IV. TRADE POLICIES BY SECTOR

(1) INTRODUCTION

1. Through its many development plans, the Government has sought to diversify Brunei's economy and create sustainable employment in the non-oil private sector.[1] The Plans have delineated proposals for government investment in infrastructure, development of services, and incentives, all aimed at diversifying the economy and increasing private sector participation. In the 8th Plan covering 2001-05[2], the Government emphasized the need to move the economy away from oil and gas as the primary source of economic activity (and revenue) through the expansion of agriculture and industry and the development of certain industries with the potential to achieve growth. In 2001, the Government identified four priority areas: business services; financial services; hospitality and tourism; and transport and logistics.

2. However, during the period under review, Brunei's economy has become even more heavily dependent on the oil and gas sector, which in 2006 accounted for well over two thirds of current GDP. Despite the Government's emphasis on diversification, the non-oil and gas manufacturing sector remains weak and underdeveloped, and has shrunk from 3% to 1% of current GDP since 2002 (Table I.1). Therefore, it would appear that, overall, Brunei's diversification policy has met with little success.

3. A strong government presence continues in several key sectors of the economy, such as oil and gas, telecommunications, transport, and energy generation and distribution, often in the form of a state-owned monopolies, which can act unencumbered by any competition law. The resulting lack of competition may have affected prices and the cost of doing business in Brunei, although relevant data are not available. The very small size of the domestic market seems to discourage local and foreign participation in the economy and hampers the ability of non-oil and gas industries to achieve economies of scale and thus to compete against imports as well as in export markets. The only other major source of export revenue has been the garment industry, which was established to take advantage of the international quota system under the MFA, but following the expiry of the MFA at the beginning of January 2005, exports have declined strongly.

4. Government figures show continual growth in the labour force, which reached over 180,000 in 2006, up from around 154,000 in 2001 (Table I.3). Of those in employment in 2006, over 43,000 or approximately 25% were employed in the government sector (not including members of the security forces), making the Government by far the largest employer.

5. The private sector remains highly dependent on immigrant labour, primarily from the ASEAN countries, but also from India, Bangladesh, and Pakistan. According to the Government, there were 74,046 foreign workers (temporary residents) in the private sector in Brunei in 2005 (although this figure did not cover maids, drivers, and private gardeners, who are thought to number around 22,000).

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[1] A new Plan is scheduled to be released in 2007 or 2008. There are a number of agencies involved in efforts to diversify the economy and to reduce the size of the public sector. The Ministries of Development, of Industry and Primary Resources and of Finance, along with the Brunei Economic Development Board, are all involved in development planning; in addition, reports from international consultants are often used to investigate development scenarios.

[2] Under the 8th NDP announced in September 2001, total expenditure of B$7.3 billion was approved for the Plan's implementation, of which the Government intended to provide only B$2.9 billion. For the first time, foreign and local investors were to supply the remaining funding. In November 2001, the Sultan announced that an additional B$1 billion would be allocated specifically to economic development projects in 2002.

In 2004, foreign workers accounted for over 80% of the workforce in manufacturing and construction, and between 60% and 70% in personal services, retailing, hotels and restaurants, and agriculture.

6. Brunei Malays (*bumiputera* or "sons of the soil"), who constitute the majority of the population, generally aspire to work in the civil service, in state-owned Brunei Shell Petroleum (BSP), Royal Brunei Airlines, or in more prestigious jobs in the private sector, such as in the banking sector, avoiding the construction industry, agriculture, and other sectors regarded as having low status. In 2004, the Government set up a careers centre with the aim of finding private sector jobs for Bruneians entering the market.

(2) AGRICULTURE, FORESTRY, AND FISHING

7. Agriculture and forestry were the basis of Brunei's economy before the discovery of petroleum in the late 1920s. Sixty years ago more than 50% of the population was employed in the primary sector; that share has now fallen to under 3% (of which more than two thirds are foreign workers or temporary residents).

(i) Agriculture

8. Farming has become a part-time business for most rural families, owing to the availability of more lucrative forms of employment. Brunei's agriculture sector is very small, accounting for under 1% of nominal GDP in 2006; Brunei imports more than 80% of its food requirements.

(a) National Development Plan

9. Government policy is to reduce Brunei's dependence on food imports and to attain greater self-sufficiency in agriculture. The enhancement of long-term food security has been a key objective of the National Development Plans both for food security reasons and to diversify production and exports.[3] Generally, the Plans have sought to: boost domestic production of rice, vegetables, poultry, and livestock; develop the agri-food industry; produce high-value-added products using new techniques; and conserve and protect the country's biological diversity. Foreign investment in agriculture and food processing is encouraged, although it appears that a minimum of 30% participation by local producers is required. The Eighth Plan (2001-05) allocated B$90.5 million (or 1.2% of overall expenditure) for the development of agriculture. There are a number of measures to assist local producers, including subsidized infrastructure facilities such as roads, irrigation, and electricity, as well as inputs such as seeds, fertilizer, vaccines for livestock, and farming equipment; financial and technical assistance is also provided for local producers.

10. Brunei has not notified its Aggregate Measurement of Support (AMS) to the WTO since 1995.

11. The 8th Plan also called for increasing self-sufficiency in vegetables, poultry, livestock, and rice. A goal was set to increase rice production to 1,300 tonnes (3% of local needs) by 2006, when

[3] In particular, the 8th Plan identified halal for processing for export to regional and global markets as a prospective growth industry. A joint Brunei-Australia food production and marketing initiative was announced in February 2005, to develop a niche, high quality, halal export industry. Five MoUs were signed between Brunei and several Australian companies in 2006 and the Brunei Government launched the 'Brunei Halal Brand' in 2007. It has published standards on Halal Food (PBD 24:2007) and several guidelines: Guideline for Halal Certification, Guideline for Halal Compliance Audit, Guideline for Certification of Halal Compliance Auditor, and Guideline for Halal Surveillance Audit (Australian Government Department of Foreign Affairs and Trade, 2007).

production reached 895 tonnes (Table IV.1). The Government encouraged the planting of rice through various schemes such as price support and the provision of improved infrastructure, irrigation, and drainage facilities.[4] With smallholding rice production declining, the Government has initiated a pilot large-scale rice mechanization project aimed at increasing output. It is hoped that once fully mechanized, 30% of Brunei's rice needs will be met by domestic production. Despite such efforts, however, there has not been much investment in agriculture in recent years. According to the authorities, the lack of interest appears to be due mainly to better employment opportunities in other sectors, notably the public sector, as well as unstable prices, limited marketing outlets, and lack of access to start-up funds.

Table IV.1
Agriculture and fisheries production, 2001-07
(Tonnes unless otherwise stated)

	2001	2002	2003	2004	2005	2006	2007[a]
Rice	350	372	547	620	851	895	..
Vegetables	8,920	9,590	10,360	11,158	10,710	9,518	6,356
Fruit	4,140	4,200	4,660	4,516	4,793	3,765	2,834
Buffaloes	194	204	171	375	141	39.6	93
Cattle	14.0	2.0	1.0	35.8	5.1	9.4	2.6
Broiler chickens	15,099	13,685	15,435	17,594	15,419	17,886	14,276
Chicken eggs (million)	91.7	105.9	108.5	106.4	103.7	118.4	..
Capture fisheries	10,343.0	13,833.7	14,541.6	15,681.8	16,096.7	16,924.0	7,706.8
Aquaculture[b]	393.4	407.5	617.4	698.1	540.6	540.3	319
Fish processing industry	273.0	439.4	514.9	478.9	657.5	866.9	375.3

.. Not available.

a January-August.
b Mainly farm prawns.

Source: Department of Economic Planning and Development, *Darussalam Statistical Yearbook 2005*, pp. 129-132; Economist Intelligence Unit (2007), *Brunei Country Profile*; and Brunei authorities.

12. The plan for the development of the poultry industry aimed to encourage the development of small and medium-scale enterprises linked to processing and marketing centres, such as the Mulaut Abattoir, which act as market outlets for poultry producers. The programme emphasized the participation of private enterprise in the development of the industry; government involvement was limited to the provision of basic infrastructure and production-support services. As a result, according to the authorities, Brunei is almost self-sufficient in the production of eggs and poultry.

13. The plan for vegetable production was oriented towards the development of high-value products and higher technology farming, such as protected cultivation. Under the Eighth Plan, the production target for vegetables was 12,700 tonnes (94% of local requirements) and in 2004 vegetable production was estimated at over 11,000 tonnes (Table IV.1). Under the Department of Agriculture's long-term strategic plan, the production target for vegetables is 58,000 tonnes by 2023. The 8th Plan also envisaged the development of small fruit plantations (mainly bananas and coconuts), which could support the development of large-scale plantations in the future. The aim was to increase production to 8,000 tonnes and the level of self-sufficiency to 47% by 2005, in which year production exceeded

[4] To raise rice production, the Government provides an end-product subsidy scheme for rice producers, which was started in 1986. Its main objectives are to: revive paddy growing activities; encourage farmers to return to farming activities; and help rural, low-income families. The end-product subsidy scheme, in which the Government buys back the paddy produced by local farmers at B$1.60 per kg continues to be provided. Funding for the scheme increased from B$289,000 in 2000 to B$1.1 billion in 2006.

5,200 tonnes. Brunei envisages production on fruit farms to increase to 24,000 tonnes by 2023 and the level of self-sufficiency to 50% by 2012. Local production of livestock is low and live cattle are imported for slaughter from a cattle ranch in Australia owned by the Government of Brunei. For religious reasons, the rearing of pigs has been banned since 1993.

