

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(76) 448 final

Brussels, 8th September 1976

RECOMMENDATION FOR A DECISION OF THE COUNCIL AND OF THE
REPRESENTATIVES OF THE GOVERNMENTS OF THE MEMBER STATES
MEETING IN THE COUNCIL AUTHORIZING THE COMMISSION TO
OPEN NEGOTIATIONS WITH PAPUA NEW GUINEA

DRAFT

INTERNAL AGREEMENT AMENDING THE INTERNAL AGREEMENT ON
THE FINANCING AND ADMINISTRATION OF COMMUNITY AID SIGNED
ON 11 JULY 1975

(submitted to the Council by the Commission)

ACCESSION TO THE ACP-EEC CONVENTION OF LOME BY PAPUA NEW GUINEA

(Commission Communications to the Council concerning the opening of negotiations)

1. Papua New Guinea made a formal request for accession to the Lomé Convention, under Article 90 of the Convention on the 3rd December 1975. The request was formally approved by the ACP/EEC Council of Ministers at its first meeting in Brussels on the 14th and 15th July 1976.
2. During exploratory talks with representatives of Papua New Guinea it became clear that the country was ready to accept in principle all the obligations involved in accession to the Convention.

The only matter which might be raised by Papua New Guinea in the course of negotiations proper concerns trade, given the de facto existence of preferential arrangements with the former metropolis. Since, however, the country has stated that it intends in any case to abolish these preferential arrangements eventually, their existence does not seem to be a problem which cannot be resolved satisfactorily during the negotiations.

Since there are no other special problems, it would appear that the negotiations could take place in a relatively short time, leading rapidly to the signing by the Community of an accession agreement with this country.

The Community would thus be responding to the desire which has been expressed for accession to the Convention at the earliest possible date.

3. The negotiations will be conducted in close contact with the ACP States, which will be kept informed by exchanges of views as necessary. The Commission considers that, although it is not a legal requirement of the Convention, when the negotiations have been completed the accession agreements should then be the subject of consultation with the ACP Group. The accession agreements will subsequently be signed and the necessary ratification procedures begun.

4. With a view to enabling the negotiations with this country to be opened as soon as possible, the Commission recommends that the decision of the Council and the Representatives of the Member States meeting in the Council be adopted, authorizing the Commission to open negotiations with Papua New Guinea, and the relevant directives issued.

While the negotiations with the applicant State is being conducted, the Member States should agree on the provisions amending the Internal Financial Agreement in order to enable the necessary procedures for ratifying those provisions to be undertaken at the same time as those for the accession agreement (Annex).

5. The Commission considers that as soon as the accession agreements have been signed, pending completion of the ratification procedures in the Member States, the Community and the applicant countries should agree, for the purpose of their trade, to apply autonomously the trade arrangements provided for by the agreements, as the Community and the 46 ACP States did from 1 July 1975.

Lastly, the Commission considers that, in the same spirit, transitional measures similar to those adopted between the Community and the ACP States from 1 July 1975 as regards financial and technical cooperation in particular should also be applied.

RECOMMENDATION FOR A DECISION OF THE COUNCIL AND OF THE
REPRESENTATIVES OF THE GOVERNMENTS OF THE MEMBER STATES
MEETING IN THE COUNCIL AUTHORIZING THE COMMISSION TO
OPEN NEGOTIATIONS WITH PAPUA NEW GUINEA

THE COUNCIL OF THE EUROPEAN COMMUNITIES AND THE REPRESENTATIVES OF THE
GOVERNMENTS OF THE MEMBER STATES MEETING IN THE COUNCIL,

Having regard to the Treaty establishing the European Economic Community,
and in particular Article 238 thereof,

Having regard to the recommendation from the Commission,

Whereas Papua New Guinea has applied to accede to the ACP-EEC Convention signed
in Lomé on 28 February 1975,

Whereas the first paragraph of Article 90 of the Convention stipulates
that, subject to the approval of the ACP-EEC Council of Ministers, an
agreement between the Community and a State whose economic structure
and production are comparable with those of the ACP States may provide for
the accession of that State to the Convention,

HAVE DECIDED AS FOLLOWS :

Sole Article

The Commission is hereby authorized to open negotiations for the conclusion
of an agreement between the European Economic Community and Papua New Guinea
on the accession of that country to the ACP-EEC Convention of Lomé.

The Commission shall conduct these negotiations in consultation with the
Representatives of the Member States and in accordance with the directives
annexed hereto.

