequate security

[34] PNG Tourism Sector Issues Paper – PNGTPA 2005

arrangements need to be provided for tourists at all times and guides and tour operators should be adequately trained and licensed.

Visas requirements can also deter cruise ship visitors who may need a visa prior to disembarking in the provinces, but may not have been able to obtain one in their home country. This therefore reduces the potential economic benefits of cruise ship visits and may deter visitation from this market, visa requirements for cruise ship passengers should be waived.

Commercial passenger ferry services within PNG are provided by two companies that serve the main routes and operate in the islands and along the north coast. These are Starships (PNG) (also known as “Rabaul Shipping”) and Lutheran Shipping (“Luship”) although Luship in recent times scaled back on the scope of its operations to concentrating only along the Morobe coastlines. Passengers’ fares are unregulated and therefore left to the market. A passenger levy was recently introduced by PNG Harbours Ltd (“PNGHL”) which was approved by the ICCC under the existing Regulatory Contract applying to PNGHL. Some concerns were expressed about the charge although it refects a recovery of costs of providing the port services and was balanced by a reduction in the charges applying to other port services provided by PNGHL. The levy is applied by PNGHL on the ports of POM, Lae, Alotau, Oro Bay, Kimbe and Kavieng, and does not apply to visiting cruise ships.

Domestic shipping can play an important role in tourism development, if reliable and safe services are provided. Independent travellers in particular will use shipping as an alternative to air transport and some potential exists in PNG to develop packages and tours based on this concept.

4.3.6 Infrastructure Investments

Aviation

In PNG, most of the airports and terminal facilities are owned and operated by the government through the Civil Aviation Authority (“CAA”). The CAA owns and operates 21 major airports in PNG. Some remote district airfields and landing strips are either owned by local and Provincial Governments or privately owned and operated by commercial interests. Whilst there are seven designated international airports, currently Jacksons Airport in Port Moresby is operating as an international airport. The primary tourism issues associated with aviation infrastructure include:

- The current state of the airport infrastructure and facilities; and
- The lack of appropriate tarmac space, aircraft and passenger side services;

Airport infrastructure, particularly runways, requires significant ongoing maintenance to ensure that they are at an appropriate standard for the safety of aircraft landing and take-off. The lack of proper aerodrome facilities, navigational aids and the absence of proper passenger arrival and departure facilities and services impede the growth of tourism. The standard and operational condition of airport infrastructure is an area of significant concern within the air transport industry and a barrier to efficient air transport operations in PNG.

The Final Air Transport Report examines this issue in some detail and considers options for the improvement of these facilities and services. The development of infrastructure and its maintenance and repair will need a partnership effort from government, the airline industry, the CAA and sectoral interests such as the tourist industry if it is to focus upon those airports which have the potential to generate the best net benefit/cost outcomes for PNG. The present conditions at airfields are contributing directly to the price that travellers pay for airfares in that there is an additional insurance levy that is applied to airfares in PNG in recognition that domestic airports do not meet the required international standards and therefore have become a higher risk option for insurance companies.

Shipping

Pacific countries including PNG rely on ports and shipping for imports, exports, domestic and regional transport of goods and passengers. Improved productivity and efficiency in port operations result in lower import costs and higher export returns. This has a positive effect on the country's economy. On a domestic and community based level, port infrastructure is vital in the transport of goods and produce across multi sectors from rural and coastal regions to urban centres for sale and consumption.

From a purely marine tourism perspective, the development and upgrade of appropriate port and related infrastructure including adequate ports and berth facilities for larger cruise ships is a key issue. Goods and services for tourist consumption can be transported most effectively by sea.

There are currently 16 declared ports owned and operated by the Government through PNGHL and an additional number of smaller landing sites along PNG's mainland coastline and surrounding 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.

Once again, the current depleted state of facilities provided at these ports as well as the security and safety of seafarers and tourists gives rise to significant concern within the industry.

PNGHL is currently regulated under a Regulatory Contract which includes service standard requirements and a roll out of new capital works across its network of port facilities. The ICCC and the government need to ensure that PNGHL meets these service requirements and in the process removes any disincentive that inadequate port services can place upon greater use of the ports by cruise ships operating in the Pacific region.

Road infrastructure

Whilst the country's geographical terrain has limited the extent of its road network, road travel is the most cost effective means of travel. Road networks in PNG are dependent upon government funding for maintenance and their further development. In recent years, poor funding and prioritisation of road maintenance arrangements at national and provincial levels have contributed to poor road quality across the country.

In addition to the need to maintain and upgrade the existing road infrastructure, there is a need to build new roads to link major cities and centres in a direct effort to increase economic activities between those centres with a spin off to increasing travel to tourist destinations across Provincial regions. The total road network of PNG has expanded in the past 25 years by an average of 99 km a year to about 28,000 km in 2000[35]. The limited growth in road length continues to leave a large part of the population without access to roads. The actual roads are frequently disrupted due to floods, landslides or collapsed bridges or more fundamentally, become unusable as a result of neglected maintenance.

The National Department of Works is responsible for the construction, maintenance and upkeep of designated national roads and highways whilst other aerial and intra-provincial roads fall under the jurisdiction of Provincial Governments. The main highway in PNG is the Okuk Highway which links the five highland provinces between Morobe and Madang. The deterioration of the road infrastructure including the security and safety of travellers has been the subject of grave concern in recent times.

Major highways and national roads in PNG have been earmarked for significant rehabilitation under the Government's Medium Term Development Strategy and it is acknowledged that the Government has in recent times increased funding for the upgrade of infrastructure. Road maintenance and infrastructure upgrade, including access bridges, has received substantial funding through donor agencies[36] and this funding now needs to be applied in the appropriate manner to achieve the desired outcomes in terms of road restoration and improvement.

The upgrading and repair of roads can have an important impact on tourism and the type of tourist activities that can operate in PNG. Whereas in previous years when the road network was in a better state of repair and security on the roads was at a higher standard, tourist buses could traverse vast distances on internal roads within the country, this is now no longer possible. As a consequence, tourist are wholly reliant on air travel for internal transport within country or coastal shipping along the coastal areas or between islands. New markets for tourist are constantly arising. For example, PNG shares a land border with Indonesia. The cross border flow of tourist and short term visitors from Indonesia into Vanimo consists mainly of short term visitors and particularly surfers who are attracted to the surfing attractions along the West Sepik coastlines. However, the potential exists with the opening of the border and the agreement that has been reached on motor vehicle insurance and licensing matters for vehicles which travel between PNG and Indonesia, for new forms of tourism involving travellers who might travel through PNG and on to Indonesia, or make short trips into Indonesia from PNG.

[35] Asian Development Bank, Report and Recommendation to PNG for the Road and Maintenance and Upgrading (Sector) Project, October 1999

[36] A number of donor agencies have provided funding to infrastructure development of the last ten years including the Australian Government, World Bank and the Asian Development Bank.

4.3.7 Passenger Processing and Visitor Visas

There has been substantial discussion on visa processing and the costs of visitor's visas to PNG. Many tourist destinations in the Asia and Pacific regions, including Fiji and Bali, do not require tourists to obtain a visitor visa provided that their total length of stay is less than 30 days. In other countries, including Australia, Vietnam and Cambodia, visitor visas continue to be charged to tourists from target markets.

The issue of a K100 fee for a visa is not insurmountable for a market which is less price sensitive. The key issue for many potential tourists is the process and time required to obtain a visa, particularly when visitors are increasingly making late travel decisions.

The requirement to obtain a visa to visit PNG through a PNG consulate or Honorary Australian consul can be viewed as an impediment for many travellers, as the process can be cumbersome and lengthy, taking considerably longer than service standards, particularly for visitors travelling at shorter notice periods (which is an increasing global trend for bookings). Many countries now allow tourists to receive an entry permit on arrival and PNG needs to develop an exempt list, based on risk assessment with priority given to countries that are major tourist generating markets for PNG (i.e. Australia, New Zealand, Japan, European Union and USA). Airlines would need to be informed that visas for bona fide tourists from certain countries can be obtained on arrival in PNG to ensure that passengers were allowed to board the relevant flights.

Easy access to online visa application documentation and associated information would be a marked improvement on current processes. To date PNG TPA and other PNG tourism websites do not have direct links to these documents, with the exception of png-tourism.com (a new site set up for PNG tourism in Australia which links directly into the PNG High Commission website). Other wise the only other access to visa applications online are the PNG High Commission, Embassy or Honorary Consul websites, however only some provide the visa application forms and some do not.

It is recommended that the "official tourism destination website" will allow users to download visa applications and associated documentation in PDF format, and that the website contains the addresses, contact details and direct links to all High Commissions, Embassies and Honorary Consuls in the world. This process will ensure that the information and visa application process is simplified for the tourist/traveller. In order to be consistent it would also be recommended that all Official PNG High Commission, Embassy and Honorary Consul websites have the visa applications available to download by the general public.