(b) Import measures

14. The current MFN tariff is virtually zero for agriculture and fishing (Table AIII.1). Tea and coffee are subject to specific import duties for which *ad valorem* equivalents are not available and are hence not included in this overall tariff average. However, the bound tariff in agriculture is considerably higher than the applied rate, giving the Government scope to raise the applied rates of agricultural products within their bindings. The authorities argue that the difference between the bound and applied rates enables the Government to address domestic food security concerns more effectively by ensuring a meaningful domestic supply and reliable imports from MFN sources. They also believe that the bound tariff enables domestic institutions and enforcement agencies to adapt and adjust their capacity requirements to suit the varying needs for sanitary and phytosanitary requirements when the need arises.

15. Although there are few tariff restrictions, some agricultural products, i.e. rice, sugar, and salt, are subject to import restrictions. Most of Brunei's rice is imported directly by the Department of Information Technology and State Stores under a government-to-government contract, from Thailand. The Government, through the Information Technology and State Stores department, which is under the Ministry of Finance maintains a minimum level of rice and sugar stocks on food security grounds.

16. Imports of beef and poultry are subject to a "food balancing" requirement, whereby the volume of required imports is determined on the basis of local demand for the products and local production. Imported eggs must be stamped accordingly, in order to distinguish them from locally produced eggs. Export restrictions are maintained on rice and sugar. In addition to import and export restrictions, all agricultural products are subject to sanitary and phytosanitary measures, and random checks may be carried out at the border or in Brunei. Imports of all meat and poultry products are subject to Halal requirements and may only be sourced from government-approved abattoirs.

(ii) Forestry

17. Forestry is not economically significant in Brunei, but is important for the conservation of soils, water, wildlife, and the environment. Primary (60%) and secondary (16%) rain forest covers around 76% of Brunei's total land area. The Forestry Act of Brunei (revised in 1984) provides the legal framework for the protection and conservation of forestry resources, and the National Forest Policy (NFP), issued in 1989, guides and governs forestry activities in accordance with international sustainable forest management obligations and standards. Logging and other forestry activities are limited in large part due to Brunei's emphasis on sustainable use of natural resources and the preservation of biological diversity.

18. Timber is logged mainly for local consumption; Brunei maintains restrictions on imports and exports of timber to ensure local supply and for environmental reasons. The Department of Forestry in the Ministry of Industry and Primary Resources, the principle regulator in the sector, oversees the Reduced Cut Policy (introduced in 1990), which limits the production of round timber to 100,000 m^3 per year, which accounts for over 50% of domestic demand; the rest has to be imported. However, illegal logging appears to be increasing, especially near the Malaysian border. Brunei also uses its forests to develop eco-tourism.

(iii) Fishing

19. The Brunei Fisheries Act (1982) delimits a maritime area of about 38,600 sq km extending to about 200 nautical miles (370 km) from the coast. Fish is an important part of the local diet. Brunei's catch in 2006 was nearly 17,000 tonnes of fresh fish, more than two thirds of which was caught by small-scale fishermen. Brunei has set a goal for the industry of 20,000 tonnes per year on a sustainable basis and has targeted the aquaculture industry, which produced 540 tonnes in 2006 (Table IV.1), for development.[5] In 2005, the fisheries sector was worth an estimated B$100 million and the Government believes that the industry has the potential for B$400 million in annual production by 2023. Nevertheless, although the sultanate has more than 100 kilometres of coastline, and 85% of its population live on the seaboard, Brunei still has to import around 40% of its fish and related products.

20. To increase fish production, the Government encouraged the establishment of a small, modern, offshore fishing industry to meet projected demand and, under the Eighth Plan, B$90 million was allocated for the continued development the fisheries sector. The Government has emphasized the sustainable exploitation of fisheries resources; the current permitted exploitation level is self-imposed at the estimated maximum economic yield, and is managed through the number of fishing licences issued for each fishing method.[6] Other than providing facilities for aquaculture and overall basic infrastructure, the Government also seeks joint ventures with foreign enterprises to obtain finance and expertise in expanding both the annual catch and processing activities.

21. Brunei's relatively clean environment and freedom from extreme climate-related phenomena is conducive to the development of aquaculture. Once identified, potential areas are upgraded with basic infrastructure such as access to roads, water and power supplies, and telephone lines.

(3) Oil and Gas Sector

22. The export of oil and gas has dominated Brunei's economy since the 1930s and the oil and gas sector accounts for over two thirds of nominal GDP and generates more than 90% of total export earnings and government revenues. Wealth from oil and gas provides Brunei's small population with a relatively high standard of living compared with its ASEAN neighbours.

(i) Production and trade

23. Brunei is the fourth-largest oil producer in South East Asia and is the ninth-largest exporter of liquefied natural gas in the world. Brunei's economy has followed the swings of the world oil market; economic growth has averaged around 2.6% in the 2000s, heavily dependent on oil and gas production. Oil production averaged slightly over 200,000 barrels a day during the period under review. The output target is flexible, however, and production in 2006 was 219,000 barrels per day, up from average annual production of 201,000 b/d in 2005 and 206,000 b/d in 2004 (Table IV.2); this allowed Brunei to take advantage of the high oil prices in 2006, which rose to US$69.4/b up from US$57.7/b in 2005 and US$41.7/b a year earlier.

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[5] Full figures are not yet available for 2006, but data for the first half of the year point to a rebound in the fisheries sector. Prawn farming is a developing sub-sector with 395 tonnes produced in 2005 and 384 tonnes in the first half of 2006 alone.

[6] Fishing licences are allocated annually to locally registered companies, including joint ventures; allocation is based on resource availability and estimated fishing capacity. All licence holders must land their catch in Brunei. The total annual harvest must not exceed the maximum economic yield (MEY) of 20,000 tonnes per year; figures for the current exploitation level are not available.

Table IV.2
Petroleum and natural gas production, export and domestic consumption, 2001-07

	2001	2002	2003	2004	2005	2006	2007[a]
Production							
Petroleum ('000 barrels/ day)	195	203	207	206	201	219	197
Natural gas (MMscf / day)	1,133	1,143	1,236	1,214	1,191	1,259	1,195
Export							
Petroleum ('000 b/day)	189	199	199	196	193	206	..
LNG (MMBtu/day)	948,803	965,799	1.01 mn	1.00 mn	977,397	1.03 mn	..
Price							
Oil (US$/barrel)	24.67	24.82	30.52	41.72	57.72	69.44	..
LNG (US$/MMBtu)	4.4137	4.1745	4.5451	4.9110	5.6723	5.9131	..
Domestic consumption							
Mogas, diesel, Jet A-1, other ('000 barrels)	3,281	3,493	3,617	3,691	3,818	3,996	..
Gas (MMscf/day)	145	145	146	162	167	167	..

.. Not available.

a Estimates.

Source: Department of Economic Planning and Development, *Brunei Darussalam Key Indicators 2001-2006*; and data provided by the authorities.

24. In 2006, Brunei consumed an estimated 13,000 barrels/day of oil; most crude oil production is exported to other countries in the region. Oil exports of 206,000 b/d were recorded in 2006, up from 193,000 b/d in 2005. Despite Brunei's status as a net exporter of oil, it imports about half of the refined petroleum products it consumes, as has limited domestic refining capacity.

25. In 2006, Brunei produced over 1,200 million standard cubic feet (MMscf) of natural gas per day (Table IV.2), which translated into a liquefied natural gas output that has fluctuated at around 1,000 trillion btu (British thermal units) per day during review period.

26. Brunei's wealth is based on its hydrocarbon reserves, which were at 1.1 billion barrels of mainly low-sulphur oil in January 2007.[7] According to two reports, Brunei's oil reserves are expected to last 25 years or only another 10 years, at current rates of extraction.[8] Brunei's gas reserves have been estimated at 390 billion cu metres, and are expected to last another 40 years. The Government aims to conserve resources and continue exploration to open new fields; in early 2006, a consortium led by Canada's Loon Energy was awarded a 2,253 sq km oil exploration block. A 3,011 sq km block covering most of Brunei's Belait district was also awarded to a consortium led by the UK-registered Valiant International Petroleum.

27. However, the development of offshore areas is hampered by a territorial dispute with Malaysia. In 2003, Malaysia disputed Brunei-awarded oil exploration concessions for offshore blocks J and K (Total and Shell, respectively), which led to a moratorium on exploration activities in the areas.[9] Negotiations in order to resolve the conflict are continuing.

[7] U.S. Energy Information Administration (2006).
[8] EIU (2007), p. 9; and Rabobank, Economic Research Department (2007).
[9] In April 2003, several naval patrol boats from Malaysia are alleged to have chased away a Total ship in the disputed area in the South China Sea. Malaysia has extended its territorial claims into seas that Brunei says are in its Exclusive Economic Zone.

28. According to export figures for the first half of 2006, Indonesia, Australia, and Korea took about 67% of Brunei's total crude exports; traditional customers Japan, the United States, and China each took between 5% and 8% (Table IV.3). Brunei is one of the world's largest producers of liquefied natural gas (LNG), the bulk of which (over 5 million tonnes) is purchased by three Japanese utility companies under a long-term contract signed in 1972 and extended for 20 years in 1993. The Japanese company Mitsubishi is a joint venture partner with Shell and the Brunei Government in Brunei LNG Sdn Bhd, Brunei gas Carriers Sdn Bhd, and Brunei Shell Tankers Sdn Bhd, which produce the LNG. The second largest market is South Korea[10], which accounts for around 10% of total LNG exports.