DIRECTIVES RELATING TO THE NEGOTIATIONS WITH PAPUA NEW GUINEA
FOR THE CONCLUSION OF AN AGREEMENT ON THE ACCESSION OF THAT
COUNTRY TO THE ACP-CEE CONVENTION OF LOME

1. The agreement to be concluded shall provide for the accession of Papua New Guinea to the ACP-EEC Convention of Lomé.

2. The agreement may stipulate the date on which certain of its obligations, in particular concerning trade, would become applicable to Papua New Guinea.

3. (ECSC products).

D R A F T

Internal Agreement amending the Internal Agreement on the financing and administration of Community aid signed on 11 July 1975

THE REPRESENTATIVES OF THE GOVERNMENTS OF THE MEMBER STATES OF THE EUROPEAN ECONOMIC COMMUNITY MEETING IN THE COUNCIL,

Having regard to the Treaty establishing the European Economic Community, hereinafter referred to as the "Treaty",

After consulting the Commission,

Whereas the Agreements between the European Economic Community and respectively signed on , hereinafter referred to as the "Accession Agreements", provide for the accession of to the ACP-EEC Convention signed in Lomé on 28 February 1975;

Whereas pursuant to Article 90 of the Convention the accession of a State must not adversely affect the advantages accruing to the ACP States signatory to the Convention, inter alia from the provisions on financial and technical cooperation and the stabilization of export earnings;

Whereas the Member States have now decided to increase by million units of account the amounts made available to the European Development Fund (1975);

Whereas the Internal Agreement on the financing and administration of Community aid signed on 11 July 1975 should therefore be amended,

HAVE AGREED AS FOLLOWS :

.../...

Article 1

Article 1 (2) and (3) of the Internal Agreement on the financing and administration of Community aid is hereby amended as follows :

2. "The Fund shall consist of million units of account to be financed by the Member States as follows :

- " Belgium million u.a.
- " Denmark million u.a.
- " Germany million u.a.
- " France million u.a.
- " Ireland million u.a.
- " Italy million u.a.
- " Luxembourg million u.a.
- " Netherlands million u.a.
- " United Kingdom million u.a.

3. " The amount stated in paragraph 2 shall be allocated as follows :

- " a) million u.a. for the ACP States, comprising :
 - " million u.a. in the form of grants
 - " million u.a. in the form of special loans
 - " million u.a. in the form of risk capital
 - " million u.a. in the form of transfers pursuant to Title II of the Convention.
- " b) million u.a. for the countries and territories and the French overseas departments, comprising :
 - " million u.a. in the form of grants
 - " million u.a. in the form of special loans
 - " million u.a. in the form of risk capital
 - " million u.a. as a reserve.
- " c) million u.a. in the form of transfers for the countries and territories, pursuant to those provisions of the decision which concern the system for stabilizing export earnings.

p.m. EIB loans.

.../...

Article 2

This Agreement shall be approved by each Member State in accordance with its own constitutional requirements. The Government of each Member State shall notify the Secretariat of the Council of the European Communities when the procedures required for its entry into force have been completed.

This Agreement shall enter into force, provided that the procedures referred to in the preceding paragraph have been completed, at the same time as the Accession Agreements.

Article 3

This Agreement, drawn up in a single original in the Danish, Dutch, English, French, German and Italian languages, each of these texts being equally authentic, shall be deposited in the archives of the Secretariat of the Council of the European Communities, which shall transmit a certified copy to each of the Governments of the Signatory States.

-8-

DOCUMENT

concerning directives for negotiations with

PAPUA NEW GUINEA

TITLE I

TRADE COOPERATION

Upon the accession of Papua New Guinea to the ACP/EEC Convention of Lomé, the trade cooperation provisions thereof shall apply to them in the same manner as to the ACP States.

TITLE II

COMMODITY EXPORT EARNINGS

Upon accession to the ACP/EEC Convention of Lomé, Papua New Guinea shall be entitled to the benefit of the provisions of Title II thereof in the same manner as the ACP States.

TITLE IV

FINANCIAL AND TECHNICAL COOPERATION

Upon accession to the Lomé Convention, Papua New Guinea shall be entitled to the benefit of the provisions of Title IV thereof in the same manner as the ACP States.

./.

To that end the EDF shall be increased bymillion EUA, by raising of the Member States' contributions provided for in Article 1 (2) of the Internal Financial Agreement of 1975 in line with the ad hoc breakdown adopted in 1975 for the determination of the Member States' contributions to the 1975 Fund.

Provision shall be made for the amounts in Article 1 (3) (a) of the Internal Financial Agreement to be adjusted proportionately to the increase in the 1975 Fund.