It is understood that the Department of Foreign Affairs and Immigration have recognised that there is a need for visa issuing procedures to be streamlined and are actively trying to address this issue. A new technology based Border Management System will be installed throughout all PNG consuls by the first quarter of 2007 in an effort to integrate all existing systems (that were previously stand alone) and will centralise them with an interface in Port Moresby allowing real time transfer of visa processing information.

The requirement to obtain visas can also deter cruise ship visitors who may need a visa prior to disembarking at various spots along the coast as part of a day visit to a particular location, but may not have been able to obtain one in their home country. This therefore reduces the potential economic benefits of cruise ship visits and may deter visitation from this market. Visa requirements for cruise ship passengers should be removed or subject to arrangements which effectively allow passengers from cruise ships to disembark for a period of say up to 12 hours before rejoining the ship and continuing their voyage.

Removal of visa fees for all bona-fide tourists could be difficult to implement however may be viable in the long term.

The arrivals process for visitors in Port Moresby can be slow and confusing and does not create a positive initial image for visitors. Little information is available to guide tourists on arrival, and the operation of the immigration clearance desks, although sign posted, can be a little confusing for a first time traveller who finds that people seem to go to any one of the six processing terminals regardless of their passport status. It has been confirmed that all stations will receive new electronic passport readers and computers, which will enable a more efficient process for arriving passengers.

Additionally, it is recommended that having more immigration officers at the airport at the time of large aircraft arrivals (relatively infrequently, but likely to cause staffing problems elsewhere within the immigration department), will facilitate the increasing numbers of tourists that seek visas on arrival. This approach would facilitate the processing of tourist, and with appropriate online computer technology will still allow the desirable screening of people seeking to enter PNG.

Tourists arriving for the first time in PNG need to be given a positive, welcoming environment to facilitate their entry into the country and generate a general positive perception of the country from first contact. Signage needs to be clear, and the necessary processing of new arrivals needs to be as streamlined as possible. Government , together with CAA and Airports Authority are addressing issues of terminal layout to better manager passenger flow, baggage handling and improve general appearance at Jacksons airport.

4.3.8 Utilities

Public utilities play important role in servicing the tourism industry as well as other industries. PNG's public utilities have suffered for a number of years from poor planning and maintenance, although there have been recent signs of improvement. This is particularly evident for the water and sewerage sector where there is evidence of improved management and planning to handle the needs of major centres and smaller urban settlements.

For the electricity sector, the process of reform and improvement has taken a little longer than desired, although processes are currently underway to improve the reliability and coverage of the nation's electricity network. The emergence of new suppliers of electricity in areas outside of the designated exclusive area for supply by PNG Power, and the gradual acceptance of the need to underpin the capacity of PNG

Power with appropriate management and policy arrangements will contribute to improved levels of services. PNG still suffers from a heavy reliance upon diesel generation for is electricity despite having access to hydro facilities at Sirinumu and Ramu. The discovery and proving of commercial quantities of natural gas and the eventual availability of this resource within main centres and in particular Port Moresby will contribute to cheaper electricity generating options. However, the need to maintain back up facilities as a safeguard against failure of the national electricity network, and the reliance on ever increasingly costly diesel fuel to power generation, places PNG tourist operators at somewhat of a disadvantage to their overseas competitors in terms of the cost of this essential utility service.

PNG has also not had a particularly reliable and effective telecommunications network, particularly in remoter regions. The requirement of tourists to access information on likely travel destinations over the internet and their desire for the use of good communications systems while in country has placed PNG in a less than competitive environment as the telecommunications network in country has been generally regarded as poor.

The Internet is increasingly becoming the major method of information gathering by consumers and the trade, as well as a significant distribution mechanism for tourism operators. Internet access in PNG is generally poor, particularly in rural areas; this is a major impediment to operators, particularly small and medium sized ones, who could best utilize the Internet as a marketing tool. Slow connections make costs exorbitant for many operators; most countries are now operating on broadband with resulting improvements in connections.

A process of reform is underway within the telecommunications sector in PNG which should see increased efficiency and effectiveness in the industry. The ICCC is currently preparing to release two new additional mobile phone licences following a Government policy decision to liberalise the mobile telephony segment of the industry. The two new operators will commence operations in April 2007, and together with the existing government owned operator, will be required to roll out a mobile network that will cover all the main centres, provincial capitals, minor centres and many of the remote areas across the country over the next five years. This is expected to give much better telecommunications coverage to areas currently not serviced by the incumbent operator, Telikom, and will also likely bring opportunities for additional value added services which will enhance the communications opportunities from areas outside of the main centres. At the same time, Telikom, in response to the emerging competitive market, is acting to fast track much of its outstanding maintenance work, improve its international connection linkages, and introduce additional services including VSAT services for remote areas unable to access direct line services on the existing Telikom network.

These developments will greatly improve the telecommunications facilities in PNG and will assist in overcoming the problems that the industry has had in advertising and promoting its own services over the internet, and in offering visitors access to facilities that will allow them good telecommunication links back to their home countries. These developments will also contribute to telecommunications charges moving down towards more internationally comparable rates.

Key Recommendations

Air Transport

- Tourism industry participants to build on the success of others in negotiating cost effective transport/tour packages with competing airlines (both in PNG and overseas) to achieve transport cost savings that can be passed through to tourists. ICCC to facilitate these discussions within the trade practices and competition promotion provisions of ICCC Act dealing with collaborative market behaviour by competing businesses.
    - ICCC to subject the Code Share arrangement between Air Niugini and QANTAS to competition benefits test
- Upgrade and undertake maintenance of existing airport infrastructure to a "fit for purpose" basis backed by a commercial justification for the investment in terms of its future demand prospects.
    - Access to concessional loans and funding to be subject to full cost/benefit assessment
- Develop and implement a ten-year plan for the enhancement and development of the facilities at Jacksons Airport.
    - cost-benefit analysis of options required as a prerequisite
- Support the establishment of new and existing air services with coordinated product and destination marketing

Sea Transport

- Facilitate additional cruise shipping services through the identification and targeting of potential operators and proactive marketing program.
- Reduce the cost of cruise shipping operations by government covering the cost of providing immigration and customs services for operators in non designated points of entry.

Land Transport

- Implement and enforce standard fares and minimum service standards for PMVs and taxis
- Encourage the development of 'elite' taxi/chauffeured hire car services through existing taxi networks or other tourist facility operators

Visa Processing and Infrastructure Issues

- Introduce a system of visa exemptions based on country risk assessment with initial priority given to major tourist markets of Australia, Japan, USA, and member countries of the European Union.
    - Ensure that the "official PNG tourism destination website" includes PDF formats of:

- Visa Applications
- Instructions on the completion of a visa application and related costs
- General Travel information – ranging from Insurance requirements to medical precautions

All of which can be downloaded easily by the end user.

- Ensure that the "official PNG tourism destination site" lists all the PNG Embassies, High Commissions and Honorary Consuls and has direct links to their websites
- Ensure that all PNG Embassy, High Commission and Honorary Consul websites have visa applications and associated documentation can be downloaded.

Utilities

- Give public support for the current business and management reform programs underway within Telikom PNG Ltd, PNG Power Ltd and PNG Harbours Limited designed to improve their overall operating and incentive efficiency.
  - ICCC to enforce the minimum performance standards required under the existing regulatory arrangement.
- Implement the opening up of the telecommunications sector to competition through the issuance of two additional mobile licences to operate from April 2007
  - Enforce the requirement for the roll out of the new mobile telephony networks to be established by the new entrants into this industry

4.4 Human Resource Development

Facilitate training and quality education programs, which meet industry needs, improve skill levels and create awareness of the benefits of tourism.

Objectives

- Improve the coordination of training between stakeholders including government, the industry and training providers
- Ensure that training and education relates to the needs of the industry
- Create greater awareness of the tourism sector at all levels including communities, resource owners and youth
- Improve the quality of tourism training and increase opportunities for accessing training on a full and part time basis
- Upgrade the capacity of existing tourism and hospitality training institutions

- Apply standards and accreditation to tourism products and services to meet international benchmarks

Tourism employs high levels of skilled and semi skilled workers; however little official data is available of the total size of the labour force employed. Part of the difficulty lies in the cross sectoral nature of tourism and in classifying those employed in activities which make up the tourism sector.

A pool of professionally trained and skilled labour is a fundamental prerequisite for the development of tourism. The majority of tourism and hospitality training is undertaken by the larger tourism operators in-house, who (in some instances) run their own courses as well as provide significant on the job training.

Formal training in tourism and hospitality is mainly centred on three training centres in PNG. One is at Lae Technical College, which has a School of Tourism and Hospitality, offering three-year diploma courses in different disciplines. Further vocational training is also provided through other private providers including the Institute of Business Studies in Port Moresby, as well as facilities in Milne Bay and Kimbe. Tertiary courses in Tourism Management are provided through Divine Word University and TAFE Global Courses are available through a private institution in Milne Bay. Employment rates for graduates are high from most institutions with a strong demand from existing and new operators for those who have completed their studies. The initial indications are that intake rates could be increased to cope with the existing demand for trained graduates.