Table IV.3
Oil and gas exports by destination (% share), 2002-06
(B$ million and per cent)

	2002	2003	2004	2005	2006[a]
Crude petroleum					
Total (B$ million)	3,140	3,759	4,913	6,536	4,197
Australia	18	17	20	15	17
China	13	14	7	6	5
Indonesia	2	5	11	30	33
Japan	12	12	13	13	8
Korea	14	16	15	16	17
Thailand	25	19	12	4	3
United States	11	8	6	8	7
Others	5	9	16	8	10
Natural gas					
Total (B$ million)	2,604	2,964	2,564	2,983	1,462
Japan	87	91	88	92	86
Korea	11	9	12	8	14
Others	2	-	-	-	-

a January-June.

Source: Brunei Darussalam Key Indicators 2002-2006, Department of Statistics, Report of Economic Planning and Development; and Brunei authorities.

(ii) Oil and gas industry

29. Brunei's oil industry is largely dominated by Brunei Shell Petroleum (BSP), a joint venture owned in equal shares by the Brunei Government and the Asiatic Petroleum Company Ltd. BSP had a monopoly on all upstream and downstream activities until 1999, when the Government awarded some exploration blocks to other companies, notably Total E&P Borneo BV[11], which started production from offshore Block B.

30. BSP is the leading oil and gas production company in Brunei and operates the only refinery, which meets domestic demand for most petroleum products. BSP, BLNG, Brunei Shell marketing Company Sdn Bhd (BSM) and BST together constitute the largest employer in Brunei after the Government (Table IV.4) with some 4,000 personnel, of which 90% are Bruneians.[12]

[10] Brunei started to export LNG to the Korea Gas Corporation (KOGAS) in 1994 (0.27 million tonnes); it signed a two-year contract with the KOGAS in 1994 for 0.7 million tonnes per year to be delivered in 1995 and 1996. A long-term contract was signed in 1997 to supply similar amounts for 16 years.

[11] Previously Total Fina Elf.

[12] Prime Minister's Office (2007).

Table IV.4
Overview of Brunei Shell Petroleum, 2006

Company	Ownership	Operations	Daily/annual output	Staff
Brunei Shell Petroleum (BSP)	Jointly owned by Brunei Goverment 50% and Asiatic Petroleum (part of Royal Dutch Shell group) 50%	11 offshore and 4 onshore oilfields (South West Ampa, Fairley Baram, Fairley, Gannet, Egret, Champion, Champion West, Bugan, Iron Duke, Magpie, Peragam. Asam Paya, Rasau, Enggang, Seria) 645 producing reservoirs, 837 producing wells, 1,188 pipelines Brunei's only petrol refinery	Oil – 213.8 Kbbl/d Gas – 31.5 Mil m3/d	3,116
Brunei Liquefied Natural Gas (BLNG)	Jointly owned by Brunei Government 50%, Shell Overseas trading 25%, Mitsubishi 25%	World's 3rd commercial LNG plant Plant has 5 LNG trains with a capacity of 44 cu m/hour	..	514
Brunei Shell Tankers (BST)	Jointly owned by Brunei Government 50% and Shell 25% and Mitsubishi 25%	Owns 7 B-class LNG tankers chartered to BLNG to transport liquefied natural gas	..	300
Brunei Shell Marketing (BSM)	Jointly owned by Brunei Government 50% and Shell Overseas Holdings 50%	Supply and marketing of petroleum products[a] in Brunei supplied by BSP refinery 36 land-based retail stations and 3 riversine station storage facilities at Muara Port and Brunei International Airport	..	67
Total E&P Borneo BV	Jointly owned by Brunei Government, Total and Shell Deepwater	Block B Joint Venture's (BBJV) Maharaja Lela field	Oil – 5.5 Kbbl/d Gas – 3.94 Mil m3/d	..
Brunei Gas Carrier (BGC)	Jointly owned by Brunei Government 80%, Shell 10% and Mitsubishi 10%	Owns one A-class LNG tanker (owned by Brunei Gas Carriers[b] or BGC) named ABADI, chartered to BLNG to transport liquefied natural gas	..	15

.. Not available.

a End-user prices of petroleum products (gasoline, diesel, kerosene and bottled LPG) have been regulated since 1978 under Price Stabilization Agreement signed by the Government and BSM, under which the Government subsidizes end-user prices if the price of crude rises above a certain level.

b Established in 1998 and jointly owned by the Government of Brunei, Shell Gas and Mitsubishi.

Source: BSP Annual Review 2005; and Brunei authorities.

31. Natural gas is also used domestically for petroleum operators' own-use, power generation, liquefied petroleum gas (LPG) used domestically, and as a reserve for industrial purposes. Approximately 90% of Brunei's natural gas is exported as LNG by BLNG. Petroleum products for local consumption are marketed solely by BSM, jointly owned by the Government of Brunei and Shell Overseas Holdings Ltd. Retail/end-user prices of gasoline, diesel, kerosene, and bottled LPG have been regulated since 1978, under a Price Stabilization Agreement (PSA) between the Government and BSM, under which the Government subsidizes prices if the price of crude oil rises above a certain level. According to the authorities, the subsidization costs over B$200 million per year.

(a) Petroleum refining and other downstream activities

32. The Government encourages diversification, including downstream activities related to the petroleum and natural gas sector. At present, around 93% of Brunei's petroleum and 90% of its natural gas output is exported as crude oil and LNG, respectively. The remaining crude oil output is

refined for domestic use. Brunei's only refinery, located in Seria, has a capacity of 10,000 bpd for its crude distillation unit and 6,000 bpd for its reformer unit. The main products include unleaded gasoline, gasoil, Jet A1 fuel, and kerosene.

33. The Government is keen to encourage investment in downstream activities and has set aside a trillion cubic feet of gas for industrial use. In 2006, an MoU was signed for the Gas Sales and Supply Agreement between BSP Co. Sdn Bhd and a consortium comprising Itochu, Mitsubishi Gas Corporation and Petroleum Brunei; a marketing agreement was also signed for the methanol plant located at the Sungai Liang Industrial Complex.

34. Under the Income Tax (Petroleum) Act, Cap. 119 (Laws of Brunei revised edition, 1984), Brunei levies a corporate tax on petroleum and gas operations at a rate of 55%. Royalties and petroleum income tax are payable on both concessions and production sharing agreements.

(iii) Policy

35. In 2002, the Government established the Brunei's first national oil company, the Brunei National Petroleum Company Sdn Bhd, also known as Petroleum Brunei. Petroleum Brunei is responsible for managing assets in designated areas (Blocks J, K, L and M). It has chosen to award private companies the exploration rights for the blocks it controls. Despite efforts to introduce competition, BSP is likely to remain the dominant oil producer by virtue of its control of Brunei's major oil and natural gas fields. In 2003, BSP signed an extension of the petroleum mining agreements with the Government for a further 19 years until the end of 2022.[13]

36. The Petroleum Unit, established in 1982 under the Prime Minister's Department, is the principal regulator of the petroleum and gas sector in Brunei. The Petroleum Unit reports to the Minister of Energy, whose portfolio was created in May 2005. The Unit's responsibilities include: overseeing the exploitation of Brunei's petroleum and gas reserves, and promoting the development of downstream industries; fixing crude oil prices; and ensuring compliance with internationally acceptable technical, accounting, health and safety, and environmental standards.

37. Under the Petroleum Mining Act (Chapter 44 of the Laws of Brunei, revised edition 2002), investors, including foreign investors, may apply for petroleum mining agreements in respect of state land, whether onshore or offshore; the applications are considered by the Sultan of Brunei in Council.

(4) NON-OIL AND GAS INDUSTRY

38. Apart from the energy and construction sectors, Brunei's industrial base remains limited. Foreign capital and technology have been deterred by the small domestic market; a poorly developed local private sector; high wage costs; a shortage of skilled labour; slow bureaucratic procedures and lack of transparency; an unwillingness on the part of the Government to underwrite risk-taking ventures; and the ban on foreigners owning land.

(i) Manufacturing

39. Non-oil and gas manufacturing accounted for a mere 1.1% of nominal GDP in 2006, down from 3.2% in 2002. However, the sector accounted for 13% of employment in 2005 (latest figure), indicating that labour productivity in manufacturing is less than one tenth of that in the rest of the economy; statistics on productivity trends in the manufacturing (or any other), sector were not

[13] The agreements – the Onshore Petroleum Mining Agreement and the consolidated First and Second Offshore Petroleum Agreement – replace the 40-year contracts that ended in 2003.

available from the Brunei authorities. The main large-scale industries are cement production, garment making, and production of pre-cast concrete structures. Other industries include building material products; electronic and electrical products, such as cables, switchboard, and assembly appliances; mineral water; canned food; dairy products; silica sands products; and publishing and printing. In November 2006, a local firm (Berjaya Majmur) began construction work on an animal feed manufacturing plant in Muara, which is expected to commence production in 2007. The plant will have sufficient capacity to supply Brunei's animal feed needs; in 2004, 34,000 tonnes of animal feed were imported.

