

Business Advantage

PAPUA NEW ²⁰¹⁵ GUINEA

- 2015 PNG 100 CEO SURVEY
- SPECIAL MINING AND PETROLEUM SUPPLEMENT
- ECONOMIC UPDATE
- INFRASTRUCTURE, CONSTRUCTION & SERVICES





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Welcome to the tenth annual edition of *Business Advantage Papua New Guinea*, PNG's flagship business and investment guide.

This publication marks Business Advantage International's decade of covering one of the Asia-Pacific region's fastest growing economies, and showcasing the opportunities for doing business there.

Since 2006, we have interviewed hundreds of PNG-focused business leaders, bringing you their insights, wisdom and experience. This is why *Business Advantage Papua New Guinea* has become the most respected resource for PNG-focused business people the world over.

PNG has come a long way in the past ten years, and we've been delighted to follow its progress closely.

In early 2013, we expanded this resource in a major way by launching a companion online business magazine on PNG and the region, businessadvantagepng.com. It has quickly become essential reading for executives worldwide.

Far from replacing the need for a printed annual publication, the online service is designed to provide a wide variety of content that we could never fit into this publication—news, features, analysis, opinion and a wide range of tools and resources for business people.

It publishes all year round with a weekly email update, and it's free.

Combined with our annual Papua New Guinea Advantage Investment & Infrastructure Summit—which we will co-host with the Port Moresby Chamber of Commerce and Industry in Brisbane, Australia on 27 and 28 August 2015—this publication, combined with businessadvantagepng.com, makes it even easier for you to keep abreast of the business and investment opportunities in the Pacific's tiger economy.

Andrew Wilkins
Publishing Director, Business Advantage International

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Shaping the Future

Port Moresby's port is scheduled to be relocated—a major project that will open up its central business district for redevelopment.



PNG changes gear

Papua New Guinea's economy is now emerging from a period of hiatus following the completion of its massive liquefied gas project. Andrew Wilkins talks exclusively to some of PNG's top executives to find out their views on the country's economic progress.



Andrew Wilkins

In May 2014, Papua New Guinea achieved what some thought it would never do—it joined the exclusive club of liquefied natural gas-exporting countries.

The US\$19 billion ExxonMobil-led PNG LNG project, which achieved financial completion in early 2015 and is now bringing much-needed revenue to the country, has not only put PNG into the top 15 LNG producers worldwide; it has put this fast-growing economy of just six million people firmly on the global map for business.

The completion of the project has had significant consequences.

Not only are there more LNG projects in the pipeline, with French 'super major' Total SA now in PNG (see page 27), but the construction over several years of such a large, world-class gas development has lifted capabilities and skills across the economy.

'We're being encouraged that more and more people from the ANZ Group want to come to PNG,' says Mark Baker, Managing Director of ANZ's PNG operations. 'PNG is seen in a positive sense for people ... who are mid-career, who want to make a difference and want to get that exposure in a developing market.'

Great expectations

PNG's success has also, of course, raised expectations—both of what such large GDP growth, projected to be around 15.5%

for 2015, can deliver to the people of PNG (85% of whom live outside the formal economy) and also from a business sector keen to see some of the impediments to growth addressed by government.

As our annual survey of PNG's leading CEOs indicates (see page 10), there are still many constraints to growth in PNG's economy, and many of these—unreliable utilities, law and order problems, lack of government capacity and red tape—fall under the remit of government.

'If we can get the infrastructure development right ... it will create the opportunity for our manufacturing sector to start being more competitive.'

The construction phase of the PNG LNG project, which was given understandable priority by government, accentuated some of these issues. Now construction is complete, resources are being directed to where they are badly needed.

The largest National Budget in PNG's history was delivered by Treasurer Patrick Pruaitch at the end of 2014, with expenditure on infrastructure, education, health, and law and order now accounting for 50% of all expenditure.

Improved infrastructure will have a transformative effect on PNG's typically high-cost business environment.



PAPUA NEW GUINEA IN BRIEF

Population:	7.167 million (2012, source: World Bank)
Capital:	Port Moresby
Surface area:	463,000 sq km
People:	Melanesian, Papuan, Negrito, Micronesian, Polynesian
Time zone:	GMT +10 hrs
Business language:	English
Political status:	parliamentary democracy
GDP:	US\$15.65 billion (2012)
GDP growth:	15.5% (2015 projected, source: PNG Government)
Inflation:	6.6% (12 months to March 2015)
Currency:	PNG kina
Major industrial sectors:	mining, crude oil petroleum refining, palm oil, coffee, plywood and wood chip production, construction, fisheries, tourism, manufacturing
Exports:	oil, gold, copper ore, logs, palm oil, coffee, cocoa, seafood
Major export markets:	Australia, Japan, Philippines, China
Imports:	machinery and transport equipment, manufactured goods, food, fuels, chemicals
Major import markets:	Australia, Singapore, China
World Bank Ease of Doing Business Ranking 2015:	133 out of 189 economies

'If we can get the infrastructure development right—whether it's PNG Power with more effective, reliable and lower cost energy, or the ports for our international trade, or the highways—it will create the opportunity for our manufacturing sector to start being more competitive and increase their own investment in their plant infrastructure,' notes Robin Fleming, Chief Executive Officer of Bank of South Pacific, PNG's largest bank.

Progress in infrastructure

While the efficient disbursement of government funds remains a challenge, there are undoubted signs of progress.