Increased tourism marketing efforts will not create sustainable demand, unless PNG can deliver products that are attractive and internationally competitive. In terms of human resources this means ensuring that there are sufficient numbers of trained personnel at all levels that can deliver the international standards required. There is a tremendous need to upgrade the skills of people in the industry in many areas, including business management, marketing and tour guiding, as well as general hospitality areas such as customer service and catering. However there is currently no industry wide training needs analysis which identifies in detail the requirements of the sector. The government needs to develop a separate Human Resource Development Plan for tourism based on a thorough training needs analysis.

Growing the tourism sector will place significant demands on the future human resource capacity within the tourism sector. If the goal for the Master Plan is achieved, potentially an additional 13,000 jobs will be generated by 2015. Should this be achieved the demand for skilled and experienced staff will increase, and the demand for well trained new entrants into the industry will escalate. Demand for qualified and well trained new entrants and existing staff is already high, with signs that experienced and qualified staff are highly sought after by individual operators. PNG needs to ensure that sufficient new industry entrants are trained to meet the potential demand and that existing tourism and hospitality employees are provided with opportunities to increase their skill levels to satisfy the potential demand and develop their careers in the industry.

4.4.1 Tertiary Education

Divine Word University has completed a training needs analysis for management training in the tourism and hospitality sector[37]. This study found that many graduates from Divine Word were not obtaining lower or middle management positions within the tourism sector and that many top and middle management positions within the sector are occupied by expatriates. In addition the study found that there was a need to:

- Develop short and long term management courses in response to industry requests;
- Provide a greater focus on visitor expectations, motivations and needs;
- Further develop management and administrative skills in finance, human resource management, training, marketing and property management.

Following the Training Needs Analysis, Divine Word has now moved onto offering a four-year Degree courses aimed at producing graduates suitable for supervisor or managerial positions or able to start their own business. The Divine Word training is management oriented; currently approximately 22 students graduate each year and the employment rate of students is high, with 95 percent gaining employment by the end of the course.

Divine Word is also examining the feasibility of establishing a Diploma in Tourism Management and Development for the other MSG countries, offered through the Tertiary Distance Education Program. The intention is also to develop and provide a series of professional management short courses through this program, which would potentially attract students from the Solomon Islands and Vanuatu.

Divine Word has previously delivered short courses in customer service and front line management, which were developed with the assistance of AusAID. However these short courses were curtailed due to lack of funding and commercial demand. The possibility exists for Divine Word to offer courses on their existing campuses in Port Moresby and Mount Hagen.

4.4.2 Vocational Education and Training

The Department of Education has published its Technical Vocational Educational Training Policy[38], which highlights the priority given to TVET under the MTDS. The Policy document highlights the fact that there is no proper functioning system of vocational training in PNG and that there is a need to develop a national training plan, a national qualifications framework, a clear role for business and industry as well as quality standards in curriculum and delivery. All of these issues are highly relevant to TVET in the tourism and hospitality sector and need to be addressed as a matter of urgency.

[37] Tourism and Hospitality – Needs Analysis Report – Divine Word University July 2002
[38] TVET Policy – Department of Education 2005

Existing institutions, which currently deliver training, are severely handicapped by lack of resources; this is particularly so at Lae Technical College, where both the equipment and buildings need refurbishment and the institution has difficulty recruiting and retaining staff. There is also a shortage of suitably qualified local teachers in tourism and hospitality The Government needs to upgrade the facilities and capacity at these institutions as training standards and facilities have declined over the years. In addition a program to develop more local teachers in tourism and hospitality needs to be incorporated into this capacity building program. Donor assistance should be mobilized to support this as a matter of urgency.

Training needs to be cross-accredited so that there are consistent standards for the industry. Vocational training in particular should be based on competency standards. This system is being practiced in Australia, New Zealand and Fiji.

Currently there is no national system of accredited qualifications, although the Department of Education is currently taking steps to address this through the development of a National Qualifications Framework.

The TVET Division of the Department of Education through Lae Technical College, POM Business College and Kokopo Business College currently offers a Diploma in Hospitality Management. However, the ongoing revision of the Diploma curriculum has constrained the quality delivery of the course program. Diploma subjects have undergone several changes and revisions during Syllabus Committee Meetings within a short three-year period of implementation. Changes regarding the validity of the topics included, the duration of the respective subjects and the usage of appropriate reference materials have affected the consistency of the program offered. There is a need for more consistent policies in relation to the course curriculum and there is a need to develop guidelines on curriculum development.

The syllabus structure of various Tourism and Hospitality Certificate and Diploma courses is not skills based. The structure allows only for theoretical learning, which has a tendency to produce students who are theoretically knowledgeable but practically inexperienced.

The current Tourism and Hospitality courses do not have an established structure on *credit accumulation transfer scheme*. This results in non-recognition of credits earned on subjects taken by students transferring between Colleges.

There is no provision for *accreditation of prior learning* for skills and/or knowledge that are acquired by students in the tourism and hospitality from secondary schools. This has resulted to a redundancy or repetition of tourism and hospitality subjects at different levels of education. There is a need to introduce a system of recognized prior learning and transfer of credits.

In addition the current syllabi content excludes relevant areas of study. Opportunities exist to include topics such as Tourism Safety and Security and to link this to social issues such as HIV awareness. Additional areas, which could be included for study, would include Conference Management and Niche Market Development.

In part the above issues in relation to the curriculum content reflect the need for much greater cooperation to be established between the industry and training providers. TPA should facilitate this by establishing a Tourism Industry Training Committee which cold provide input into the development of training in the sector.

Textbooks, handbooks, journals and other reference materials are insufficient to complement and supplement the delivery of tourism subjects. Most reference materials used in local libraries have a publication date from the late 1970's to early 1980's. Sister Colleges such as Lae Technical Colleges and POM Business Colleges utilize different resource materials for the same courses, which has a negative impact on the standardisation of courses. In addition most colleges suffer from an acute lack of computers, computer reservations software and other equipment making practical training and computer based learning difficult for the students.

Currently there is no forum whereby tourism education practitioners can discuss and exchange ideas on tourism and hospitality education and other related issues; this leads to significant variations in teaching methodologies, references and deliveries of tourism training programs and training sessions offered in various Colleges.

Few nationals are qualified to teach the Diploma in Hospitality Management subjects. At Lae Technical College, none of the national staff is qualified to teach tourism subjects in the Diploma Level resulting in difficulties in introducing new tourism subjects. Most of the national teaching staff are grade ten graduates and have achieved teacher training qualifications through the Post Graduate Diploma in Education. Institutions face difficulty in recruiting staff that have both practical tourism industry experience and teaching qualifications, which results in employment of part-time industry practitioners, who have industry exposure but not the necessary teaching qualifications.

The current entry requirements into the existing technical courses are not in line with the National Education Plan (NEP). The students are accepted based on their academic performance in secondary education level. These requirements do not actually reflect the mental, psychological and physiological capacity of the students to pursue a course at the Diploma level. This has resulted to the unconscious application of the so called *selective retention* system whereby the Colleges initially accept a high number of enrolees who are not necessarily qualified and then eventually fail because of their inability to cope with the subjects. There is a need to strengthen screening of students at an initial stage of selection for TVET courses.

Current assessment methodologies are undertaken through theoretical examinations. There is currently no established methodology which allows for the assessment of competencies on practical skills expected of the students by the industry. The National Education Plan calls for diploma courses to be designed for those who are already in the workplace. This would facilitate the use of Technical Colleges as trade testing centres, to assist the National Apprenticeship Trade Testing Board (NATTB) in the assessment of competency standards in the identified core trade areas including tourism and hospitality.

4.4.3 Other Training

The TPA has also provided ad hoc training for operators in areas including small business management and marketing (with the assistance of SPTO and NZAID in recent years). Skills development in tourism small business management, marketing and basic customer service areas including tour guiding and food hygiene, is critical to the development of tourism and particularly in engaging PNG nationals in small business development. Whilst the work conducted by TPA is to be commended, much of the training is not sustainable; there is a need to develop short courses and integrate them into the existing institutions. TPA's role should focus more on the coordination of tourism and hospitality training and policy rather than delivery.

Small-scale community based tourism projects will provide the basis for much of the product development in PNG. Training needs fall broadly into four areas: marketing, product design, management and operations. Specific training programs need to be developed to meet the needs of communities in remote areas. It would also be useful to facilitate secondments between enterprises and organisations, which encourage the spread of expertise across the country, including between the smaller operators and the larger tourism operators.