40. Ready-made garments constitute the third biggest export after crude oil and liquefied natural gas. The garment industry was established to take advantage of the international quota system agreed under the terms of the Multi-Fibre Agreement (MFA). The industry benefited from a quota arrangement with the United States but this expired at the end of 2004 leading to a 25% fall in earnings from garment exports in 2005. Figures supplied by the authorities for the first half of 2006 show garment export earnings of just B$100.3 million, down from B$303.4 million in 2005 as a whole. In view of the increasing competition from China and India, the future of the garment industry in Brunei has become more uncertain. The industry has been encouraged to upgrade through the adoption of modern machinery and more efficient production methods.

41. Fish processing has been the fastest growing sector in recent years. Production has risen from 479 tonnes in 2004 to 867 tonnes in 2006 (Table IV.1). As part of the industrial development programme, a number of industrial estates have been established, including a 40 ha site near Bandar Seri Begawan and the Beribi Light Industrial Complex, which comprises, *inter alia*, textiles, food, and electrical manufacturers.

(a) Industrial development policy

42. Manufacturing has continued to be encouraged in order to reduce Brunei's dependence on its petroleum resources, and a number of incentives are used to encourage investment in priority sectors identified by the Government. The incentives include financial assistance to local companies and tax breaks for all investors (Chapter III); in addition, the Government provides free or subsidized infrastructure and inputs. In priority sectors in which private investment is not forthcoming, the Government invests directly, mainly through its holding company Semaun Holdings,[14] which is especially active in trading and commercial ventures in the food, manufacturing, and service sectors.

43. The Government's industrial development policy is managed by the Brunei Industrial Development Authority (BINA)[15], a department of the Ministry of Industry and Primary Resources. BINA's main role is to facilitate industrial development, manage Brunei's industrial sites and advise investors wishing to make use of these sites. There appear to be nine industrial sites covering around 300 hectares, which provide basic infrastructure such as roads, drainage and sewerage facilities, electricity, telecommunications, and water. The Government also takes a direct stake in industrial sectors in the economy through its holding company Semaun Holdings Sendirian Berhad. Investment

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[14] Semaun Holdings, whose board of directors consists mainly of government officials, is fully funded by the Government of Brunei. It has launched joint ventures with overseas companies from Singapore, Malaysia, and Chinese Taipei, in areas such as aquaculture, food processing and fine glass crystal manufacturing. Local companies are also involved in the joint ventures". Viewed at: http://www.semaunholdings.com/index.php?option=com_content&task=view&id=14&Itemid=28.

[15] BINA was initially established as the Industrial Unit in the Ministry of Development in 1986 and was transferred to the Ministry of Industry and Primary Resources in 1989. In April 1996, the Industrial Unit was merged with the Cooperatives Development Department in the Ministry of Home Affairs to become the BINA.

by Semaun Holdings may take the form of joint ventures with local or foreign companies, or direct investment in the desired sectors.

(b) BEDB

44. The Brunei Economic Development Board (BEDB) was formed in November 2001 to stimulate the growth, expansion, and development of the economy by promoting Brunei as an investment destination. In January 2003, the BEDB launched a two-pronged strategy through which it aimed to attract US$4.5 billion in foreign direct investment and create 7,700 new jobs by 2008.

45. The first prong involves the development of the Sungai Liang area outside of Bandar Seri Begawan into an advanced industrial site for petrochemical and manufacturing industries that can capitalize on Brunei's proven gas reserves. In September 2004, the BEDB announced it had entered into final negotiations to establish a US$720 million ammonia/urea plant and US$350 million methanol plant.[16] The Government has approved the methanol plant and is in the final stages of considering the proposed ammonia urea plant. If the project proceeds, the plant would be the largest urea manufacturing operation in Asia, with a capacity to manufacture 1.2 million tonnes of urea per year. The second prong involves the construction of a deep water port facility at Pulau Muara Besar (section (iv)(b)).

46. The BEDB recognizes that Brunei must develop its SMEs in order to achieve sustained growth. In the long term, the Government's emphasis is to support and develop the private sector, and it has continued to implement a spending package to stimulate the economy in the short term. A number of industrial parks are being developed to cater for services and manufacturing activities; specific industries targeted for these sites include steel, dairy products, glass, pre-cast concrete, and light-weight aggregate production.

(ii) Construction

47. The construction sector's share of current GDP contracted from 3.7% in 2002 to 2.9% in 2006. The industry was badly damaged by the 1998 collapse of the Amadeo conglomerate, which had spent lavishly on construction projects. The Government has announced a number of projects aimed at bolstering the industry, including the construction of the 271 ha industrial park at Sungai Liang, beginning in 2007[17]; but a real estate glut in the capital has to some extent offset these efforts.

(iii) Electricity

48. The electric supply industry in Brunei Darussalam is governed by the Electricity Act 1973 and Electricity Act (Amendment) Order, 2002. The Department of Electrical Services (DES), under the Prime Minister's Office, is responsible for the generation, transmission, and distribution of electricity. Other than DES, electricity is also generated by an independent power utility, the Berakas Power Company (BPC). The two power utilities operate independently with their own transmission and distribution networks, which are not interconnected.[18] About 99% of electricity uses natural gas as the main fuel while the remaining 1% is generated by diesel fuel. Electrical energy demand

[16] The ammonia/urea consortium consists of Incitec Pivot Ltd (an ASX-listed company), Mitsubishi corporation and Westside Ltd (a privately held Australian majority owned company).

[17] It has been reported that a Malaysian engineering and construction firm (Ranhill) was preparing a joint bid with a Japanese company (Mitsui) and Brunei's QAF Oilfield Services for a number of contracts related to the industrial park.

[18] In 2006, the installed capacities of DES and BPC are about 424 MW and 266 MW whilst the electrical energy generated by DES and BPC are at about 1,669 GWh and 1,280 GWh, respectively.

increased by about 1.2% in 2006. Big power consumers such as BSP and BLNG also have their own power generating facilities: BSP has an installed capacity of about 30 MW powered by gas and BLNG has steam turbine generators with an installed capacity of about 40 MW.

(5) SERVICES

(i) Overview

49. The share of private sector services (excluding construction and utilities) in current GDP fell from 22% in 2002 to just 15% in 2006. The leading services sectors are finance and business services, the wholesale and retail trade and transport and communications (Table I.1). Recognizing the importance of services for economic growth, the Government aims to transform Brunei into a service hub for trade and tourism (SHuTT). The SHuTT programme would promote trade, travel, business, and communications in and through Brunei. The programme was intended to further develop Brunei's infrastructure, including upgrading facilities at Brunei International Airport; expanding Muara Port, Brunei's main port, and increasing capacity in the telecommunications services network to increase penetration rates, as well as expanding coverage by the domestic and international postal services.

50. In May 2005, Brunei made a conditional initial offer under the GATS in the framework of the on-going services negotiations in the DDA.[19] The offer covers 5 out of the 12 services in the WTO Secretariat classification[20]: business services (professional and computer and related services), communication services (telecoms), financial services (insurance), tourism and travel-related services, and transport services (air transport). Overall, the offer is similar to its commitments undertaken in the Uruguay Round. For example, commercial presence is unbound except for existing companies where half the board members of a public company and half the directors of a private company must be nationals or residents of Brunei; and all companies incorporated outside Brunei must have one or more local agents. The movement of natural persons (mode 4) is unbound with respect to both market access and national treatment, with the exception of temporary intra-corporate transfers at the level of management, executives and specialists.

51. In its Article II (MFN) exemptions, future liberalization with regard to foreign equity participation is subject to discretionary changes and dependent on Brunei's development requirements. Brunei also has a preference for recruiting labour from traditional sources of supply to ensure social cohesion in the country. Sector-specific MFN exemptions are also proposed to be maintained for legal services, radio and television services, financial services, reinsurance and retrocession, and banking and other financial services. The authorities have indicated that they intend to revise their offer at an appropriate time in the DDA negotiations.

[19] In document TN/S/O/BRN of 13 May 2005.

[20] These are: business services; communication services; construction and related services; distribution services; education services; environmental services; financial services; health-related and social services; tourism and travel related services; recreational, cultural and sporting services; transport services; and other services not included elsewhere. As a result of the Uruguay Round negotiations, Brunei made specific commitments in the following sectors: business services (professional, computer, and rental or leasing services without operators); communication services (telecommunication), financial services (insurance, and banking and other financial services); and transport services (air transport). Further commitments were made in telecommunications services under the Fourth Protocol.

(ii) Financial services

(a) Overview

52. At end 2006, there were eight banks in Brunei (six branches of foreign banks, one local conventional bank and one local Islamic bank), and 33 non-banking financial institutions, comprising: one Islamic trust fund; three international insurance companies; three finance companies (two local and one foreign); the Employees Trust Fund (ETF)[21], and 25 money changers and 19 remittance companies. In February 2006, the Finance Ministry approved the merger of the Islamic Bank of Brunei (IBB) and the state-owned Islamic Development Bank of Brunei (IDBB) to create the Sultanate's largest bank, the Islamic Bank of Brunei Darussalam (IBBD). The Government is promoting Islamic banking as a niche area. In addition, the Islamic Trust Fund (Perbadanan Tabung Amanah Islam Brunei) provides savings and investment facilities under Islamic principles.[22] The three finance companies in Brunei provide mainly hire-purchase financing for cars and other consumer durables, and mortgages.

53. The development of a Brunei capital market is in an infant stage. Brunei does not have its own tradeable stock exchange. The Securities Order 2001 regulates financial exchanges, dealers, and other persons providing advice in respect of dealings in securities. The Order confers on the regulating authority extensive powers in monitoring all records maintained for securities dealing. The Securities (Amendment) Order 2005 contains additional provisions with respect to unlicensed persons purporting to act as investment advisers as well as representatives of dealers who are not resident in Brunei.