The completion of the landmark development of PNG's busiest commercial port in Lae at the end of 2014, completed with funding from the Asian Development Bank, will greatly

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2006



The Port Moresby suburb of Konebada is a powerful symbol of improved economic conditions in PNG. Once the location of a lone Royal Papua Yacht Club, it is now home to the ever-expanding Harbour City office and residential complex, and a massive supermarket development. Across the road, Sir Hubert Murray Stadium is being completely remodelled to seat 18,000 people. Much of the development has been on land reclaimed from Port Moresby's Harbour.

improve port congestion (see page 42), while the government has embraced reform in both power generation (see page 37) and telecommunications (page 39), which should encourage greater private sector involvement and reduced costs for business.

Resources sector

While such investment is badly needed, it comes at a time when government revenues are falling. According to the Asian Development Bank's December 2014 *Pacific Economic Monitor*, mining and petroleum taxes were down 32% on projections in 2014, while consumption tax was down by 36%.

Like many resources-rich economies, PNG was affected by lower prices for its major mineral exports—gas, gold, silver and copper. The drop in prices has caused the operators of PNG's mines rein in costs, with consequences for the domestic economy, while exploration has largely come to halt. Two notable prospects continue to make progress, however: the Wafi-Golpu project in Morobe Province and Nautilus Minerals' deep sea mining project in the Bismarck Sea.

The prospects for PNG's gas sector look more positive, with Total SA and Talisman Energy (the subject of a takeover from Repsol) both pursuing projects, and a third train looking increasingly likely for the PNG LNG Project. (For our special supplement on the country's mining and petroleum sector, turn to page 25).

Managing revenues

While lower revenues and higher expenditure mean PNG's Government is now set to run a deficit budget until at least

2017, the general view is that the windfall from the PNG LNG project, set to be around K1.8 billion in 2015 alone, will soften the blow, especially if the Government is able to finalise the creation of its 'onshore managed, offshore invested' Sovereign Wealth Fund.

'It's one of the most effective mechanisms being used in a lot of countries for trying to quarantine the Budget from cyclical trends and inflationary and Dutch Disease implications from major export earnings,' Paul Barker, Executive Director of industry-funded think-tank, the Institute of National Affairs, tells *Business Advantage PNG*.

New paradigm

In the meantime, business has been getting used to a new paradigm. The times of year-on-year, double-digit revenue growth are over for the time being, and 2014 was clearly a year of consolidation for many businesses.

'We all expected after the LNG that things would drop off,' notes Wayne Dorgan, Managing Director of Pacific MMI Insurance. 'There was obviously a lot of activity going on ... and now the LNG build has been completed, the economy's sort of dropped back, although I wouldn't say drastically.'



Pacific MMI's
Wayne Dorgan

'My observation is that Papua New Guinea has a tendency to change gears without using a clutch,' suggests Stan Joyce, Chief Executive Officer of S P Brewery, PNG's largest brewer. 'I think my view is that some people got caught.'

While that might have meant some lay-offs in 2014, 2015 is again looking positive.

'We are expanding,' confirms Mahesh Patel, Chairman of the CPL Group, PNG's largest retailer. 'We're not going to slow down because we know it's going to turn. Now, *when* is the million dollar question, because over 30 years I've been through this cycle three or four times.'

Currency fluctuations

Managing business revenues has been made more challenging by falls in the value of PNG's currency, the kina, against its major trading currency, the US dollar, and moves by the country's central bank to manage that fall.

In June 2014, the Bank of Papua New Guinea set a higher value for the kina and also mandated a fixed trading band for the kina against the US dollar, effectively controlling the margins being made on foreign exchange transactions. The kina has continued fall since against the US dollar (although rising against the Australian dollar over the same period), but more slowly and without excessive volatility.

While this was seen as temporary measure—necessary until dollar revenues from the PNG LNG project start flowing—it was still in place in March 2015 and has undoubtedly had an impact.

'It is a problem for many businesses in getting sufficient foreign currency to pay suppliers and get goods off the wharves,' Greg Pawson, President of the Australia–Papua New Guinea Business Council, told *Business Advantage PNG* in March 2015.



Credit: Asian Development Bank

Lae's new port is now ready to receive tenants, following its long-awaited completion in December 2014.

Non-mineral commodities

A weaker kina has made PNG's vital agricultural commodities—palm oil, coffee and cocoa—somewhat more cost competitive internationally. Indeed, provisional Bank of PNG figures suggest the value of PNG's agricultural imports increased year on year by 18% in the 12 months to 30 September 2014—an encouraging sign for rural producers, who still form the backbone of PNG's economy (see page 50).

Marine exports also increased sharply in the September 2014 quarter—up 30% on the corresponding period in the previous year. This is a sector experiencing genuine growth in onshore value-adding (see page 47), provided issues of long-term sustainability in the Pacific fishery can be addressed.

Andrew Wilkins is Publishing Director at Business Advantage International



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The 2015 PNG 100 CEO Survey

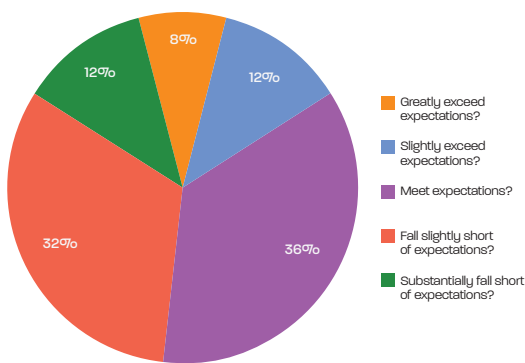


Our annual survey of PNG's major companies indicates a change in mood after a disappointing 2014, with profit and recruitment expectations up for the year ahead.

This is the fourth year in a row *Business Advantage PNG* has run the PNG 100 CEO Survey—our exclusive survey of executives in PNG's largest companies.