Tourism Awareness

TPA has been delivering Tourism Awareness Training in number of Provinces. Whilst there has been a high level of interest at a Provincial level the training has taken place without clearly specified objectives or performance measures. Long-term sustainability of the training is an issue; individual Provinces need to take responsibility for delivering basic awareness training to communities and other involved in the industry at a local level. This requires the Provinces to commit resources to this type of program and for a 'train the trainer' program to be implemented by the TPA within each Province. There is undoubtedly a great need for the wider delivery of tourism training and awareness among communities, resource owners and key stakeholders in the Provinces. Awareness training is also required among key decision makers in the government at a national and provincial level.

In the longer term tourism education on tourism needs to start in secondary and even primary school level. Currently no specific topics are covered in relation to tourism at either level; initially the secondary school curriculum should be revised to incorporate a basic course on tourism, covering the industry structure, visitor needs and opportunities for income generation.

Linking To Industry Standards

There are no formal regulations for tour operators or recognised system of qualifications for tour guides. A formalised system of accreditation for tour operators exists in other Pacific countries, such as the Cook Islands, but currently PNG relies on a more general system of review of competency, through the issuing of business licences. This is providing only limited protection for consumers and a formal system of regulations needs to be designed and introduced for tour operators and inbound operators.

Tourism and hospitality training needs to be linked to the establishment of a system of accommodation grading and classification. Such a system needs to have international recognition, but be tailored to meet local circumstances in PNG. TPA has a Standards Committee in place to facilitate the introduction of this system into the country in the short term, however this now needs to be developed and implemented in order for standards and accreditation to be enforced.

Key Recommendations

- Establish an Industry Advisory Committee to assist in curriculum and policy development.
- Undertake a national tourism industry Training Needs Analysis to identify critical areas of education and training needs for the hospitality and tourism industry in PNG, identify gaps existing in courses currently available and provide recommendations to the education and tourism sectors on policy changes and funding options for the provision of additional courses, teachers and facilities.
- Consider the development of specialist training facilities in the country.
- Introduce a greater focus onto practical learning experiences within existing courses.
- Provide support for existing public institutions to upgrade courses and facilities, to build local institutional capacity and to increase the availability of training opportunities.
- Introduce a basic tourism course into the primary and secondary education syllabus.
- Design and implement short courses for those working in the industry and facilitate distance education.
- Conduct an ongoing employment/labour survey for the tourism sector to monitor and measure employment in the sector.
- Introduce a country wide ongoing tourism awareness program and build Provincial capacity to deliver awareness programs at the local level.
- Build capacity within existing institutions to deliver short courses in business management, operations, marketing and finance, which are specific to the tourism industry and suitable for community based tourism projects.
- Develop consistent training standards within the country with the introduction of national certification and competency-based training.
- Link training to industry standards and regulations in the accommodation and tour operating sectors.

- Create a website for the public and tourism education practitioners to access available information on training opportunities and material and exchange ideas on best practice.

4.5 Institution and Industry Partnerships

Develop new institutional structures and capacity within the public and private sector to facilitate tourism development at the national and provincial level.

Objectives

- Facilitate a 'whole of government' approach involving public and private sector stakeholders, to the implementation of a coordinated strategy to develop the tourism sector.
- Focus on destination marketing and promotion through improved coordination and cooperation between public and private sectors for marketing activities.
- Facilitate niche based industry networking and cooperation.
- Increase the focus on and coordination of tourism policy and planning.
- Improve facilitation and coordination of tourism development at the Provincial level.

4.5.1 National Tourism Task Force

Although TPA is the lead tourism agency, a wide range of government agencies are involved in areas which impact upon tourism development. Little public/private sector or inter governmental coordination has been undertaken in the past and mechanisms need to be found to implement the outcomes from this Plan, as well as other key initiatives.

Fiji has adopted a model where a high level committee of public and private sector representatives is chaired personally by the Prime Minister; officials and stakeholders have to report quarterly on the progress of the implementation of their tourism development plan. This type of approach needs to be adopted in PNG to demonstrate the commitment to the development of the tourism sector from the top level of government. The PNG Tourism Task Force should be formed as soon as the final Master Plan is endorsed by the NEC, with PNGTPA acting as temporary Secretariat until the Tourism Policy Secretariat is formed.

4.5.2 Tourism PNG

Limited input has also been provided by the private sector into destinational marketing; following models successfully implemented in other countries; it would be beneficial to separate the destinational marketing function from the broader government policy role. Destinational marketing should be undertaken by a separate new body which is industry driven; this new marketing body would be called 'Tourism PNG'.

However because of the small scale of the sector government will still need to provide a substantial budget for destinational marketing to create a positive image and wider awareness of PNG in key source markets. . This revised structure would encourage cooperatively funded initiatives and a more strategic approach. Under the new structure the industry associations should be allowed to nominate their own representatives directly onto the Board for the new tourism marketing body.

The proposed Board structure for the new marketing body is as follows:

- Ministry of Tourism – one representative
- PNGDA – one representative
- PNG Surf Association – one representative
- PNGTIA – one representative
- PNGTOA – one representative
- PNG Chamber of Commerce and Industry – one representative
- International airlines – one representative each

Consideration should also be given to the inclusion of a representative from a national hotels association, should one be established by the industry.

The new marketing body ('Tourism PNG') should be responsible only for the international marketing of PNG as a tourist destination. Marketing research and collation of visitor statistics should also be a function of the new body. Technical assistance should be sought to upgrade the marketing skills of staff within the new body and to assist with the implementation of the annual marketing plan. The key responsibilities of the new body are outlined below:

- Preparation of a five year marketing strategy and annual tourism marketing plan;
- Coordination of all destinational marketing activities

4.5.3 Tourism Policy Secretariat

Following the separation of marketing and policy functions a Tourism Policy Secretariat would need to be established within the Tourism Ministry to handle policy matters and specifically industry licensing, regulation and standards, sector planning, industry incentives, investment and HRD coordination. Specifically the new Tourism Policy Secretariat would be responsible for:

- Tourism policy analysis and development;
- Tourism planning and coordination of planning with the Provincial authorities and other key government agencies;
- The provision of Secretariat services to the Tourism Task Force;
- Development of industry standards, regulations and licences;

- Coordination of tourism investment policy; and
- Tourism HRD and training policy coordination.

There is a need to develop capacity to implement a wide range of policy initiatives which are documented in this Plan including in quality standards, planning, industry training and product development, at both the national and provincial government levels. Technical assistance should be sought to assist with the establishment and capacity building of staff within the new agency and to develop and implement coordinated work programs relating to the priorities identified within this Plan.

4.5.4 Provincial Tourism Bureaus and Associations

Provincial governments and Tourism Bureaus have a key role to play in the development of tourism through the coordination of provincial level training, product development and information as well as supporting local marketing initiatives. Currently few Provinces or industry associations have the capacity to fully undertake these roles; in addition many Provinces have no formal body or Bureau responsible for tourism and/or provide very limited funding for existing Bureaus. Several are developing provincial Tourism Plans with TPA assistance but capacity and funding for implementations remain as key issues.

The current system of funding and planning provides an inadequate basis for the coordination and development of tourism at the Provincial level; mechanisms need to be found to facilitate support at a Provincial level and potential options may include joint funding by the national and provincial governments of priority activities and initiatives. The proposed Competitive Tourism Development Fund provides one such mechanism. Further details on this arrangement is detailed in page 69 of this Report.

Tourism in PNG cannot develop without strong support from the individual Provincial governments. Currently most Provinces have undertaken little planning and lack commitment to tourism development; in addition they are too often poorly organised and have low levels of organisational capacity. Individual operators are often frustrated by the inability of the Provincial administrations to support tourism. There are some exceptions, such as Milne Bay Province, which has developed a draft tourism plan, established a Tourism Bureau, has a strong industry association and supportive Provincial Government. Partly as a result Milne Bay is also successfully attracting significant donor finance to support tourism development and is leading the way as a model for the other provinces to follow.

4.5.5 Industry Associations

The PNGTIA was established in 2001 as a vehicle to represent tourist industry members and to present a united voice to government. The objectives and purpose of the Association are outlined in its constitution and cites its primary role as being to develop, promote, encourage and stimulate the tourism industry in PNG and its associated services for its members. Current paid up members total 32, with around 85 percent being locally based companies. Membership by smaller operators has declined since membership fees were increased in 2005.

Over the last two years the TIA has been the vehicle for the distribution of TPA allocated funds to the Industry Associations. The PNGTPA allocated 400,000 Kina in 2006 for industry funding administered by the PNGTIA, which in turn was then allocated to the other associations, with the PNGSA and the PNGDA receiving the majority. Funding for both the PNGTIA and the other associations needs to be carefully allocated based on a clear business plan and action program for the year. Funding allocated by TIA should only be for recognised associations and not for individual operator activities.