54. Brunei does not have a central bank. The Ministry of Finance, through the Treasury, the Brunei Currency and Monetary Board, the Brunei Investment Agency, and the Financial Institutions Division (FID), exercises most of the functions of a central bank. The FID, the regulator and supervisor of the financial industry, publishes guidelines on minimum paid-up capital, cash balances, and capital adequacy ratios. In July 2000, Brunei opened the Brunei International Financial Centre (BIFC), an offshore financial centre that has since attracted more than 8,000 international firms, licensed under the International Business Companies Order 2000. Brunei has updated its legislative and regulatory framework to attract investors to the BIFC.

55. Since the establishment of the BIFC, Brunei has dual jurisdiction whereby the international legislation offers "offshore" facilities alongside the usual range of "domestic" legislation. The FID and the BIFC are responsible for regulation, supervision, and the financial stability of the financial sector. The supervisory authorities have institutional units dealing with: banking, insurance, finance companies, money changers and money remittance, and securities, and there is a Financial Intelligence Unit. The authorities perform both off-site and on-site inspection of domestic banks and have implemented Basel I since 1998. Officials are currently working on building the infrastructure required for the implementation for Basel II.

(b) Banking

56. In 2006, more than half of banking assets were held by three banks: Citibank, Standard Chartered Bank (SCB), and Hongkong and Shanghai Banking Corporation (HSBC). Commercial bank assets increased from B$11.4 billion in 2001 (or 114% of nominal GDP) to B$14.9 billion in

[21] The ETF was formed in 1993. It was initially a compulsory pension scheme for all new public sector employees and was extended in 1994 to include all private sector employees, except those working for an employer with an approved provident fund.

[22] Including Islamic insurance, financing, and assistance for people to undertake the Haj pilgrimage to Mecca.

June 2007. Total loans made by Brunei's commercial banks increased from B$4.25 billion in 2001 to B$5.64 billion in June 2007, an increase of 32%. Personal loans accounted for over two thirds of commercial bank lending during 2001-05, followed by general commerce (around 11%), construction (10%) and transportation (4%). Mortgages accounted for between 10% and 15% of total personal loans, and other personal loans made up between 50% and 60% of all loans in the same period. Commercial banks tend to have limited scope for providing mortgages as the Government provides loans without interest to civil servants for purchasing housing and automobiles.

57. Given the level of personal lending, the Ministry of Finance issued a personal loan capping directive in May 2005 to the Brunei Association of Banks (BAB). The objectives of the directive are to: reduce the level of personal debt and promote a savings culture. The directive outlines more stringent guidelines on the granting of personal loans and issuance of credit cards. It also requires the banks to set their own prime lending rate, which was previously set by the BAB.

Regulatory framework for prudential supervision

58. According to the IMF, at the start of the review period the regulatory requirements, limited to minimum paid-up capital and a 6% reserve requirement at the BCMB, were minimal and appropriate standards for accounting, valuation, and loan classification and provisioning, single borrower limits, and capital adequacy requirements were necessary. It also recommended "systematizing" reporting requirements for domestic and foreign banks and regular monitoring basic financial soundness indicators.[23] The level of non-performing loans was relatively high and warranted close monitoring as did the rise in consumer loans (Table IV.5).

Table IV.5
Selected financial soundness indicators of commercial banks, 2001-07
(Per cent)

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**March 2007 (estimates)**
Capital adequacy[a]	8.1	9.0	8.6	14.4	16.8	11.3	13.7
Non-performing loans ratio[b]	15.0	15.4	12.5	11.8	11.8	12.0	11.0
Loans to deposits[c]	67.3	65.4	62.4	59.6	68.8	60.2	65.8
Demand deposits to total deposits[c]	16.3	14.9	15.0	14.4	16.0	18.7	19.5

a Unweighted, based on data submitted by banks for the monetary survey. For foreign banks, this does not include paid-up and reserve capital.
b Based on loans overdue for at least 60 days.
c Excluding government deposits.

Source: Brunei authorities; figures for 2001-03 for capital adequacy cited in IMF (2004), *Staff Report for the 2004 Article IV Consultation,* May, p. 12.

59. The Banking Order, 2006 has most of the provisions for effective banking supervision recommended by Basle Committee through the 25 Core Principles for Effective Banking Supervision. These include requirements on capital adequacy, off-site surveillance, on-site examinations, borrowing limits, major acquisitions or investments by banks, transfer of a bank's shares, scope and frequency of reporting, confidentiality of supervisory information, and disclosure. Banks use the risk-weighted assets to calculate the capital adequacy ratio, and comply with the minimum requirement of 10% (section 11 of Banking Order, 2006). Since June 2006, all banks send monthly reports to FID on the core set of financial soundness indicators, which include capital adequacy, asset quality, earnings and profitability, liquidity, and sensitivity to market risk.

[23] IMF (2004), p. 12.

60. During the review period, there appears to have been considerable strengthening of financial sector supervision and regulation, including efforts to enhance monitoring of financial soundness indicators. In particular, the enactment of the new Banking, Finance Company, Insurance and Securities Amendment Orders brings the regulatory framework more in line with international standards. The Banking Order 2006, which amended the Banking Act, paved the way for on-site inspection, increased capital requirements of local Brunei incorporated banks to not less than B$100 million, and tightened provisions affecting financial leasing, money transmission services, means of payment such as credit cards, guarantees, foreign exchange dealings, financial futures, and participation in share issues. The Finance Companies Act (Amendment) Order 2006[24] increased the capital requirement for local Brunei finance companies to not less than B$25 million; it also provides for new forms of business, including Islamic financing business.[25] Also, the authorities issued guidelines in 2005 to reduce risks associated with the rapid rise in personal loans.

Islamic banking

61. The Government has continued to encourage Islamic banking, which (as of June 2007), account for 38% of commercial banks' assets. Legislation is in place to support banks operating under these principles, including taking a share of profits from the firms they fund rather than charging interest.[26] Prudential regulations for Islamic banks are, in general, more stringent than for commercial banks. In addition to minimum cash balances, the Islamic Banking Act (Cap. 168) requires regular reporting of audited statements and monthly balance sheets to the Minister of Finance, through the FID; banks are also obliged to furnish any additional data as requested by the Minister. Foreign-owned or controlled companies may not be granted Islamic banking licences.[27] According to the authorities there are plans to harmonize Islamic and conventional banking regulations by 2007; the new Islamic banking Order 2007 is in its final stage of drafting.

62. As part of its diversification programme, and to support the development of Islamic financing, the Syariah Financial Supervisory Board was established in January 2006 to regulate Islamic financial institutions. The Government also floated its first non-interest-bearing Islamic bond in 2006. In April 2006, the Government launched the first Islamic money market programme, worth B$150 million, which is a three-month paper based on the Al-Ijarah concept.[28]

[24] Previously, finance companies were regulated and licensed under the Finance Companies Act of 1972. Under the Act, they were subject to a minimum paid-up capital requirement of at least B$1 million and the same minimum cash balance of 6% as banks, but were not permitted to take demand deposits.

[25] To cater for financing businesses whose aims and operations do not involve any element not approved by a moderate form of Islamic Shariah law.

[26] The Islamic Banking Act was enacted in December 1992 and amended by the Emergency (Islamic Banking) (Amendment) Order 1995.

[27] All changes in control of an Islamic bank must be reported to the Minister (Article 20 of the Islamic Banking Act (Cap. 168)). Foreign owned, or controlled, is defined as 50% or more of the capital issued and paid-up being owned by or on behalf of persons who are not Muslim citizens of Brunei or, if a majority of persons having direction, control or management of the company, are not Muslim citizens of Brunei (Article 6 of the Islamic Banking Act (Cap. 168).

[28] The programme involves the issuance of short-term 'Sukuk Al-Ijarah', which is effectively an asset-backed lease security that complies with the Islamic Syariah law. So far, the Ministry of Finance has issued nine series of this short-term Sukuk Al-Ijarah, which has a cumulative nominal issue of B$925 million. The latest was issued on 16 August 2007, worth B$80 million, for a maturity of 91 days at a rental rate of 2.245%.

Brunei International Financial Centre (BIFC)

63. The Government established the Brunei International Financial Centre (BIFC) in 2000 to diversify financial services in Brunei and to establish Brunei as an off-shore banking and trading centre for the region offering both conventional and Islamic financial services. The legislation to accompany the formation of the BIFC, sought to introduce measures against money laundering activities and to bring Brunei's standards up to international standards, thereby improving transparency and attracting companies to the BIFC. At end of June 2007, six banks and seven investment advisors had obtained a licence and begun operations (Box IV.1). The legislation in force also caters for Islamic financial services, which have been attracting growing interest from the international market.

Box IV.1: BIFC

Brunei International Financial Centre (BIFC), a multi-disciplinary unit within the Ministry of Finance, was established in 2000 to help Brunei become a financial hub in the region, especially in banking, finance, securities, and insurance.

BIFC has registered more than 7,000 international business companies, licensed 10 registered agents under the Registered Agents and Trustees Licensing Order 2000; 6 banks under the International Banking Order 2000; 3 licences under the International Insurance and Takaful Order, 2002; 25 licences under the Mutual Funds Order, 2001; and 7 investment advisers licensed under the Securities Order, 2001.