Designed to gauge business confidence, the survey seeks to uncover profit, investment and recruitment expectations for the coming year. It also encourages PNG's leading businesses to identify the key issues they are facing.

Looking back on your business's performance in 2014, did your profits



Profits below expectations in 2014

Our survey asked CEOs how their profit results in 2014 had measured up to their expectations.

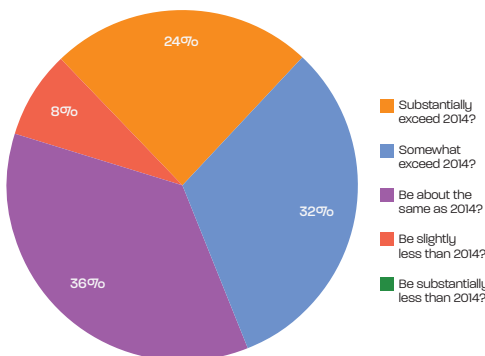
Responses suggest that the downturn first recorded in our 2013 survey continued throughout 2014, with 44% of respondents reporting profits were short of expectations, a similar figure to last year's survey.

Moreover, 12% reported a 'substantial' drop in profits, compared to last year's 15.6%—a very slight improvement.

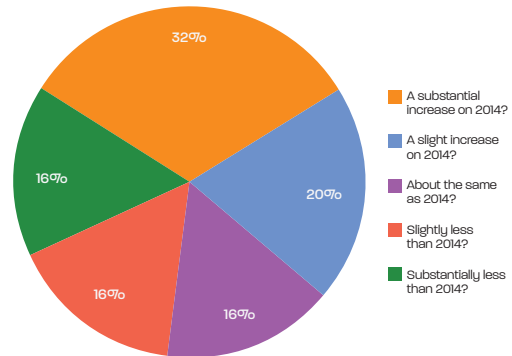
While some companies saw an improved profit situation in 2014, fewer CEOs reported profits ahead of expectations: just 20%, compared to 37.5% in 2013.

Perhaps companies are getting used to a less heated economy, or least are able to make more accurate predictions: some 36% of CEOs told us profits had met expectations during 2014, the highest figure since our survey began four years ago.

In 2015, do you anticipate that your profits will



How much investment (e.g. in plant, equipment, land or other assets) are you planning in 2015?



Higher confidence for 2015

While there were disappointments in 2014, there is a good deal of confidence that 2015 is going to be an improvement on recent years.

Some 56% of respondents said they expected profits to be higher in 2015, up from 43.7% last year.

This is a similar level of business confidence to two years ago, before the post-PNG LNG construction slump hit PNG.

Meanwhile, the number of CEOs expecting a drop in profits has not been lower since our survey began in 2012. Just 8% expect profits to fall in 2015, compared to 22.1% for 2014.

Some 36% of CEOs surveyed expect profits to be the same in 2015 as they were in 2014.

Investment and employment intentions

How much a business intends to invest and how many people it intends to employ are two other useful indicators of their confidence in economic conditions.

The PNG 100 CEO Survey is designed to capture investment and employment intentions in PNG's largest companies over the coming year, and it is in these two areas where we see a marked difference between this year's survey and last year's.

Our survey indicates there will be more business investment by PNG's larger companies in 2015 than there was in 2014.

Just over half of respondents—52%—said they were planning to increase their investment in plant, equipment and other assets during 2015, up from 40% last year.

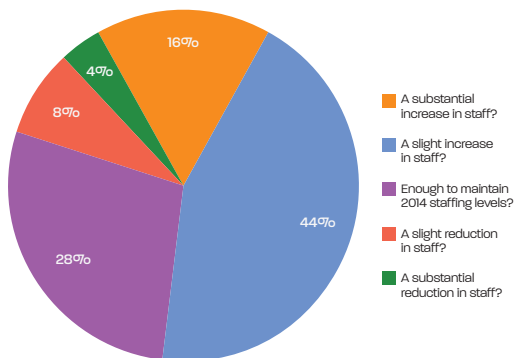
However, there remains some budget trimming, with some 32% saying they planned to reduce investment (a similar figure to last year, when 28.2% said they were planning cuts).

Only 16% told our survey they intended to invest a similar amount in 2015 as they did in 2014.

More jobs coming

We asked PNG's leading employers what level of recruitment they were planning in 2015, and the answers suggest further optimism.

What level of recruitment are you planning in 2015?



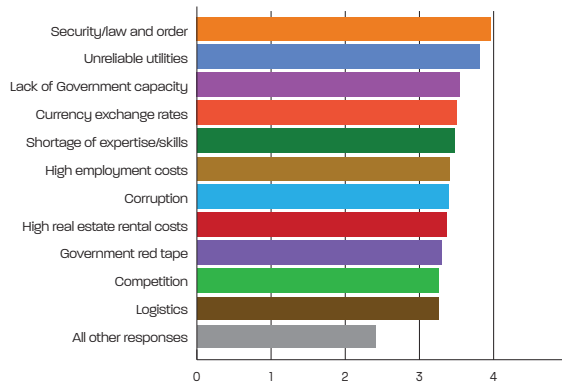
Last year, almost 30% said they were planning to cut their workforce. This year, just 12% said the same thing, suggesting the job-shedding that occurred in PNG during 2013/14 may be coming to an end.

Indeed, some 60% of CEOs told us they were planning to *increase* their headcount in 2015—about double the number in last year’s survey and the biggest number across the four surveys we have conducted since 2012. If those plans become reality, that’s good news for PNG’s job seekers.