Individual associations should prepare business plans and tangible performance measures relating to TPA funded activities. Clear criteria also needs to be developed for cooperative activities (particularly marketing) to ensure that the niche product and destination the beneficiaries rather than just individual operators. In addition broad participation is desirable from all sectors of industry and membership benefits may need to be more clearly defined to attract a larger number of small operators.

The PNGTIA should review its Constitution to ensure representation of all sub sectors at the Board level The PNGTIA and other industry associations should prepare an annual business plan which outlines key activities, tangible outcomes from previous activities and performance measures for the next 12 months, as well as criteria for cooperative funding by the individual association for its members activities. Any funding supplied by TPA should be dependent upon this.

The PNGTIA and other associations should develop strategies which allow them to provide member based services which add value to small business operators own activities; training, joint marketing and internet presence may be potential opportunities for such services.

With the exception of the Divers Operators Association and more recently the Surf Association, the tourism operators have in the past not been cohesively organised. The PNG Tourism Industry Association and PNG Tour Operators Association are establishing themselves as credible industry bodies, with the support of the TPA, but broad industry participation is limited. These industry associations have a critical role to play, both as vehicles for strengthening private sector activities and accessing funding and as instruments for providing input and guidance on government policy and destinational marketing. Considerable additional support is required to grow and strengthen the existing institutions; consideration should also be given to the establishment of other associations based on the key niche experiences such as trekking, bird watching, fishing etc as these provide vehicles for networking, joint marketing and sharing of research and information. There is also a need to establish a PNG Hotels Association to represent the accommodation sector.

Niche industry associations should continue to receive funding for marketing activities, subject to an agreed annual program, acquittal and evaluation of activities by TPA. The associations should be encouraged to develop programs for their members and utilize member's funds as well as access other funds (such as donor funding) for implementation. Whilst support funding should be provided for key initiatives such marketing, the cost of providing any Secretariat and support role should be borne by the association members themselves.

Key Recommendations

- Replace the existing Tourism Promotion Authority with a new industry driven body to oversee and coordinate destinational marketing, called 'Tourism PNG' (see Institutions and Partnership section).
- The Board of 'Tourism PNG' should have representation from key industry peak bodies including hotels, airlines, tour operators and niche associations (dive, surfing, Kokoda).
- The Board of the new organisation ('Tourism PNG') should comprise ex-officio members appointed by the major industry associations board.
- 'Tourism PNG' would have responsibility soley for the marketing of PNG as a tourism destination. This would include:
    - Preparation of a five year marketing strategy and annual marketing plan
    - Coordination of all destinational marketing activities including;
        - Marketing research
        - Market representation in key source markets
        - Travel shows and road shows
        - Visiting journalists programs and travel trade familiarisations
        - Internet marketing
        - Coordination of cooperative campaigns and advertising
        - Public relations
        - Coordination of all marketing activities with the private sector at the national and provincial level
- Establish a Tourism Policy Secretariat under the Ministry of Tourism and Culture to be responsible for tourism policy, planning, standards, HRD planning and regulations. The Tourism Policy Secretariat would specifically be responsible for:
    - Tourism policy analysis and development
    - Tourism planning and coordination with the Provinces and other key agencies;
    - Secretariat Services to the Tourism Task Force;
    - Development of industry standards, regulations and licences;
    - Tourism investment policy; and Tourism training policy and coordination.
- Facilitate the development of a Police Media Unit and Tourism Police concept similar to that recently initiated by the RPNG Constabulary

- Strengthen capacity and role of industry institutions and continue with targeted funding (through 'Tourism PNG') as means of encouraging relevant associations and groups to form and undertake marketing activities.

- Encourage industry to establish a national Hotels Association to provide a forum for information exchange on standards, research, and marketing and product distribution.

- Facilitate the establishment and capacity building of Provincial Tourism Bureaus and Provincial Tourism Industry Associations.

- Establish a forum for the national coordination of tourism conservation initiatives

- Encourage the establishment of an association for every major niche product, which will facilitate networking, education and cooperative marketing opportunities.

- Establish the PNG Tourism Task Force to coordinate tourism development and implementation of the Tourism Master Plan under the Chairmanship of the Prime Minister.

5. Implementation Program

5.1 *From Planning to Action*

A prerequisite to the development of a vibrant and growing tourism sector is to have a clearly articulated government policy, which outlines the steps required and allocates responsibility and funding for implementation. Until recently tourism has been developed within a relative policy vacuum in PNG and resources have been applied sparingly. If tourism is to be developed successfully, government ministries will need to allocate resources to the priorities identified in this Plan.

The undertaking of this Tourism Sector Review and development of the Tourism Master Plan is the first stage in supporting the development of the sector, but the key will be in the commitment to implementation and the creation of strong institutions to support investment by the private sector. The implementation of this Plan will require commitment and coordination from a wide range of stakeholders; commitment is required to a '*whole of government*' approach' and to the funding and implementation of this policy from the highest level of government.

The Government should place a much higher emphasis on tourism development in all its policies. The tourism portfolio should receive high status and future ministerial appointments should be given extremely careful consideration.

Implementation of the Tourism Master Plan will be vital and financial resources will be needed for this to happen. This funding should be structured in such a way that ensures continuity in the years to come.

5.2 *National Benefits*

The potential benefits of implementing this Plan for PNG are considerable and have been highlighted earlier in the report. In terms of employment generation alone the impacts would be significant. For example, if the goal of doubling the number of holiday tourists within five years and then doubling the number again after ten years is achieved, the net result would be:

- Tourism would be worth K1.1 billion by 2010 and K1.78 billion in revenue terms by 2015.
- Those on holiday would spend K363 million in 2010 and K727 million in 2015; and
- Total employment in tourism would increase by 4,800 jobs by 2010 and 13,000 by 2015.

In comparison the PNG Gas Project is forecast to generate approximately 400 jobs post construction.

5.3 Co-ordination, Monitoring and Review

Prior to the establishment of the new Tourism Policy Secretariat and 'Tourism PNG', the PNGTPA will be the lead agency to co-ordinate implementation, liaison (with governments, other key agencies and the private sector) and monitoring of this Plan; part of this role will be to work closely with the Department of National Planning to seek funding for the identified priority tourism projects and to work closely with the Department of Treasury to secure government funding for key initiatives. PNGTPA, in conjunction with the Prime Ministers Office, should act as the initial Secretariat for the PNG Tourism Task Force. Once the Tourism Policy Secretariat is established they should take over the role of Secretariat to the Task Force.

The Government will need to establish a process for monitoring the implementation of the Plan and providing feedback to key stakeholders; this can be done as part of the lead agency's responsible for coordination. It is recommended that an annual review of the Master Plan be undertaken and that a major review and that revision be undertaken after three years of implementation.

5.4 The PNG Tourism Task Force

The implementation of this Plan needs to be a collaborative effort between government agencies, the private sector and other key stakeholders. The Government needs to coordinate the implementation of the Tourism Master Plan at the highest level. A Task Force should be established which is chaired by the Prime Minister, and which involves key players from the private sector and heads of government working together. The agencies responsible for implementation of the Master Plan recommendations should report directly to the Task Force and be held accountable for their actions - or lack of it. The Task Force should meet regularly every three months, to review progress.

Action Plans for each of the strategies and key initiatives have been prepared (tables 5,6 and 7), to form the basis of the implementation program for an initial three-year period

5.5 Donor Liaison Committee

Implementation of this Plan will primarily be done by drawing on the resources of the government and the tourism industry, with donor support to supplement those resources.

The development of a sustainable tourism industry in PNG offers the bilateral and multilateral donors a mechanism to achieve many of their articulated objectives. There is a need for close liaison between the government, the industry, NGOs and the donor community in PNG. The scale of the intervention required to implement the recommendations of this Plan means that donor assistance is essential if objectives are to be achieved and if this Plan is to be effective.

Projects for donor funding will aim to achieve sustainable tourism development and specifically address poverty alleviation. Donor assistance will be sought where there is an essential need to achieve sustainable growth, a need expressed by the private sector, and where resources are not currently available from within the government.

5.6 Priority Tourism Projects

If the tourism sector is to develop and the targets established within this Plan are to be achieved, all stakeholders will need to be committed and invest in the future of the industry. Funding will be required from the national government, though both the recurrent and the development budget, the Provincial administrations, the industry and the donor agencies. A coordinated approach needs to be taken to sourcing funds and prioritisation of implementation.

A number of potential projects have been established as part of the development of this Plan and after extensive consultation with the private and public sectors in the country. These projects provide the basis for implementation of the Master Plan recommendations over the initial three-year implementation period.

These projects also provide a coherent sector development programme which meets the most urgent needs identified through this plan. The indicative cost of this program for the first three years, together with the prioritised sequencing of the individual components is set out in the table below.

5.7 Funding

The total indicative funding for these projects, over the **three** year implementation period, have been separated into:

- Government funding through the government budget process; and
- Activities identified for possible donor funding.