A comprehensive set of legislation covering financial activities associated with BIFC was enacted from 2000 to 2002, including Islamic finance. BIFC has a policy of reviewing the legislation and making amendments when required in order to reflect current practices and ensure that stringent international standards are met. There are ten statutes in effect, which include the Money Laundering Order, Criminal Conduct (Recovery of Proceeds) Order, International Limited Partnerships Order, International Banking Order, Registered Agents and Trustees Licensing Order, International Trusts Order, International Business Companies Order, Mutual Funds Order, Securities Order and International Insurance and Takaful Order. The Sultan of Brunei Darussalam had consented to the introduction and amendment of several laws, namely the Insurance Order 2006, the Banking Order 2006, the Hire Purchase Order 2006 and Finance Companies Amendment Order 2006, all of which came into effect in March 2006.

The launch of the nation's first Islamic Bond, the Short Term Government Sukuk Al-ljarah programme in 2006, has paved the way for the development of a wider range of Islamic financial instruments and products that comply with Syariah principles. As of September 2007, the issuance of the Short-term Sukuk Al-ljarah securities reached B$925 million.

The recent formation of a Syariah Financial Supervisory Board pursuant to the Syariah Financial Supervisory Board Order, 2006, will further boost Islamic finance in Brunei. The Syariah Financial Supervisory Board is the authority for regulating Islamic banking, takaful, Islamic financial business, Islamic development financial business and any other business, which is based on Syariah principles.

Source: Brunei authorities.

(c) Insurance

64. At the end of 2006, there were 21 active insurance companies: 12 locally incorporated[29], 6 branches of foreign companies, and 3 foreign underwriting companies represented by locally incorporated firms. Gross premiums for all general insurance companies totalled B$147.9 million (up from B$51 million in 2001): general premiums accounted for B$81.6 million, motor insurance for 63%, fire insurance for 14%, and workmen's compensation for 7%. In general business, *takaful*

[29] Three of the locally incorporated companies are *takaful* companies, which provide insurance based on Islamic principles.

operators were heavily concentrated in motor insurance, and dominated the market with 51% of total general premiums. In life business, conventional insurers remain the biggest market players as products offered are more extensive compared with *takaful*.

65. In addition to the Motor Vehicles (Third-Party Risks) Act, recent specific legislation relating to the insurance industry, the Insurance Order 2006, which raised the paid-up capital of Brunei insurance companies. It also provides for tighter regulations on the establishment and maintenance of insurance funds; the allocation of surplus; the form, investment, and situation of assets; the restrictions on payment of dividends; and the requirements of disclosure of interests by directors.

66. The main elements of supervision include a security deposit with the Government of B$1 million for insurers underwriting motor insurance, and for licensed life and/or general insurers under the Insurance Order 2006; minimum paid-up capital of B$8 million; a solvency margin for general insurers of 20% of net premium income (NPI) of the previous year; and guidelines for the appointment of foreign employees and motor insurance agents. Additionally, all insurance and *takaful* companies are required to provide their audited annual accounts, ASEAN unified statistics, and quarterly data on premiums collected, to the FID.

67. Supervision, which has been provided by the Financial Institutions Division (FID) in the Ministry of Finance, since 1993, was based on moral suasion, and regular contacts with the General Insurance Association of Brunei, which represents general insurance companies. However, since the introduction of the Insurance Order 2006, the Permanent Secretary at the Ministry of Finance was granted extensive powers to govern the insurance industry, including the power to inspect and investigate the affairs of insurers, to approve the appointment of as well as to disqualify the principal officer and director. A standardized application form, available from FID, requires applicants to disclose details of the share of equity; management structure; proposed operational and internal control of the company; projected financial highlights of the company including the authorized capital; and, for foreign companies, prior approval from the regulatory authorities of the country in which the company originates. No new insurance companies were registered during the period under review.

68. GATS commitments were made for direct insurance (life and non-life), reinsurance and retrocession, insurance and intermediation (broking and agency services) and auxiliary services (consultancy, actuarial risk assessment, risk management, and maritime loss adjusting). In general, Brunei's schedule reflects current requirements and restrictions, including commercial presence only through companies registered in Brunei for direct insurance; and purchase of compulsory insurance for motor third-party liability and workmen's compensation only from insurance companies established in Brunei. The initial offer tabled in 2005 does not appear to go beyond current commitments.

(iii) Telecommunications

69. Brunei, as a small wealthy nation in South East Asia, has endeavoured to ensure up-to-date telecommunication services to its population; the target of 100% digitalization was achieved in 1995. Telecommunications throughout Brunei are of a high standard and the country ranks well in Asia in terms of penetration and infrastructure. Brunei has a telephone household penetration rate of 100% and there has been significant growth of cellular subscribers. Mobile penetration had reached 74% by October 2006 (up from 32% at end 2001) (Table IV.6). There is a nationwide broadband network (RaGAM 21), at the core of which is a high-speed switching ATM-based network. There has also been significant investment in a rural telecoms network, which allows all rural and remote areas access to telephone and the Internet.

Table IV.6
ICT indicators, 2006

Core indicators	Latest statistics	Date
Fixed telephone lines (number of subscribers)	81,195	June 2006
Fixed telephone lines per 100 subscribers (%)	21.2	June 2006
Mobile cellular (number of subscribers)	281,704	October 2006
Mobile cellular subscribers per 100 inhabitants (%)	73.6	October 2006
Internet users	134,953	2005
Internet users per 100 inhabitants (%)	36.5	2005
Internet subscribers	17,973	2005
Internet subscribers per 100 inhabitants (%)	4.7	2005
Broadband Internet subscribers	8,126	2005
Broadband Internet subscribers per 100 inhabitants (%)	2.1	2005
International Internet bandwidth (Mbps)	555	2005
International Internet bandwidth per inhabitant ((kbps)	1.5	2005
Internet access tariffs (20 hours per month) (US$)	30	2006
Internet access tariffs (20 hours per month) in U.S. dollar as a percentage of per capita income (%)	1.1	2006
Broadband access tariffs (US$)	73.2	2006
Broadband access tariffs in U.S. dollar as a percentage of per capita income (%)	2.7	2006
Mobile cellular tariffs (100 minutes of use per month) (US$)	11.86	2006
Mobile cellular tariffs (100 minutes of use per month) in U.S. dollar as a percentage of per capita income (%)	0.44	2006
Proportion of households with a fixed line telephone (%)	100	February 2007
Proportion of households with a computer (%)	46.6	2001
Proportion of household with Internet access at home (%)	28.8	2001

Note: Percentage indicators are calculated based on the following figures obtained from the Department of Statistics, JPKE (18th Ed. Brunei Darussalam Key Indicators 2006): population – 2005 = 370,100 and 2006 = 383,000.

Source: AiTi (2007), *APECTEL 35 Country Paper: Brunei Darussalam,* Appendix 7, APEC TEL Working Group Meeting, April. Viewed at: http://www.apectel35.org.ph/index.php?option=com_docman&task=doc_download&gid=72&Itemid=38 [31 July 2007].

(a) Industry developments

70. Brunei's telecommunications industry has recently shifted from a monopoly in fixed-line and mobile telephony to a state of oligopoly, with the eventual goal, according to the Brunei authorities, of creating a competitive environment where home-grown companies would be challenged to rise to global standards and even break into international markets. Currently, TelBru, the successor to the Government Telecoms Department, has a monopoly over the fixed-line network; B-mobile has a monopoly over the provision of 3G telephony, and the DST Group has a monopoly over the provision of GSM telephony. According to the authorities, there is some competition in mobile telephony with the entry of B-mobile into the market in 2005, and in the dial-up internet access segment with TelBru and DST Group in competition. The authorities point out that TelBru, DST and B-mobile are corporate entities and, although the eventual controlling parties are the Government or linked to the Government, the general perception is that they are quasi private-sector companies.

71. There are three telecommunications infrastructure providers: TelBru Bhd, which provides basic telephony and a range of value-added services such as leased-line services, dial-up internet, ADSL broadband, VoIP, ATM lines and pre-paid calling cards; the DST Group Sdn Bhd, a private company based in Brunei, which operates a GSM mobile network and provides some value-added services, VoIP, leased-line, and a dial-up internet; and B-mobile Communications Sdn Bhd (a joint

venture between TelBru Bhd and QAF Comserve), which operates a 3G mobile network and provides VoIP, and internet access via 3G. The three companies are locally owned and controlled and, according to the authorities, there is currently no significant foreign participation. AiTi's published licensing framework excludes companies that are majority-owned or controlled by foreign parties from being licensed to operate in Brunei.