Issues affecting business

The issues facing PNG’s largest companies have changed little over the four years of the survey, although the top issue has changed each year until now. In 2012, at the peak of the PNG LNG construction boom, it was the skills shortage. In 2013, it was security and law and order. In 2014, with its greater focus on productivity, the top concern was unreliable state utilities.

What are the critical issues facing your business in 2015?



This year, security and law and order is back as the top issue facing business, suggesting PNG’s leading companies are not seeing progress on this critical issue.

Unreliable utilities, while this year’s second top issue, are seen as marginally less critical in this year’s survey.

Meanwhile, the lack of government capacity to deliver services and implement policy has risen in the perception of our CEOs, and is now third on our ‘critical issues’ list, compared to sixth last year.

The PNG 100 CEO Survey 2015 was conducted by Business Advantage International between late November 2014 and early February 2015. The survey included senior executives from a representative sample of Papua New Guinea’s largest companies, across all sectors of the economy.



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Sir John Guise Stadium, location of the 2015 Pacific Games opening and closing ceremonies, under construction.

Major events set to boost PNG's capital city

Port Moresby is preparing to host two major events in the next three years— the 2015 Pacific Games and the 2018 APEC Summit. We examine the likely effect on the nation's capital and PNG's international reputation.

Between 4 and 18 July 2015, PNG's capital will be playing host to 3000 athletes, 500 team officials, and 1000 officials and dignitaries from 21 neighbouring countries for the 2015 Pacific Games.

Then, in 2018, the 21-nation, Asia-Pacific Economic Co-operation forum will be held in Port Moresby, bringing an estimated 10,000 visitors, from prime ministers and presidents, to officials and media.

Pacific Games

The 2015 Games is an opportunity to reshape how the world views Papua New Guinea, according to the CEO of the Games Organising Committee, Peter Stewart.

'Anyone who thinks the 2015 Pacific Games is just a sporting event is greatly underestimating the scale, scope and potential of this project,' he says.

Stewart says the Games could attract more than 4,000 visitors, whom he wants to return home with stories of how friendly and welcoming PNG is to tourists and businesses.

'Word of mouth tributes from first-hand experience are far more effective than millions of kina spent on advertising campaigns,' he says.

Nearly 300 international media personnel will produce stories about PNG in general, as well as reporting on the Games.

Stewart says 1500 hours of broadcast material produced by the Games Organising Committee will be distributed throughout the world across television, satellite, cable, internet and digital phone networks, and will play an important role in changing perceptions of PNG.

Stewart says he expects the K1.2 billion being spent on the

Games and new facilities will allow PNG to attract other major sporting, cultural and business events.

'These major events further enhance the reputation of the nation and continue the promotion strategy, while also attracting important overseas investment in the form of hotel beds and restaurants filled, not to mention work for local companies to support these events.'

Some 200 local companies will provide goods and services to the 2015 Pacific Games.

Hospitality boost

Room capacity throughout the city is increasing as a number of new hotels have been built, including the TST Group's Laguna Hotel, two new R H Group hotels—the Raintree at Vision City in Waigani and an airport hotel—and an expansion to the Holiday Inn hotel at Waigani.

A new hospitality training facility has also opened in Port Moresby. The Australia Pacific Technical College, in conjunction with TAFE Queensland and Coral Sea Hotels, will offer trade level qualifications in commercial cookery, commercial catering, bakery, patisserie and hospitality operations.

APEC forum

The PNG Government has set up the APEC PNG 2018 Co-ordination Authority, which will plan and implement the logistics and facilities required to accommodate the event.

'If the logistics for Papua New Guinea's APEC events are not properly planned and implemented, policy outcomes will be undermined and our national reputation tarnished,' Prime Minister Peter O'Neill has said.

PORT MORESBY'S PACIFIC GAMES: THE PHYSICAL LEGACY

Projects for the 2015 Pacific Games include:

- The four-lane, K160 million Kookaburra flyover, stretching from Jacksons Airport to Sir John Guise Stadium in Waigani;
- a K100 million extension to Jacksons International Airport
- Re-building the Sir John Guise Precinct in Waigani into an outdoor international track and field stadium with spectator capacity for 15,000
- The Sir Hubert Murray Stadium (built in 1969 when PNG last hosted the Games) is being redeveloped by Curtain Bros into an 18,000-seat stadium
- The Taurama Complex for swimming, volleyball, basketball and a variety of other indoor sports. Facilities include a stainless steel, Olympic-standard 50m competition pool;



The Kookaburra Flyover under construction.

- A K190 million Games Village, which will afterwards be used as student accommodation by the University of PNG, to be built by China Railway Construction Engineering
- A total of K800 million to improve the city's roads.

'Full APEC protocols and arrangements will be followed in preparing for this event that will cover delegate accommodation, meeting venues, hospitality and delegate safety and security.'

A number of APEC lead-up events will test Port Moresby's readiness between now and 2018.

Convention centre

The Forum itself will be held at a new National Convention Centre in Waigani, which is under construction as a gift

from the Government of China at a cost of around \$US30 million (K74.9 million). It will have a total sitting capacity of 1200, comprising a 700-seat conference hall, two medium and six small conference rooms, and office space for leaders.

Another major project approved in time for the APEC Summit is the K1 billion relocation of the port of Port Moresby to nearby Motukea Island, paving the way for the redevelopment of the city's foreshore.



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Experts discuss the best way of structuring infrastructure projects in PNG.

Investment Summit provides focus on infrastructure

Every year, international investors, PNG government officials and local entrepreneurs come together for the Papua New Guinea Advantage Investment Summit. In 2014, the two-day summit had a special focus on infrastructure development.