Government Funding

The total indicative amount required from Government towards the sector development program over the three-year period, is estimated to be K30.7 million as outlined below. This figure incorporates the current budgetary appropriation of K8 million that has been provided to the PNGTPA in the 2006 budget, of which K3million will be used to fund the core activities of the new marketing body 'Tourism PNG' and the Tourism Policy Secretariat. A similar budget allocation will be required on an annual basis to meet the core activities of these bodies, which is a total of K24 million over the three years. Thus no real increase in government funding beyond that already provided is required to meet this K24 million. However the Report is recommending that some additional budget funding for specific activities over the 3 year period is desirable, details of which are provided in Table 5.1.

Donor Funding

The total amount sought from donor agencies is estimated to be K8.3 million. As outlined in Table 5.1, in addition to this donor funding of K8.3 million over three years, the plan also envisages additional funding from government or other sources amounting to a further K7 million. Thus, the total additional contribution required above what has already been included in the 2006 Budget, would be K15 million over three years.

Table 5.1: Priority PNG Tourism Master Plan Projects (Kina)

Project Component	2007 Budget (000's)	2008 Budget (000's)	2009 Budget (000's)	TOTAL Budget (000's)
PNG Government Funded Projects				
"Tourism PNG" operations budget	2,000	2,000	2,000	6,000
Tourism Policy Secretariat operations budget	1,000	1,000	1,000	3,000
Existing Marketing Operations	5,000	5,000	5,000	15,000
Sub Total – Existing Budget Allocation for 2006 (Assumed to continue)	8,000	8,000	8,000	24,000
TMP 1 – Tourism Master Plan Coordination and Dissemination	500	500	500	1,500
TMP 2 – PNG Image Improvement Project	1,000	1,000		2,000
TMP 3 – Tourism SME Training Module and Train the Trainer Program		500		500
TMP 4 – Tourism Education and Awareness Program		500	500	1,000
TMP 5 – Development of MICE Strategy		100		100
TMP 6– Provincial Product Database Development and Internet Marketing support	540			540
TMP 7 – Support for Competitive Provincial Tourism Development Challenge Fund		500	500	1,000
TMP 8 – Feasibility for Establishment of Tourism Land Trust Board			75	75
Government Projects - Sub Total	***10,040***	***11,100***	***9,575***	***30,715***
Donor Funded Projects				
TMP 9 – National Training Needs Analysis and tourism industry HRD Plan.	100			100
TMP 10 - Capacity Building in Provincial Tourism policy/planning.		500	500	1,000

Project Component	2007 Budget (000's)	2008 Budget (000's)	2009 Budget (000's)	TOTAL Budget (000's)
TMP 11 - Institutional reform and strengthening of 'Tourism PNG' and 'Tourism Policy Secretariat Unit'	500	500	500	1,500
TMP 12 – Capacity Building for Tourism and Hospitality Vocational Training Providers	500	500	500	1,500
TMP 13 –Implementation of Tourism Satellite Accounts			300	300
TMP 14 – Development of Cruise Ship Market Development Strategy	100			100
TMP 15 – Community Based Tourism 'best practice' policy/planning guidelines and implementation.		90		90
TMP 16 –Capacity Building in Tourism Marketing		600	600	1,200
TMP 17- Support to facilitate industry associations participation in overseas marketing activities	500	750	750	2,000
TMP 18 – Capacity building in tourism research, statistics and pilot visitor surveys		130		130
TMP 19 - Accommodation Classification and Grading Implementation Program	100	175	100	375
Donor Projects – Sub Total	*1,800*	*3,245*	*3,250*	*8,295*
TOTAL	***11,840***	***14,345***	***12,825***	***39,010***

5.8 Action Plans

A series of action plans have been developed to reflect the key initiatives identified in each of the five thematic areas. These action plans summarise the implementation program for the initial five-year phase. The Action Plans identify:

- The key initiative and follow up actions required;
- The stakeholders with responsibility for implementation;
- The budget required; and
- The priority for implementation as follows:
    - High Priority – within the next two years
    - Medium Priority – within the next five years

There will be a need to revise these plans annually to reflect progress in implementation as well as new priorities, which have arisen. The Tourism Task Force should review progress on implementation of the Action Plans.

Table 5.2: PNG Tourism Master Plan – Implementation Schedule – Marketing the Destination

Strategy: Increase Demand By Raising Awareness of PNG as a Destination and Increasing Product Information and Distribution.				
Recommendation	**Key Actions**	**Responsibility**	**Indicative Budget (K)**	**Priority**
1. Review and implement a comprehensive and ongoing research and statistics program to underpin marketing strategy and the evaluation of marketing activities	• Develop expanded annual market research program based on key data requirements; • Review arrivals/departure card data.	Tourism PNG/DS	800,000 pa	High
2. Review the current market positioning and TAG line by key source market and test with consumers and the travel trade.	• Appoint advertising agency to design alternative branding • Test alternatives in key markets	Tourism PNG	300,000	High
3. Implement the niche based PNGTPA Five Year Marketing Plan based on an annual Marketing Plan with a strong destinational brand and focus resources in key target markets and product areas and engage professional representation in key source markets.	• Establish Tourism Marketing Committee • Develop interim plan for 2007 • Incorporate new branding into 2008 and subsequent program	Tourism PNG	5,800,000 pa	High
4. Develop partnerships with other neighbouring and regional tourism organisations to leverage market presence and expertise.	• Conduct assessment of joint promotional opportunities • Prepare and sign MOUs with relevant partners and undertake cost effective joint promotions. • Leverage global/regional memberships with SPTO, PATA and WTO.	Tourism PNG	Within existing resources	Medium

Strategy: Increase Demand By Raising Awareness of PNG as a Destination and Increasing Product Information and Distribution.				
Recommendation	**Key Actions**	**Responsibility**	**Indicative Budget (K)**	**Priority**
5. Implement a coordinated internet promotional strategy, supported by comprehensive product information collation.	• Review PNGTPA site and develop and implement internet marketing strategy including niche database development • Review current product information and update site	Tourism PNG	1,000,000 pa	High
6. Build capacity within the PNGTPA and Provincial Tourism Bureaus in web based marketing and collation of Provincial product databases.	• Design project for technical assistance to build internet marketing capacity • Seek donor funding through the Donor Committee	Tourism PNG	1,200,000	High
7. Ensure industry input into an annual marketing plan through rigorous consultation	• Hold annual provincial meetings to review destinational marketing program and activities and format annual plan	Tourism PNG	100,000 pa	High
8. Review the effectiveness of all PNGTPA marketing activities including overseas representatives and utilise the results in developing future promotional plans	• Prepare TOR and appoint external marketing auditor through tender process • Conduct review and incorporate results into annual marketing plan	Tourism PNG	75,000	High
9. Revise the functions of PNGTPA and amend the Act to separate marketing from policy and planning and establish a new industry driven body to oversee and	• Review PNGTPA Act to reflect new functionality and proposed structure • Draft revised legislation for	Tourism PNG/MT	50,000	High

Strategy: Increase Demand By Raising Awareness of PNG as a Destination and Increasing Product Information and Distribution.				
Recommendation	**Key Actions**	**Responsibility**	**Indicative Budget (K)**	**Priority**
coordinate destinational marketing (see Institutions and Partnerships Action Plan)	parliamentary approval • Restructure PNGTPA and establish new separate marketing and policy and planning bodies			
10. Establish a Special and Sporting Events Unit within PNGTPA and develop a strategy for the MICE and sporting events markets, with improved event coordination and programming.	• Liaise with SEC establish unit and establish unit • Establish a special events Working Group and prepare marketing strategy and incorporate into annual marketing program	Tourism PNG/SEC	50,000	High

Table 5.3: PNG Tourism Master Plan – Implementation Schedule – Product Development and Investment

Strategy: Encourage Investment in New and Existing Tourism Products by Increasing Competitiveness and Profitability.				
Recommendation	**Key Actions**	**Responsibility**	**Indicative Budget**	**Priority**
1. Introduce revised tourism investment incentives for domestic and international investment in new and existing tourism plant as follows: • Company tax exemption • Tax credit for infrastructure development • Removal of tariff imposts on inputs onto the tourism industry • Accelerated depreciation allowance • Tax deduction for staff training • Stamp duty • Zero Rate GST on Airfares and other charges	• Revise existing regulations in relation to specified taxation • Publicise new incentives domestically and internationally	IRC/IPA	Existing resources	High
2. Remove all visa fees for cruise ship passengers making short term shore visits within PNG.	• Review and revise appropriate legislation and regulations • Publicise internationally	MFA/DoI/DPM	Existing resources	High
3. Develop a pre-approved country visa exempt list based on risk assessment, with a priority given to Australia, USA, UK, Germany and Japan.	• Review and revise appropriate legislation and regulations • Publicise internationally	MFA/DoI	Existing resources	High
4. Facilitate the development of Provincial Tourism Plans, which identify	• Consult with provinces and develop TORs for Plan	Tourism Policy Secretariat/PAs	150,000 pa (excluding PA	High