(b) Regulatory developments

72. Under the Telecommunications Act of 1952, the Government was the exclusive provider of telecommunications services. Jabatan Telekom Brunei/Telecommunications Department (JTB) was established as a government department in 1952 to provide telecom services and to act as the regulatory body for telecommunications. At the start of the current review period, the Government began restructuring the telecom industry through corporatization (and eventual privatization). JTB was to be corporatized and transformed into a government-administered private company as part of the larger programme to corporatize a number of government services. Telekom Brunei Bhd (TelBru) was established in June 2002, under the Telecommunication Successor Company Order 2001, as the designated telecom successor company, which would take over JTB's service operations. That Order, together with the Telecommunications Order 2001 and the AiTi Order 2001, enabled the repeal of the 1952 Act and, as from entry into force in 2006, provide the legal basis for the restructured telecom sector (Box IV.2).[30]

Box IV.2: Key dates in regulation of telecoms, 2001-06

2001:	The Government of Brunei Darussalam commenced a restructuring of the ICT industry; three new pieces of legislation were enacted.
-	The Telecommunication Successor Company Order, 2001 transfers all property, rights and liabilities belonging to JTB to Telekom Brunei Limited (TelBru) whereby TelBru assumed the role of service provider in place of the JTB. (JTB to undergo the process of corporatization.)
-	The AiTi Order, 2001 establishes the Authority for Info-communications Technology Industry of Brunei Darussalam (AiTi) as an independent statutory body to regulate the local ICT industry. This Order took effect on 1 January 2003.
-	The Telecommunications Order, 2001 confers upon AiTi the exclusive privilege to operate and provide telecommunication systems and services in Brunei Darussalam and allows AiTi to grant licences for the same.
2003:	AiTi established as an independent statutory body.
2005:	B-mobile created as a joint venture between TelBru and QAF Comserve. Granted a licence to operate a W-CDMA network and begins operations as the competitor to incumbent mobile operator DST (and incumbent fixed-line operator TelBru)
2006:	The Telecommunication Order entered into force, giving AiTi full power to grant licences; Telecoms Act 1952 repealed.
	Government telecommunications department (JTB) corporatized as TelBru. a public limited company registered under the Brunei Darussalam Companies Act and 100% owned by the Government of Brunei Darussalam.
Source:	AiTi (2007), APECTEL 35 Country Paper Brunei Darussalam, APEC TEL Working Group Meeting, April. Viewed at: http://www.apectel35.org.ph/index.php?option=com_docman&task=doc_download&gid=72&Itemid=38 [31 July 2007].

[30] AiTi (2007).

73. Following lengthy delays, JTB was corporatized in April 2006 and its duties shared between TelBru and the Authority for Info-Communications Technology Industry (AiTi)[31], which was established in January 2003 to administer the regulatory function and the development of the info-communication industry in Brunei. Thus, TelBru assumed responsibility for the supply of telecom services in Brunei, while AiTi was charged with regulating and developing the industry and is answerable to the Minister of Communications. AiTi issues licences to operators and manages the radio communications spectrum. AiTi's licensing regime is technologically neutral, with no distinction drawn on the basis of the technology used. It has a two-tier licensing structure: InTi (Infrastructure Provider for the Telecommunication Industry) whereby licensees own infrastructure, and SeTi (Service Provider for the Telecommunication Industry) whereby licensees repackage and resell retail services to consumers or corporate customers through wholesale arrangements with InTi licensees. With regard to fixed-line telephony, the licensing framework published by AiTi mandates a certain level of local loop unbundling (LLU); the lack of *de facto* LLU and competition in this segment is one of AiTi's key issues.

74. Brunei Darussalam does not have provisions on competition in its legislation applicable to the telecom sector. Hence, to allow AiTi to monitor and curb anti-competitive behaviour, the licensing framework provides obligations for licensees in relation to competitive behaviour, and powers for the regulator to take action against undesirable or unfair practices. Existing licences, under the Telecommunications Act, are deemed to have been issued by AiTi by virtue of the Telecommunications Order. AiTi is of the view that for the sake of consistency of industry practices, and to create a "baseline" for all industry discussions, existing licensees should be migrated to the new licensing framework, which, among other things, mandates interconnection between fixed network suppliers and other service providers, local loop unbundling, specific clauses regarding anti-competitive behaviour and infrastructure-sharing to foster competition.[32]

75. Under the new licences, licensees are required to shift towards alignment with AiTi's and the Ministry of Communications' vision for the industry's future, for example mandating interconnectivity, accounting separation, and USP fund payments.[33] There is no specific regulation on price/tariff regulation, but AiTi has the power to give regulatory directions to licensees in the public interest and to ensure fair and efficient market conduct. Under this framework, AiTi may issue a Directive to regulate prices and tariffs.

76. In its initial GATS offer of 2005, Brunei made offers in local, international, and mobile telephone services and stated that in its eventual commitments JTB's (now TelBru's) monopoly over voice telephone services will be maintained for ten years after its privatization and subject to a Government review to allow new suppliers into the market. Similarly, for mobile telecom services, the Government has indicated that it will consider issuing new licences to mobile telecommunications

[31] Established under the Authority for Info-Communications Technology Industry of Brunei Darussalam Order 2001. Under Section 6 of the AiTi Order 2001, AiTi's core functions are to exercise licensing and regulatory functions with respect to the telecommunications system and services; manage the national radio frequency spectrum; and contribute towards diversification and development of the economy through the development and growth of the ICT industry in Brunei.

[32] AiTi has published its licensing framework. Viewed at: http://www.aiti.gov.bn/licensing/1-aiti-operational-framework.pdf. On interconnection, see the Interconnection Handbook at: http://www.aiti.gov.bn/licensing/3-aiti-interconnection-handbook.pdf. According to the authorities, TelBru and DSTComm have not issued Model Interconnection Agreements (MItA) or made publicly available the terms and conditions of all of their interconnection agreements.

[33] Section 60 of the Telecommunications Order requires AiTi to control and operate the universal service provision fund (USPF). The InTi and SeTi licences require licensees to contribute to the USPF.

providers (employing other than AMPS and GSM technology) in 2010 if public interest and economic conditions would justify this.

(iv) Transport

(a) Air transport services

77. Brunei's main airport is Brunei International Airport (BIA) at Bandar Seri Begawan; it has the capacity to handle around 1.5 million passengers and 50,000 tonnes of cargo a year. Five airlines link Brunei to 21 cities in 12 countries.[34] In 2006, there were 11.9 thousand aircraft movements at BIA: total passenger throughput (inbound, outbound, and transit) was more than 1.4 million up from 1.28 million in 2001; and cargo throughput was 22.7 million tonnes (23.3 million tonnes in 2001).

78. Brunei International Airport is owned by the Government of Brunei and managed by the Department of Civil Aviation in the Ministry of Communications. In view of its geographical location, Brunei also hopes to establish an air cargo transhipment centre and to establish the airport as a regional refuelling centre by offering attractive fuel prices and liberalizing the supply of fuel. All air cargo transhipment activities are carried out by Royal Brunei Airlines (RBA), although the Government is seeking offers to establish, operate, and manage an air cargo centre for transhipment and distribution.

79. The national carrier, RBA, is a corporation founded in November 1974, and wholly owned by the Government of Brunei. The airline currently serves 21 destinations in Europe, the Middle East, Asia, and Australia, including several short-haul destinations in Malaysia and Indonesia. Code-sharing agreements are in place between RBA and a number of regional airlines. RBA has yet to record a profit in its three decade long history.[35] Ground-handling services, for passengers and cargo, are provided by RBA, whilst airline catering facilities are supplied by Royal Brunei Catering. The authorities state that consideration would be given to additional companies applying to provide ground-handling services.

80. Brunei maintains a liberal air service policy: a reciprocal "open skies" policy has been adopted in order to attract more foreign airlines to operate into Brunei. As part of this effort, bilateral open skies agreements have been signed with New Zealand, Singapore, the United States, and the United Arab Emirates. The agreements allow designated airlines to provide air services between the two countries with rights to pick up passengers at intermediate stops or in third countries with no limitation on frequency, capacity, and aircraft type. Brunei also signed the world's first multilateral open skies agreement with Chile, New Zealand, Singapore, the United States, Samoa, Cook Islands, and Tonga in 2001.

81. Local airlines require an operating permit or aircraft operating certificate from the Department of Civil Aviation. Regarding the system of allocating landing slots at Brunei International Airport, landing charges are based on the aircraft's maximum weight at take-off, and there are no differences in charges between peak and off-peak hours. Government employees are encouraged to travel with Royal Brunei Airlines on official trips.

82. Brunei has included in its 2005 GATS offer a commitment for rental of aircraft with crew. Market access through cross-border supply is subject to certification and approval from the authorities and infrastructure capacity; commercial presence is allowed only through a representative office with

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[34] The five airlines are Royal Brunei Airlines, Malaysian Airlines, Singapore Airlines, Thai Airways International, and Air Asia.

[35] Economist Intelligence Unit (2007), p. 12.

a permanent address in Brunei, or through a general sales agent, which must be a Bruneian-controlled company. Market access for personnel is unbound except for the requirement of a general sales agent in Brunei, who is in turn subject to a local availability test and the designation of a specified number of local trainees.[36]

(b) Maritime transport services

83. Overall, most of Brunei's international waterborne trade is carried by foreign vessels; only eight vessels fly the Brunei flag. According to the Brunei Marine Department, at end 2006, 69 vessels were registered in Brunei, eight of which were owned by the Government. Total gross registered tonnage under the Brunei flag was 472,454 tonnes. Eight LNG vessels trade internationally, in particular transporting gas to Japan; foreign-owned vessels are used to transport crude oil on a charter basis. Brunei imports most of its commodities, which are carried by foreign vessels operating through Muara port. Brunei has three passenger vessels plying between Muara in Brunei and Labuan (in Malaysia); it also provides car ferry services between Muara and Menumbok in Sabah, Malaysia.

84. The main port is Muara, 29 km from the capital.[37] More than 90% of Brunei's imports and exports (except oil and gas) are channelled through Muara. Under a 25-year agreement[38], the Port of Singapore Authority, in a joint venture with a local company, manages the container terminal at Muara. Muara Port has gone through extensive improvements since 1973, increasing the wharf size and overall storage space. It covers a total of 24 hectares, and has two main terminals; one is a conventional terminal and the other a container terminal. Muara Port is connected to 16 ports and receives more than 1,000 calls per year. The conventional terminal consists of a multi-purpose berth for conventional cargo carriers and roll-on/roll-off car carriers, with a total berth length of 611 metres. An additional berth is available for smaller crafts. According to the authorities, Muara Container Terminal aspires to be a regional transhipment hub to serve the developing economies of the East Asian Growth Area comprising 50 million population in Brunei Darussalam, Indonesia, Malaysia, and the Philippines (BIMP-EAGA).