The fourth PNG Advantage Summit, co-hosted by the Port Moresby Chamber of Commerce and Business Advantage International, drew around 300 international and local delegates to the Gateway hotel in Port Moresby to hear two days of presentations, panel discussions and high level networking.

With the commencement of Papua New Guinea's first-ever LNG shipments only recently under way, there was an air of celebration at the event. Welcoming delegates to what he described as the 'Dubai of the Pacific', National Capital District Governor Powes Parkop spoke of the major projects that are transforming Port Moresby in a contemporary metropolitan city, including facilities for the 2015 Pacific Games (see page 12) and major roads expenditure.

Business incentives

PNG's Prime Minister Peter O'Neill used his keynote address to flag 'generous, more incentives, including tax holidays for selected industries like tourism, agriculture and manufacturing, to enable employment opportunities and business opportunities', as well as acknowledging with frankness the hard work that will be required to make PNG's state-owned enterprises efficient and profitable.

Guest speaker David Thomas, an expert on the BRIC countries (Brazil, Russia, India and China) then had both politicians and delegates enthralled with his practical

assessment of what PNG could learn from the growth of these economies. Stability and good planning were the keys to growth and PNG was especially well-placed to take advantage of China's 'going out' policy.

'Developing long-term relationships with Chinese companies will pay off many times over,' he said. 'To do that, make friends, build bridges through chambers of commerce and sister-city relationships, visit Chinese colleagues and invite them to PNG.'



PNG's Prime Minister Peter O'Neill in conversation with the Asian Development Bank's Lakshmi Venkatachalam.

Areas for investment

There is clearly more investment to come in the resources sector, with gas a leading focus.

'There is enough gas capacity in PNG for at least three more LNG trains over the next five-to-seven years,' noted Peter Botten, Chief Executive Officer at Oil Search Limited, 'which would require an investment of about another A\$25 billion. The amount of proven gas totals about 14 tcf. The first PNG LNG plant contains nine tcf.'

Many investment experts, however, emphasised that new investment opportunities lay outside of the resources sector.

Michael Block, Chief Investment Officer at PNG's largest superannuation fund, Nambawan Super, listed energy ('we're looking at solar farms right now'), agriculture (in particular safe, renewable forms), telecommunications, finance, tourism and education.

'They're all the areas that we think will be areas that will have a divergent and different return,' he says.

Meanwhile, outgoing Country Coordinator Carolyn Blacklock said the IFC, the World Bank's private sector arm, was particularly looking for investments that delivered the development outcomes:

'We want job creation, particularly creation of good jobs.'

'What we're really looking for is companies where we can add value,' said Blacklock. 'Remembering that, if we're catalytic, we're investing because we know that at some point in time we're no longer going to be needed.'

Infrastructure opportunities

For Blacklock, the priority was to invest in infrastructure, which was the theme for all of Day Two of the Summit.

After a welcome from Minister for Public Enterprises and State Investment Ben Micah, the Asian Development Bank's Vice President (Private Sector and Cofinancing Operations) Lakshmi Venkatachalam outlined the bank's approach to infrastructure investment, including its successful investment in Lae's port.



Credit: Stephen Rae

Delegates came from Europe, Asia and the Pacific.

Former Victoria Treasurer Tom Roper explored the challenge infrastructure development places on governments, while an expert panel of bankers, consultants and debated best practice in developing infrastructure projects in PNG.

The big news from Day Two was around the PNG Governments' stated aim of building a new port in Port Moresby and, in the longer term, selling down its ownership in some state-owned entities, notably Air Niugini and PNG Power. Delegates also heard of major new public investment in roads and airports.

The 2014 Summit featured a number of case studies of successful investments in Papua New Guinea, including waste recycling business Total Waste Management, AES's Ravuvu Industrial Park outside Port Moresby and New Britain Palm Oil's investment in renewable energy.

Now an established fixture in PNG's business calendar, the next Papua New Guinea Advantage Investment and Infrastructure Summit will take place at the Brisbane Convention and Exhibition Centre, Brisbane, Australia, on 27 and 28 August 2015.

www.pngadvantageconference.com

PNG STOCKS OUTPERFORM INTERNATIONAL SHARES

Heavily weighted as it is with dual-listed mining and petroleum stocks, it was no surprise that the overall value of Papua New Guinea's bourse, the Port Moresby Stock Exchange (POMSoX), fell significantly during 2014.

The year 2014 was a bad one for resources stocks globally, with falling oil and mineral prices wiping considerable value off mining and gas companies across the board.

PNG's main market index, the Kina Securities Index (KSI), closed at 3,496.88 points, falling off 375 points or 9.7% during the year, while the exchange's weighed market capitalisation fell by K5.9 billion (US\$2.23 billion), to K53.3 billion (US\$20.1 billion).

Major stocks Bank of South Pacific (BSP) and Oil Search (OSH) fell by 11% and 8.7% respectively over the year, but one notable company to buck the trend was New Britain Palm Oil (NBO), which gained an impressive 73.3% in 2014 due to a generous takeover offer from Malaysia's Sime Darby Plantation that was completed in late February 2015. Its ongoing listing was under review at the time of writing.

Setting aside stocks that had their main listing overseas, POMSoX performed rather better than the overall bourse.

Local stock broker Kina Securities' Home Index measures the performance of stocks that are only listed on POMSoX.



Credit: NEPOL

At the time of writing, New Britain Palm Oil's listing on POMSoX was under review, following its acquisition by Sime Darby Plantation.

This index actually rose some 17% during 2014, reflecting the relatively strength of the domestic economy.