OTHER PROVISIONS

Upon accession to the Lomé Convention the following provisions and related texts thereof shall apply to Papua New Guinea :

- TITLE III : industrial cooperation
- TITLE V : provisions on establishment, services, payments and capital movements
- TITLE VI : the Institutions
- TITLE VII : general and final provisions, save for Article 87, the agreement to enter into force on the first day of the second month from the date on which the instruments of ratification of the Member States and of Papua New Guinea are lodged and :
- the act of conclusion of the agreement by the Community,
 - the protocols annexed to the Convention,
 - the declarations annexed to the Final Act.

PROVISIONS FOR IMPLEMENTATION OF THE LOME CONVENTION

Upon accession to the Lomé Convention, Papua New Guinea shall bring into force the decisions and other implementing provisions adopted by the Institutions of the Convention, and the Community shall make the Regulations adopted for the benefit of the ACP States applicable to Papua New Guinea.

TRANSITIONAL PROVISIONS

In accordance with the communication addressed by the Commission to the Council concerning the opening of negotiations with Papua New Guinea, it would be well that the Community and the applicant States should exchange letters undertaking each for its part to apply unilaterally the trade arrangements in the ACP/EEC Convention of Lomé.

Points arising with regard to accession by Papua New Guinea
to the Lomé Convention

1. It emerged from the exploratory talks with representatives of Papua New Guinea that the country was prepared to accept in principle all the obligations entailed by accession to the Convention.

2. Titre I of the Convention (trade cooperation)
Trade arrangements - Position or desiderata of the acceding country

Unconditional implementation of Art. 7 of the Convention as Papua New Guinea does not grant preferential treatment to any country.

3. Title II of the Convention (Stabex)

3.1. Position of Papua New Guinea

The following products falling under the Stabex Regime are regular exports from Papua New Guinea :

- cocoa beans
- copra
- timber
- coffee
- palm kernels
- palm oil
- tea

Desiderata of Papua New Guinea with regard to the operation of the stabilization scheme can be stated briefly as being inclusion among the least developed, landlocked or island ACP countries referred to in Article 24 of the Convention (application of 2.5 % dependence and fluctuation thresholds as provided for in Article 17 (2)), in view of the country's level of development and its particular problems in consequence of its

./.

island character and its poor internal transport infrastructure.

3.2. Position of the Commission

Information to hand indicates that the products in respect of which Papua New Guinea might be eligible for Stabex intervention are :

- cocoa beans
- copra
- coffee
- timber.

The country also exports tea, palm kernels, palm oil, coconuts and peanuts, but in the recent past none of these have accounted for 2.5 % or more of total export earnings.

In view of insular character of the country, the 2.5 % dependence and fluctuation thresholds would apply automatically to Papua New Guinea.

4. Title IV of the Convention (financial and technical cooperation)

As concerns financial and technical cooperation it must be borne in mind that Papua New Guinea must not be treated differently from the other ACP countries as to form and consistency of aid.

With regards to the eventual inclusion of Papua New Guinea among the least developed ACP States referred to in Article 48 the Commission considers that, though favourable arguments could be put forward in its favour, this is not justified, in view of the income per capita and the potential resources of this country.

- | | | | |
|----|---|---|------------------------|
| 5. | Title III
Title V
Title VI
Title VII | } | No particular problems |
|----|---|---|------------------------|

Papua New Guinea

I. INTRODUCTION

Papua New Guinea comprises the eastern half of the island of New Guinea, the Bismarck Archipelago (New Britain and New Ireland being the largest islands), two islands of the Salomon Group (Buka and Bougainville) and the Trobriand, Woodlark and Louisiade islands.

It has a land area of 178.000 sq. miles (460,842 sq. km) and a population of 2,75 million (June 1975 est). As in 1971 Papua New Guinea had an indigenous population of 2,4 ms the average increase has been of the order of 2,7 % per annum. The population is divided into 300 ethnic groups speaking 700 languages.

The non-indigenous population, mostly Australian expatriates which had totalled 55.000 at end of July 1971, decreased to about 39.000 at end June 1975.

Urban population increased from 232.000 in 1971 to 333.000 in 1975, a rise of 44 %. This increase has been partly caused by the widening differential between minimum wages on the urban and rural areas.

It is estimated that the total work force in the monetary sector, including expatriates fell slightly from 338.000 in 1971 to 331.000 in 1974 .

Until 1971 the labour surplus resulting from urbanisation was absorbed into the work force ; since their rapid employment growth has creased, due partly to the withdrawal of Australian Capital which accompanied the Australian migration.