85. Since 2004, annual cargo going through Muara Port has exceeded 100,000 TEUs (twenty-foot equivalent units) (Table IV.7); existing capacity is 350,000 TEUs a year. According to the authorities, vessel productivity, turnaround time, and berth throughput are closely monitored by the Ports Department with the aid of modern computer equipment to ensure that accepted performance indicator targets are maintained.

Table IV.7
Maritime services at Muara Port, 2002-07

	2002	2003	2004	2005	2006	2007[a]
No. of vessels calling at Muara Port	1,124	1,245	1,266	1,124	1,309	907
Container throughput handled (TEUs)	66,985	76,515	101,096	108,103	101,545	54,176
Cargo tonnage handled ('000 tonnes)	1,193,760	1,307,396	1,893,307	1,768,620	1,047,655	632,375

a January-July.

Source: Data provided by the Ports Department.

[36] The local availability test gives priority to employing a Bruneian as a general sales agent; however, if no Bruneian is available for the post, a foreigner may be appointed.

[37] In addition, there are two smaller ports located at Bandar Seri Begawan and at Kuala Belait, both used for smaller vessels carrying conventional cargo.

[38] A contract was signed in October 2000 with Singapore's PSA Corporation, setting up the PSA Muara Container Terminal Sdn. Bhd., which is expected to operate the terminal for 25 years.

86. However, Muara Port is considered to have reached its physical limit for expansion. The Government plans to develop Pulau Muara Besar (PMB), an island opposite the existing port, to accommodate a new container terminal, a cruise-line terminal, and an oil tanker jetty and refinery, as well as an export processing zone. The development of PMB is part of the BEDB's on-going strategy, together with the development of the Sungai Liang Industrial Park, to diversify Brunei's economy. In 2006, the BEDB planned to establish a consortium with the Brunei Government to fund, design, develop, and operate the proposed PMB project by 2009. The main competitive advantage of the project is deep water. As container ships get rapidly larger, they require deeper waters: future generation vessels, with a capacity of 12,500 TEU or more, need ports with a minimum of 16 m of water; PMB's natural seascape would keep dredging expenses relatively low, giving it a long-term cost advantage. In addition, the Government considers that PMB only needs to attract a small part of the rapidly growing transhipment trade for the port development to be viable.[39]

Policy

87. The maritime transport sector is regulated by the Marine Department in the Ministry of Communications. The Marine Department is responsible for the safety and security of ships, the protection of the marine environment, and for all ships registered in Brunei, trading domestically or internationally. Merchant shipping is subject to the Merchant Shipping Act, 1984 and a number of orders and regulations.[40] The Act establishes rules, *inter alia*, for registering ships under the Brunei flag, licensing ships operating in Brunei waters, and maritime safety. All Brunei ships must be registered under the Brunei flag unless exempt.[41] According to the authorities, Brunei encourages the registration of ships under the Brunei flag, subject to the rules and regulations of the Merchant Shipping Act. They also state that the Department is upgrading institutional capacity to ensure maritime safety and sustainable development.

88. All ships operating in Brunei waters, either wholly owned by Brunei nationals or by a corporation established in Brunei, must be registered with or licensed by the Registrar of Brunei Ships in the Marine Department. Under the Merchant Shipping (Registration of Ships) Regulations 2006, applications must be accompanied by, *inter alia,* a declaration of ownership, technical details of the vessel, as well as details of the manager, who must be resident in Brunei, and an agent.

89. Port services are regulated by the Ports Department, while the navigation of vessels entering Muara Port is under the purview of the Marine Department, both in the Ministry of Communications. The Ports Department manages: Muara Port, Kuala Belait Port, and Bangar Wharf. Some operations, including stevedoring, shore crane services, and cargo handling forklift services, appear to be provided by the private sector. Towage and tug boat services, previously provided by the Marine Department, were handed over to the Ports Department in April 2007.

90. Brunei made no commitments under the GATS with respect to maritime services; nor has it included the sector in its 2005 GATS offer in the DDA negotiations.

[39] It has been suggested by the Government that if PMB can capture only 5% of the growing regional trade, it could be handling a throughput of 1.2 million TEUs by 2010.

[40] These include: Merchant Shipping (Safety Zones) Order, 1988; Merchant Shipping Order, 2002; Prevention of Pollution of the Sea Order, 2005; Merchant Shipping (Standard of Training, Certification and Watchkeeping) Regulations, 2002 and their amendments, 2004; Merchant Shipping (Safety Convention) Regulations, 2003 and their amendments, 2004; Merchant Shipping (Registration of Ships) Regulations, 2006; Merchant Shipping (Tonnage) Regulations, 2006; Merchant Shipping (Harbour and Pleasure Craft) Regulations, 1986.

[41] Exempted ships include ships exceeding 15 tonnes of burden and ships licensed in Brunei.

(v) Tourism

91. Tourism has been identified as a major contributor to exports in the service sector with the potential to play an important role in Brunei's economic diversification plans. However, the tourism industry in Brunei remains relatively undeveloped, with around 200,000 foreign tourists in 2007 (Table IV.8). At the beginning of the review period, Brunei designated the year 2001 as "Visit Brunei Year" but tourist arrivals fell that year by 20% partly as a result of a global tourism slowdown after the 11 September terrorist attacks in the United States. Tourism dropped again in early 2004 following the regional outbreak of SARS.

Table IV.8
Brunei tourism trade, 2002-07 and estimates for 2010 and 2020

	2002	2003	2004	2005	2006	2007	2010	2020
Tourism performance								
Total foreign visitors	850,582	871,200	836,426	815,054	836,435	877,024	1,062,189	1,957,977
Total foreign tourists	257,032	268,045	222,482	189,003	194,662	204,852	249,927	478,469
Visitor expenditure (B$ million)	250	259	356	372	384	407	530	1,302
Economic contribution								
Total travel and tourism economy GDP (B$ billion)	1.440	1.133	1.593	1.741	1.903	1.983	2.269	3.738
Share of travel and tourism economy in total GDP (%)	13.8	9.9	11.9	10.9	10.9	11.2	12.2	14.2
Employment contribution								
Total employment in travel and tourism economy	19,604	19,894	20,807	21,253	21,904	22,784	26,679	38,149
Share of travel and tourism economy employment (%)	12.8	13.1	13.1	13.1	13.1	13.4	14.6	16.9

Source: World Travel and Tourism Council (2006), "Brunei Darussalam; The Impact of Travel and Tourism on Jobs and the Economy", *Policy Review*, 4 December.

92. Around 70% of tourists come from other ASEAN and Asian countries, in particular Malaysia, China, and Singapore. In addition, a much larger number of same-day visitors from Malaysia enter Brunei through land-entry points. The Government's objective is to increase international tourist arrivals as well as the average length of stay and expenditure. In order to reach a target of 250,000 tourists by 2010, additional facilities, including accommodation, transport and communication, and banking services, need to be further developed.

93. A study in 2006 found that the wider travel and tourism economy accounted for 11% of all activity and 13% of total employment in Brunei Darussalam in 2005; residential and business travel, especially travel abroad, are significant items of spending on travel and tourism; spending by foreign visitors accounts for over a third of all service export earnings, but most visits are brief and are mainly to friends and relations rather than for business or leisure purposes; and Brunei has the potential to raise foreign visitor spending significantly. Growth over the decade is forecast to raise travel and tourism's contribution to GDP to over 13.5%, increasing employment to almost 35,000 from 21,000 in 2005.[42]

[42] World Travel and Tourism Council (2006), "Brunei Darussalam; The Impact of Travel and Tourism on Jobs and the Economy", *Policy Review*, 4 December.

94. Tourism promotion is carried out by the Tourism Development Division in the Ministry of Industry and Primary Resources, acting under the advice of the Brunei Tourism Board. The Ministry and the Board intend to develop Brunei as a unique tourism destination in South East Asia while taking into consideration the traditional and cultural values of Brunei and the sustainability of its environment. Tourism planning focuses on the economic and social benefits for Brunei, while preventing an erosion of Brunei's socio-cultural and religious values, and ensuring conservation of the environment. Particular activities that are targeted include niche markets such as eco-tourism, adventure and cultural tourism, theme parks, and cruising targeting mature, well-travelled, tranquillity-seeking visitors from the region and beyond.

95. The Tourism Development Division is also responsible for regulating tourism services and issuing licences for tourism services providers. Travel agencies are regulated and licensed by the Economic Development Board in the Ministry of Finance, under the Travel Agents Act (Chapter 103). Licences issued for travel agencies are usually valid for a year and expire at the end of the calendar year; they are not transferable.[43]

96. Brunei made no commitments under the GATS in tourism services.

[43] Persons or companies applying for a licence must be registered in Brunei and supply documents including evidence of residence in Brunei and at least two years executive experience in the travel agency business; and no criminal offences (Article 5 of the Travel Agents Regulations (1982)). Any changes to the partnership or share capital, or shareholders in the case of a company, must be notified to the Board within 14 days (Article 3 of the Travel Agents Regulations (1982)).

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