The Pacific's largest exchange also got a lot busier in 2014, with the value of trades increasing by 231% on the previous year, and the number of transactions up 4.6%.



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Papua New Guinea's Kina Group looks to the future

From modest beginnings, Papua's New Guinea's largest non-bank financial services company, the Kina Group, has come a long way. Chief Executive Officer Syd Yates explains the Kina vision.

Since it started as Kina Securities, a small funds administrator and stockbroker, some 17 years ago, the Kina Group has grown into a model diversified financial services group in Papua New Guinea.

Today, Kina is also a funds manager with over K4.7 billion (US\$1.82 billion) funds under management, a finance company, mortgage lender, insurance provider and co-founder and shareholder in PNG's bourse, the Port Moresby Stock Exchange.

With over K340 million (US\$132 million) in assets, an annual turnover of K66 million (US\$25 million) and over 200 staff, Kina's CEO Syd Yates looks back with some satisfaction.

'From seven staff with two computers in 1996/97, we've come a long way,' Yates tells *Business Advantage*.

'We've built Kina with a strong foundation of best practice governance and systems and controls. We now have two banking and financial institution licences, two licences under the Superannuation Act, a Trustee Licence, and we're also member of the Port Moresby Stock Exchange.

'We've also developed a strong track record of returns in that time, and proven products and services for our customers.'

Parallel growth

The growth of the Kina Group has mirrored the emergence of Papua New Guinea's economy, which itself has more than doubled in the past eight years and is expected to grow by more than 8% in 2015.

As more Papua New Guineans have entered the formal economy, so demand for vehicles, white goods, payment systems, savings accounts, small business loans, investments and home ownership has grown. Generally regarded as well regulated by the Bank of Papua New Guinea, PNG's financial services sector has grown steadily to meet demand.

'Young Papua New Guineans want what everyone else wants. They want a nice house, they want to go on holidays, they want to have investment portfolios, and we've been able to help them with that.'

Yates says the strength of the company is in its diversity: several businesses servicing different parts of the market, supported by a common back office.

'We are the funds manager for superannuation fund Nambawan Super. They started off with around K720 million (US\$280 million) of funds, and today their fund is worth about K4.2 billion (US\$1.63 billion). We've been supporting them in the growth of its investments and helping to secure the financial future of its members.



Kina Group's Syd Yates

Loan finance

'But that's just on our funds management side. On our finance side, we've developed products to help Papua New Guineans own their first house, to be able to get school fees to send their kids to school, to buy a car and so on.'

One of Kina Finance's successful products has been EsiLoan, while the group has recently launched its own insurance product, underwritten by Tower Insurance.

'In the first month, we wrote 300 policies, which is pretty good for housing in PNG,' says Yates.

In 2007, Kina set up Kina Asset Management Limited (KAML), PNG's only listed investment company, which now has an investment portfolio worth K48.6 million (US\$19 million).

KAML's most recent results—a year-to-date return of 17.5% for the third quarter of this year—suggest it was an astute move.

'Over 3,000 Papua New Guinean shareholders now have the opportunity not only just to own shares on the PNG market, but also shares on the Australian and overseas markets,' notes Yates.

The Kina difference

In addition to being quick to market with new products and services, Yates thinks one of Kina's strengths is its ability to be responsive.

'For instance, if our clients have an EsiLoan Cashcard, which we launched this year, we can turn customers' loans around in two hours. That's best practice. That's better than most places in Australia, and this is done by everyday Papua New Guineans.

'We want to meet our customers' expectations, and that's what we try to do.'

Having in-house capability has been key: Kina's IT staff recently developed its own EsiLoan app for Android phones.

PNG'S GROWING MIDDLE CLASS

With PNG's growing middle class and youthful population, Kina Group's Syd Yates sees the future for financial services in Papua New Guinea as strong.

'Young Papua New Guineans want what everyone else wants. They want a nice house, they want to go on holidays, they want to have investment portfolios, and we've been able to help them with that.

'We've seen some young people who have two, three houses now, and have also moved on to develop a small

investment portfolio. To me, that's the greatest thing. I feel really great when I see these young people being able to do that. Home ownership in PNG is probably one of the greatest things people can have.'

Yates is looking forward to a busy 2015.

'In many ways, the Kina story is only just beginning,' he enthuses.



Credit: Kina Group

Kina Finance manager Mike Malai hands over car keys to a new Kina novated lease customer.

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Marea Haus, colloquially known as the 'pineapple building', in Port Moresby's Waigani district has long been a symbol of under investment in maintenance. Once used by PNG's Prime Ministers, the building has lain empty for years due to safety concerns. Now, however, the building is being fully renovated under a public-private partnership with Oil Search Limited. The project is being funded under the National Tax Credit Scheme, which allows businesses investing in essential infrastructure to offset the cost against their tax liability.

A new surge in construction projects

A range of new projects under way or about to start will revive the construction sector after the completion of the construction phase of the ExxonMobil-led PNG LNG project.

Since the completion of the PNG LNG project, the sector has been in a lull, but the development of Jacksons International Airport, new housing, the relocation of the port of Port Moresby and preparations for the 2015 Pacific Games and the 2018 APEC summit are all providing a boost to the sector.

A decision on a second LNG plant in Gulf Province led by France's Total SA, expected by the end of 2015, will also be factored into construction and infrastructure planning.

Bullish about growth

'There are lots of Papua New Guinean construction entities that sort of sprung up from the PNG LNG experience, and some of them are predominantly Papua New Guinean owned, so they're about but they're going to have some difficulties in maintaining their momentum because of the lull of activity,' explains Frank Kramer, CEO of engineering firm Kramer Ausmenco (PNG).