Strategy: Encourage Investment in New and Existing Tourism Products by Increasing Competitiveness and Profitability.				
Recommendation	**Key Actions**	**Responsibility**	**Indicative Budget**	**Priority**
assets, product development opportunities and cohesive actions for development.	• Contract consultants and liaise with Provinces individually • Incorporate outcomes into review of TMP Action Plans as appropriate		contribution)	
5. Introduce a specific fund for new projects and the upgrading existing SME tourism projects through the Rural Development Bank	• Establish lending and assessment criteria and promote availability	RDB/Tourism Policy Secretariat	From existing funds	Medium
6. Coordinate information on tourism investment opportunities, funding sources and business support services available in the country.	• Establish tourism contact point within IPA and collate required information • Incorporate into IPA and TPA websites	IPA/Tourism Policy Secretariat	From existing resources	High
7. Design and implement a Community Based Tourism Program including establishing standards, practical training, awareness and marketing and product distribution support.	• Design project components • Seek donor funding for implementation	Tourism Policy Secretariat/UNWTO	2,000,000	High
8. Introduce an accommodation grading and classification system.	• Design standards system, pilot test and develop legislation/regulations • Undertake Provincial training and awareness program	Tourism policy Secretariat/PNGTPA	375,000	High
9. Establish a unit within the Tourism Policy Secretariat to negotiate head leases with traditional resource owners and package sites for investment and development and develop proforma lease and operating agreements for resource owners and investors.	• Identify key sites through Provincial plans • Liaise with provincial officers and lands dept • Contract consultant for development of standard	Tourism Policy Secretariat	150,000 per annum	High

Strategy: Encourage Investment in New and Existing Tourism Products by Increasing Competitiveness and Profitability.				
Recommendation	**Key Actions**	**Responsibility**	**Indicative Budget**	**Priority**
	agreements • Conduct negotiations and pilot head lease arrangements			
10. Establish a Competitive Tourism Development Fund for Provinces and Industry Associations.	• Develop criteria for funding and publicise results to Provinces and Associations.	Tourism Policy Secretariat/TIA	2,000,000 per annum	High
11. Remove the backlog of tourism related cases at the Land Tribunal.	• Establish review procedure to identify relevant cases • Establish priority cases (depending on investment readiness) and timeframe for resolving them	DoL/Tourism policy Secretariat	Within existing resources	Medium
12. Develop regulations and standards for tour and inbound operators as part of the licensing requirements	• Develop TOR for consultants to develop standards and draft legislation	Tourism Policy Secretariat /TOA	70,000	Medium
13. Establish a forum for the national coordination of conservation initiatives	• Establish Tourism Conservation committee • Hold annual forum on Tourism and Conservation	Tourism Policy Secretariat/NGOs/DoE/ TIA	50,000	Medium
14. Provide adequate support to the IPA in ensuring that 'doing business' is a streamlined process.	• Review and streamline business registration and licensing procedures	IPA	Within existing resources	High
15. Develop product development guidelines to assist existing and potential operators build, market and deliver sustainable tourism products and communicate to the industry through training workshops.	• Design TOR and engage consultant • Design guidelines based on key niche products • Hold regional training workshops	Tourism Policy Secretariat/TIA	75,000	Medium

Table 5.4: PNG Tourism Master Plan – Implementation Schedule – Human Resource Development

Strategy: Facilitate Quality Training and Education Programs, Which Meet Industry Needs, Improve Skill Levels and Create Awareness of the Benefits of Tourism				
Recommendation	**Key Actions**	**Responsibility**	**Indicative Budget**	**Priority**
1. Undertake a national tourism industry Training Needs Analysis and develop a national training plan for tourism and hospitality and develop recommendations on course development and delivery.	• Establish Industry Advisory Committee (see below) • Develop TOR and engage consultant to conduct TNA and sector training plan	Tourism Policy Secretariat/DoE/TIA	150,000	High
2. Establish an Industry Advisory Committee to work with the relevant agencies to assist in curriculum and policy development.	• Prepare TOR for Committee and hold regular meetings	Tourism Policy Secretariat/DoE/TIA	Within existing resources	High
3. Review existing VTET curriculum and Introduce a greater focus onto practical learning experiences within tourism and hospitality courses.	• Review existing course content through IAC • Revise existing courses based on IAC and TNA advice	DoE/Tourism policy Secretariat/TIA	Within existing resources	High
4. Provide support for existing public institutions to upgrade tourism and hospitality courses and dedicated training facilities, to build institutional capacity and to increase the availability of training opportunities.	• Produce development program for exiting technical institutions for facility upgrade and capacity building • Increase recurrent budget allocation for tourism and hospitality technical training	DoE	To be determined	High
5. Introduce a basic tourism course into the primary and secondary education syllabus.	• Liaise through Industry Advisory Committee • Develop TOR for development of material • Incorporate into teachers training program	Tourism Policy Secretariat/DoE	Within existing resources	Medium

Strategy: Facilitate Quality Training and Education Programs, Which Meet Industry Needs, Improve Skill Levels and Create Awareness of the Benefits of Tourism				
Recommendation	**Key Actions**	**Responsibility**	**Indicative Budget**	**Priority**
6. Conduct an ongoing labour survey for the tourism sector to monitor and measure employment.	• Design questionnaire and implement survey • Disseminate results and monitor	DoL/Tourism Policy Secretariat	Within existing resources	Medium
7. Introduce a countrywide tourism awareness program and build Provincial capacity to deliver awareness programs at the local level.	• Review existing material and conduct train the trainer program for Provincial tourism officers	Tourism Policy Secretariat/Provinces	1,000,000	High
8. Design specific course material and build capacity within existing institutions to deliver short courses in key areas such as business management, marketing, operations and finance, which are specific to the tourism industry and suitable for community-based projects.	• Review outcomes of TNA and existing course content • Prepare TOR and program to develop short technical courses • Implement train the trainer program and deliver short course content	Tourism Policy Secretariat/DoE/VTPs	2,000,000	High
9.Develop consistent training standards and link to industry standards within the country with the introduction of national certification and competency-based training.	• Incorporate competency based training principles into all technical training • Review existing training and develop certification program • Review and redesign curriculum content in the light of new regulations and standards	DoE/VTPs/Tourism Policy Secretariat	300,000	Medium
10. Create a website for the industry and tourism education practitioners to access available information on training opportunities and material and exchange ideas on best practice.	• Contract web design company to develop site and publicise	Tourism Policy Secretariat/DoE	50,000	Medium

Table 5.5: PNG Tourism Master Plan – Implementation Schedule –Transport and Infrastructure

Strategy: Improve the Competitiveness and Standards of Transport Services to Increase Market Demand and Improve Visitor Satisfaction.				
Recommendation	**Key Actions**	**Responsibility**	**Indicative Budget**	**Priority**
1. ICCC to facilitate tourism operators access to competitive airfare structures for tourists (through the ICCC Act).	• ICC to meet with airlines and TIA to review competitive airfare structures	ICCC/TIA/Airlines	Within existing resources	High
2. ICCC to subject the Code Share arrangement between Air Niugini and QANTAS to a competitive benefits test.	• Review proposed agreement	ICCC	Within existing resources	High
3. Upgrade airport infrastructure to handle international passenger movements at the five approved Provincial gateways subject to economic and financial analysis.	• Review existing infrastructure and develop and implement upgrading program for the five airports	CAA	63,000,000	Medium
4. Develop and implement a ten year plan for the facilities at Jacksons Airport, based on cost benefit assessment of the options).	• Ascertain future user needs and develop strategic master plan including scheduled upgrade program • Undertake cost benefit analysis of options	CAA	To be determined	Medium
5. Support the establishment of new and existing air services (including air charters) with coordinated product and destinational marketing and further development of special events	• Integrate destinational marketing and product marketing support with new market opportunities created by new air services within PNGTPA marketing plan and activities	Tourism PNG/Airlines /Operators	Within existing resources	High
6. Facilitate additional cruise ship services through the identification and targeting of potential operators and a proactive	• Develop a Cruise Ship Strategy targeting potential new operators and implement	Tourism PNG	100,000 plus existing resources for marketing	High