The economy which had developed as a result of foreign investment (mainly Australian) in agriculture, mining and to a much lesser extent industry, has relied on the provision of skills from outside. At the higher levels of skills, the composition of the work force is still heavily biased towards expatriates, with Papua New-Guineans generally occupying the semi skilled and unskilled positions.

However, expanding school and training facilities are supplying more Papua New Guineans qualified for higher level jobs and also Britons, New Zealanders, Filipinos are replacing Australian expatriates in some of the professional positions.

As the number of school leavers begins to rise and the differential between urban and rural wages widen the problem of unemployment is likely to become more serious.

Migration to the towns is imposing heavy strains on existing urban facilities, especially housing, and the concentration of migrants in ethnic settlements within the towns has accentuated the problem of law and order. There has been a considerable increase in crime and drunkenness which has severely strained the resources of the authorities. Expenditures on the police force has been increased by almost 50 % in each of the past two years.

II. ECONOMIC STRUCTURE

The major characteristics are the dominant role played by Bougainville's exports of copper in the balance of payments and the large share taken by Australian aid in financing public sector expenditures. Sales of copper abroad account for about 60 % of total merchandise exports, while imports are relatively small, consisting mainly of replacement machines, petroleum and vehicles. The mine gives employment to 3,250 indigenous workers, but its direct income and employment effects on other sectors are marginal ; its major contribution consisting in the payment of company taxes, royalties and dividends to the central government, since a substantial part of the profit earned is repatriated abroad.

The copper deposits on Bougainville Island are mined by the Bougainville Copper LTD (BCL) ; 53,6 % of which is owned by Conzinc Rio Tinto of Australia, with the Papua New Guinea Government taking a 20 % share of the equity. The remainder of the equity is held by individuals and corporations, both in Papua New Guinea and overseas.

Commercial production of copper commenced on 1st April 1972. The mine now produces about 170,000 MT of copper metal equivalent annually. The entire production is exported in the form of concentrates as there are no smelting facilities in Papua New Guinea. The value of copper exports in 1973/74 amounted to K 316 m ; 69 % of total merchandise exports. However prices for copper wirebar which had risen to a peak of K 2,15 per kg in April 1974, declined to K 0,88 in June 1974. Overall the value of copper exports declined by 25 %, and the contribution of the Bougainville sector to GDP was reduced to about 20 % as against more than 30 % in 1973/74. The copper is marketed under long-term sales contracts with five countries : Japan, West Germany, Spain, Mexico and Yugoslavia (the Yugoslav and Mexican contracts are due to expire shortly).

Exports, mainly plantation crops, copra, cocoa and coffee were generally successful in 1974/75 but this was not sufficient to offset either the decline in copper exports or the increase in imports.

Copra

Papua New Guinea is the second largest exporter of copra in the world, though it is only the sixth largest producer in Asia.

All coconut products are exported as copra, except 25.000 tons of coconut oil and 15.000 tons of coconut meal, that are exported from Rabaul. Record prices for copra during the first half of 1974 led to a substantial accumulation of fund, but with the decline of world prices, the Government stepped in with a K 50 per ton subvention, and in March 1975 wawed the collection of export tax on copra and coconut products.

Coffee

World prices fell less sharply in 1974/75 than those of other primary commodities, and Papua New Guinea exports rose by 13 % in volume and 16 % in value. Papua New Guinea subscribes to the International Coffee Agreement. Price expectations are favourable for the next two years and export earnings are expected to increase.

Cocoa

Output rose sharply in 1974/75, despite a drop in prices in the middle of 1975 and the value of cocoa exports reached K 40.3 m, 72 % above 1973/74 levels. A Cocoa Industry Board was established in 1975 for the purpose of setting up a stabilisation fund.

Rubber

The industry remained depressed throughout 1974/75 and exports in that year fell short of previous year's total by 28 %.

Timber

Exports also declined, reflecting lower demand abroad, especially in Japan.

Manufacturing

This sector is small in Papua New Guinea consisting mainly of enterprises producing beer, cigarettes, carbonated beverages and rubber shoes. Output of these items have increased recently though manufacturing firms suffer from the size of the local market, which is effectively restricted by transport difficulties to the particular enclave in which the enterprise is located. Furthermore it has proved difficult to train and maintain an indigenou labour force. These difficulties combined with the sharp increases in wages and material costs as well as the uncertainty concerning government plans regarding investment in industrial

undertakings have inhibited new investment.

Trade Agreements

Papua New Guinea and Australia signed a Memorandum of Understanding on Trade and Commercial Arrangements in December 1973 to preserve the existing special and general tariff treatment and other existing arrangements during the self-government period. This agreement has recently been extended pending the conclusion of a long term agreement.