'But there is a residual level of activity that's still in the country that we see as an opportunity for us to grow our business,' says Kramer.

Kramer is bullish about the prospects for his own business:

'We've got a strategic growth plan that between now and 2018 we want to significantly increase our numbers from 120 people to something like 300 or 350, and correspondingly in

our revenue levels will increase. In doing that, we are actually extending our skillsets a little bit beyond our traditional horizons.'

Housing on the agenda

'The construction area I have most optimism about is housing,' says the CEO of the Manufacturers' Council of PNG, Chey Scovell.

In May 2014, the PNG National Government and Bank of South Pacific announced a partnership to provide affordable housing for public and private sector employees.

The Government's 2015 budget provides the initial capital of K200 million. State-owned land will be given to homeowners. The government has identified unused land in Port Moresby as suitable for 40,000 new homes.

In addition, Planning Minister Charles Abel says he plans to give away 2,000 land titles in each province.

Private residential developments such as the 500-home Edei Township outside Port Moresby are also in the pipeline.

However, Scovell is concerned that the government may exempt imported prefabricated housing and materials from import duties.

The local industry is competitive on price, he says, 'so if Cabinet rejects that idea, that would be the most positive aspect for local manufacturing.'



Construction at Port Moresby's Harbour City development continues apace.

Saudi Arabian housing specialist Red Sea Housing came to PNG to build the site camp for the ExxonMobil-led PNG LNG project and has stayed on to complete several other construction projects.

General Manager Kenneth Clinton says the company is currently completing a K49 million project to build 150 three-bedroom housing units for police officers that will be completed at the Bomana Police Training College in Port Moresby.

APEC

Parliament approved the establishment of the APEC Papua New Guinea 2018 Co-ordination Authority, to deliver all logistical elements for up to 200 APEC meetings and events that will take place between 2015 and the end of 2018 (see page 12).

The estimated US\$500 million development of Jacksons International Airport is already providing opportunities for PNG's construction companies.

'And that strategically is really important because that's going to prepare the aerial gateway to PNG for the APEC infrastructure,' says Kramer.

Port relocation

While the plans are yet to be unveiled, there is likely to be significant civil works surrounding the relocation of Port Moresby's port to Motukea Island, currently the site of engineering and construction firm Curtain Brothers' private port and shipyard.

Curtain Bros, which has been behind Port Moresby's massive Harbour City development, is currently refurbishing 18,000-seat Sir Hubert Murray stadium, next door.



Edai Town, a contemporary, gated 500-unit executive K250 million (US\$100 million) housing estate is under construction in Central Province. The township is part of a residential and logistics corridor between PNG's capital city and ExxonMobil's LNG Plant, 20 km north-west of Port Moresby.

ROADS: A MAJOR FOCUS OF GOVERNMENT INVESTMENT

Scheduled road projects in Papua New Guinea will require investment of around K7 billion between 2015 and 2018, according to David Wereh, Secretary of PNG's Department of Works and Implementation.

PNG's estimated 30,000 km of roads, of which the 8700 km National Road Network is the key component, are notoriously hard to maintain due to regular extreme weather events and demanding topography. But keeping roads open and usable is critical, especially for PNG's rural economy.

Wereh told the 2014 Papua New Guinea Advantage Investment and Infrastructure Summit in Port Moresby that almost K2.6 billion of works are currently under way. But, he warns, PNG's poorly-maintained existing roads represent a 'time bomb' for the country.

Wereh says the priority projects over the next five years are:

- rebuilding the critical 800 km Highlands Highway world to 'world standard'
- upgrading 70 km of Lae City's roads
- upgrading Port Moresby's roads
- upgrading and sealing 2500 km of PNG's national highways
- building 1400 km of new 'missing links' roads to connect four key road corridors
- upgrading provincial roads.

Meanwhile, on Bougainville, a second major resealing project in two years has been completed. The Autonomous Bougainville Government, with the support of the Australian Government, has finished resealing 14.4 km of road between Morgan Junction and Arakawau.



The Department of Works and Implementation's David Wereh.

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PNG perspectives

Business leaders provide their personal take on Papua New Guinea's economy.



'We'd certainly like to see more focus on the agricultural sector. It's where the majority of the population is going to be able to commercialise their interests in the customary land that's available to them.

'If we can get infrastructure costs down—land, road, sea and air—then you're able to take advantage of a lot of agricultural capacity in the Highlands.'

—Robin Fleming, Chief Executive Officer, Bank of South Pacific



'If you look over the next say ten to 15 years, Asia will really become the dominant source of capital, and capital's what PNG needs.

'We're trying to introduce as much sophisticated structuring in PNG deals as we can. This way, we're setting the foundation for attracting international banks into this market.'

'What we're really just trying to do is connect trade and capital flows between Australia and New Zealand and Asia Pacific, that's our fundamental core strategy.'

—Mark Baker, Managing Director—Papua New Guinea, ANZ



'My customer is anybody who can shop, because we get village people without shoes coming spending 500 kina and then we get an expatriate doing the same thing. Our shops must not be intimidating for either. It's a balancing act.

'When we opened our flagship K100 million (US\$38 million) Shop N Stop supermarket at the new Waigani Centre in 2014, I said to the

guys, we don't want to put off our base customers, who are the village people, so I had one of my store managers in his traditional Highlands outfit just welcoming customers. We just wanted to give the feeling that we were still the same store in a better and cleaner environment.'

—Mahesh Patel, Chairman, CPL Group



'If the government can address the current challenges faced by businesses, we will witness more stable economic growth in coming years.