Strategy: Improve the Competitiveness and Standards of Transport Services to Increase Market Demand and Improve Visitor Satisfaction.				
Recommendation	**Key Actions**	**Responsibility**	**Indicative Budget**	**Priority**
marketing program	targeted marketing program			
7. Reduce the costs of cruise shipping operations by government covering the cost of providing immigration and customs services for operators in non designated points of entry.	• Define cruise ship operators and introduce regulations to remove charges	DPM/Provinces	From existing resources	Medium
8. Give public support for the current business and management reform programs underway to improve their overall operating and incentive efficiency	• Enforce the minimum performance standards required under the existing regulatory arrangement	ICCC/SOEs		
Implement the opening up of the telecommunications sector through the issuance of two additional licenses to operate by April 2007	• Enforce the requirement for roll out of the new mobile network to be undertaken by operators	ICCC/Telikom Operators		
9. Implement and enforce standards fares and safety standards for PMVs and taxis.	• Ensure that existing vehicle roadworthy regulations are enforced commencing with tour operator vehicles • Conduct regular safety checks on vehicles	DoT	Within existing resources	High
10. Ensure infrastructure maintenance relates to tourism priorities identified through national and provincial development plans and is based on net benefit analysis	• Coordinate annual infrastructure maintenance plans with priorities identified in Provincial Tourism Plans.	DoT/PWD /Provinces/PNGTPA	Within existing resources	High

Strategy: Improve the Competitiveness and Standards of Transport Services to Increase Market Demand and Improve Visitor Satisfaction.				
Recommendation	**Key Actions**	**Responsibility**	**Indicative Budget**	**Priority**
11. Encourage NCDC and the Provincial Authorities to undertake beautification schemes at key access points and facilities.	• Provincial Authorities to develop maintenance program based on Provincial Tourism Plans.	PAs	Within existing resources	High

Table 5.6: PNG Tourism Master Plan – Implementation Schedule – Institutions and Industry Partnership

Strategy: Develop Institutional Structures and Capacity Within the Public and Private Sector to Facilitate Tourism Development at a National and Provincial Level.				
Recommendation	**Key Actions**	**Responsibility**	**Indicative Budget**	**Priority**
1. Revise the functions of the PNGTPA and separate the marketing function from policy and create a new tourism marketing body ('Tourism PNG') as a government and private sector partnership.	• Review PNGTPA Act and draft new legislation • Prepare Corporate Plan and budget for Tourism PNG	PNGTPA/PSC/MT	To be determined	High
2. Establish a Tourism Policy Secretariat within the Ministry of Tourism and Culture to be responsible for tourism policy and planning, standards, HRD planning and industry regulations.	• Prepare proposal for PSC endorsement and budget • Establish interim staffing structure and premises • Prepare Corporate Plan	PNGTPA/MT/PSC	To be determined	High
3. Facilitate the development of a Police Media Unit and Tourism Police concept.	• Establish role of police, locations, strength • Determine funding implications • Develop training program and selection criteria	RPNGC	To be determined	Medium
4. Continue to fund targeted activities and build capacity within industry associations including development of member based commercial services and annual business plans performance measures.	• Develop business plans for all registered tourism industry associations and fund key initiatives • Develop proposals for donors based on individual association priorities	IA/Tourism PNG	500,000 pa	High

Strategy: Develop Institutional Structures and Capacity Within the Public and Private Sector to Facilitate Tourism Development at a National and Provincial Level.				
Recommendation	**Key Actions**	**Responsibility**	**Indicative Budget**	**Priority**
5. Build capacity within key central and provincial tourism agencies through coordinated support program.	• Design and seek donor funding to implement a comprehensive capacity building program in tourism development and marketing at a central and provincial agency level	Tourism PNG/Tourism Policy Secretariat/Pas	2,000,000	High
6. Establish a national Hotels Association to provide a forum for information exchange on standards, research and marketing and product distribution.	• Establish committee to oversee constitution, develop membership package and business plan • Appoint Secretariat and undertake recruitment drive	Tourism Policy Secretariat PNGTPA/TIA/Hotel Operators	50,000	High
7. Facilitate the establishment of Provincial Tourism Bureaus and industry Provincial Tourism Associations	• Develop standard constitutions • Conduct Provincial workshops	Tourism Policy Secretariat	75,000	High
8. Encourage the establishment of an association for all major niche products, to facilitate networking, education and cooperative marketing opportunities.	• Liaise with operators and create networks • Prepare pro forma constitutions • Facilitate workshops to establish associations	Tourism policy Secretariat/TIA	100,000	Medium
9. Establish the PNG Tourism Task Force to coordinate tourism development and implement the Tourism Master Plan.	• Develop TOR and membership structure for Task Force • Hold quarterly review meetings	PMD/PNGTPA	100,000 pa	High

Appendix A: Sector Review Terms of References - ICCC

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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 adopted 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 organization 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.

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 to 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 form 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

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

Appendix B: Masterplan Terms of References - PNGTPA

CONSULTANCY TERMS OF REFERENCE

DEVELOPMENT OF A NATIONAL TOURISM MASTER PLAN FOR PAPUA NEW GUINEA

1. 0 Background

The economy of Papua New Guinea is heavily dependent on the export of copper, gold, oil and timber which collectively account for 70% of exports annually. As a result the economy is vulnerable to external shocks. Agriculture is largely subsistence and supports about 85% of the population. The services sector contributes 35% to annual GDP. The performance of the tourism sector measured by growth in number of tourist arrivals shows that the sector experienced the highest increase in tourists in 1996 from 10% growth in 1995 to 45% in 1996. The 1996 record has remained unprecedented in a country that suffered a general decline in tourist arrivals between 1997 and 2000. Tourist arrivals are estimated to have grown at an average 5% annually between 2001 and 2004.

The current structure of PNGs exports highlights the need for diversification. Tourism is a potential non-traditional export sector. The country has a tourism capital base that is underutilized. At the beginning of 2005, the Government of PNG adopted a three pronged development strategy which comprises good governance, poverty reduction and export driven economic growth. One of the export growth sectors that Government has identified is tourism and this has been reflected in the country's medium term strategy for 2005 and 2010.

Flowing from the current broad development strategy and medium term strategy, PNG is faced with the challenge of defining a vision and objectives for developing the tourism sector. It also needs to design strategies that will meet the objectives and vision of the sector. These needs will be addressed through development of a national tourism master plan.

2.0 Project Objective

The objective of the project is to develop a national tourism master plan for PNG. Commonwealth Secretariat through the Commonwealth Fund for Technical Cooperation (CFTC) is providing assistance to the PNG Tourism Promotion Authority to develop a national tourism master plan. Part of this assistance will go towards the hiring of a short term consultant to assist PNG develop a national tourism master plan.

3.0 The Client

In PNG, the project will be led by the Tourism Promotion Authority (TPA). TPA was established as a corporate body by the Tourism Promotion Authority Act of 1993. The overall function of TPA is to foster the development of tourism in PNG in a manner that balances economic, social, cultural and environmental interests. TPA is involved in tourism policy formulation and implementation, marketing and promotion, sector planning, sector investment promotion and tourism impact monitoring.

4.0 Key Deliverables

The main project output will be a national tourism master plan. The consultant will be expected to submit and discuss reports at different stages of the project.

5.0 Scope of Work

The following areas will be considered in developing the master plan:

- (i) Market analysis and development;
- (ii) Product development;
- (iii) Niche' analysis;
- (iv) Community based tourism;
- (v) Tourism sustainability;
- (vi) Infrastructure development;
- (vii) Human resource development, and
- (viii) Public and private institutional roles and set up.

The specific tasks that will be carried out during the consultancy will include the following;

- (i) Set a strategic vision for the sector;
- (ii) Review performance of the sector over the past years;
- (iii) Review of enabling environment;
- (iv) Identify the constraints affecting the competitiveness of the sector and ways of addressing the constraints;
- (v) Determine areas of competitive advantage and ways of enhancing the advantage;
- (vi) Audit the tourism assets, attractions, activities, services, facilities and infrastructure and suggest improvements;
- (vii) Develop product development strategy;
- (viii) Develop a marketing strategy (keeping in mind the importance of developing a strategy that will counter the negative security perceptions that have been created in regional and global markets);
- (ix) Identify key tourism projects for development and recommend incentives to attract developers;
- (x) Assess adequacy of tourism data and propose improvements to data capturing and storage;

(xi) Determine the skills required for the sector in view of existing skills in order to determine the skills gap;
(xii) Consider the effects that development of the tourism sector will have on the local environment and culture and propose measures that will address the local concerns;
(xiii) Determine institutional requirements for implementing the master plan in both the private and public sector;
(xiv) Assess the resources required to implement the master plan; and
(xv) Develop an action plan.

6.0 Composition of Teams

(i) Proposed teams should comprise expertise in the core areas of a tourism master plan as shown section 5 above. The proposed team members must have previously participated in development of tourism master plans or strategies in their areas of competency. Experience acquired in working on similar assignments in developing island countries will be an added advantage.

7.0 Level of Effort and Contractual Terms

(i) The required level of effort is ten (10) person months.

(ii) The successful firm will be contracted by the Commonwealth Secretariat but will work closely with TPA. Commonwealth Secretariat terms and conditions will apply. An all inclusive contract will apply to cover consultant's fees, the applicable United Nations daily subsistence allowance and economy class air fares. The total budget allocated to provision of this consultancy service is £70,000.