When the U.K. joined the EEC, it was agreed that tariff preference to which Papua New Guinea was eligible would be maintained until 1977.

Conclusions

Papua New Guinea has a considerable potential for economic growth, especially in agriculture where only 2 % of the land area is under cultivation. The soil is fertile, rainfall ample and most tropical products can be grown readily.

If more land is to be brought into cultivation, changes will have to be made in the system of landtenure. Distribution of food within the country is a major problem ; the main producing areas in the Highlands having no outlet to Papua and Port Moresby. The economy cannot achieve its potential until interval communications are greatly improved and extended.

PNG's mineral resources have not yet been fully explored, but it is clear that they are extensive. There are extensive timber resources both on the mainland and in the islands. Exploration of mineral wealth began only recently and in addition to the discovery of large copper deposits in Bougainville, important deposits have been discovered in the western part of the mainland, where 3 major ventures are being considered. Oil and gas exploration is also under way both onshore and offshore, though no commercially viable fields have yet been found. Several hydro-electric projects have been undertaken on the numerous large rivers of the mainland, which when completed would be more than sufficient to meet energy requirements for the foreseeable future. The exploitation of these resources will, however, require large amounts of capital and a great deal of technical expertise. Hitherto, Papua New Guinea has relied on Australian aid and investment, Australian personnel and technical expertise. The economy made up of a series of enclaves has developed a cost structure and consumption patterns similar to those of Australia - characterised by a high propensity to import, vulnerability to inflation abroad and concentration of investment in the extractive industries.

Management and development of such an economy, difficult in any circumstances, is made more difficult after independence because popular aspirations have been raised, while domestic administrative arrangements are still in a state of transition and the international economic environment has become less favourable. The fall in commodity prices, especially copper has entailed a substantial loss of foreign exchange receipts. The budget out-turn will depend for some years to come on the flow of Australian aid and medium-term arrangements for Australian aid are being discussed between the two Governments. If the development potential of the country is to be fulfilled, the main objective of the government should be to balance its budget, especially if world recession continues by implementing policies for economic diversification, import substitution and self-help.

-18-

Papua New Guinea

ANNEX 3

Basic Data

Area and Population

Area	178.000 sq.Miles (460,842 sq.km)
Population (end June 1975)	2,75 million
Annual rate of population increase	2,7 %
Population density	15/sq.m
Monetary sector work force (1974) * including expatriates)	331,529 *
Monetary sector work force as % of population	12 %
Main Towns : Port Moresby (the Capital)	pop. (1971) 76,507
Lae (New Guinea)	" " 38,706
Rabaul (New Britain)	" " 26,518
Goroka (New Guinea)	" " 12,066
Arawa & Kieta (Bougainville)	" " 14,431

Currency

PNG own currency introduced on 19 April 1975
the Kina : 1 Australian dollar
toea : 1 Australian cent

Exchange rate : 1 K : US \$ 1.25 (Jan. 76)
1 K : SDR 1.12 (1974/75)

Gross domestic Product (million Kinas)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
GDP - Market Component	483.1	495.0	621.0	841.8	-
Non-market Component	138.6	150.5	165.2	162.0	-
GDP - Current market prices	621.7	645.5	786.2	1003.8	996.8

Gross National Product

GNP per capita (1973) SDR 290 410 US \$

N.B. Perhaps 60 % of the population live within the subsistence sector, where product, if measured in terms of prices ruling elsewhere in S.E. Asia may not exceed A \$ 70-80 per capita.

Outstanding Public Debt (millions K)

Total debt	92.9	136.1	169.7	213.6	269.8
External debt	56.3	96.7	127.7	165.6	211.4

./.

- 2 -

ANNEX 3Debt service Payments

Interest and Repayments (K)	8.4	8.3	13.4	11.4	20.2
Interest and amortisation as % of Revenues	11.3	9.8	14.4	8.3	11.2

Central Government Finance (mil. K)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Revenue	74.2	85.1	93.3	136.7	179.7
Foreign Grants	101.8	108.2	121.8	152.3	137.6
Total revenue	176.0	193.3	215.1	289.0	317.3
Total Expenditure	204.7	233.8	250.4	307.5	374.1
Overall deficit (-)	- 28.7	- 40.5	- 35.3	- 18.5	- 56.8

Balance of payments (mil. K)

Exports	86.4	109.5	267.9	561.1	460.4
Imports	328.3	323.2	243.7	274.1	406.1
Trade balance	- 241.9	- 213.7	24.2	286.9	54.3