'PNG has many natural advantages, and is well-placed to benefit from the growth of major economies in Asia. The next five years could see PNG take real steps towards the development goal of becoming

a middle-income economy.'

—James Lau, Managing Director, Rimbunan Hijau (PNG) Group



'We are embarking on a growth strategy taking advantage of the high GDP growth that's expected in 2015. Notwithstanding the downturn in the construction sector after the completion of the PNG LNG project, there is a residual level of activity that's still in the country that we see as an opportunity for us to grow our business.'

—Frank Kramer, Chief Executive Officer, Kramer Ausenco

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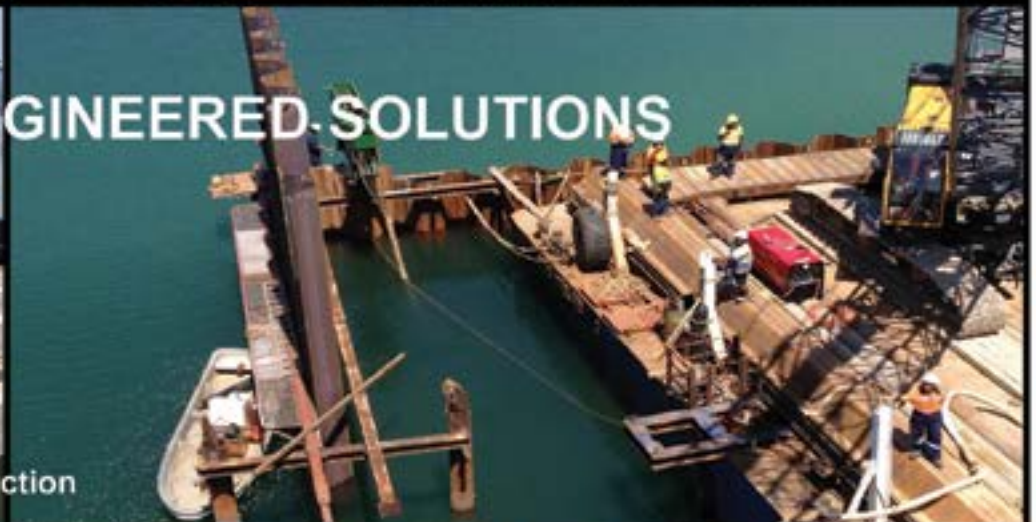
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Investing in PNG from South East Asia: managing the risks

Investment into Papua New Guinea from the ASEAN region, especially Singapore and Malaysia, continues to grow. Erik Andersen considers the tools for managing risk available to investors from the region.



One important issue for new investors is comfort that any dispute with local counterparts will be resolved by law in a trustworthy process capable of being enforced. Arbitration provisions (such as through the Singapore International Arbitration Centre) are one effective way of achieving this, but an additional option is now available.

Singapore International Commercial Court

The establishment this year of the SICC as a division of the Singapore High Court opens another dispute resolution avenue.

SICC may exercise jurisdiction in international commercial disputes, even if the dispute is entirely offshore (even if neither of the parties are Singaporean and it does not concern a Singaporean investment), provided that both parties submit to it.

The advantages of being able to access the Singaporean system are significant. The current World Bank survey of 190 countries' enforcement of contracts rated Singapore number one in the world, so accessing the world's best rated contract enforcement system now provides an excellent alternative for investors perhaps concerned about efficiencies in PNG's court system.

An SICC judgement would be enforceable in PNG in the normal fashion of Singapore High Court judgments under PNG's Reciprocal Enforcement of Judgments Act.

Double taxation agreements

To properly protect international investors from paying tax on the same income in more than one country, Papua New Guinea has DTAs with both Singapore and Malaysia. The protections are available to tax residents of both countries, as set out in each country's particular treaty.

Investment protection treaties

Internationally, the consensus is that when a nation state exercises its power to expropriate property it must only do so in accordance with some variation of the formula that it is in accordance with law, is for public purposes, and results in payment of compensation. That protection is available to investors into PNG.

One version of that formula is part of PNG's domestic law under the Investment Promotion Act and is available to all foreign investors who properly comply with that Act's certification requirements.

The ability of an investor from a country *not* party to a bilateral investment treaty to enforce that provision in the International Centre for Settlement of Investment Disputes has recently been called into question and, at the time of writing, is before an ICSID arbitral panel.

Given ICSID jurisdiction under PNG's domestic laws is unresolved, it is sensible to consider alternatives.

There is a bilateral investment treaty between PNG and Malaysia containing protection from acts of expropriation, so inward investment from Malaysia can automatically take advantage of the protection provided by that treaty, and that treaty also includes an explicit agreement to have disputes settled at the ICSID.

Structuring a PNG investment to qualify for that treaty would, of course, need to be carefully thought through, based on the particular facts of the proposed investment.

Erik Andersen is a Partner at Godens Lawyers in Port Moresby and has practised in PNG for more than 20 years.

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Mining and Petroleum in PNG

A special supplement



Credit: ExxonMobil

The Papua, the first custom-built LNG carrier for the ExxonMobil-led PNG LNG Project, arrives in Papua New Guinea in February 2015

Five things to take home from the 2014 PNG Mining and Petroleum Investment Conference

Despite the worldwide slump in commodity prices, numbers were strong at the 13th Papua New Guinea Mining and Petroleum Investment Conference in December 2014.

1. PNG has what the world wants

President of the PNG Chamber of Mines and Petroleum, Oil Search's Gereia Aopi, emphasised that the commencement of liquefied natural gas exports in May 2014 had 'created new confidence in PNG's resource's sector'.

The long-term outlook for PNG is still very positive too, according to Deloitte Access Economics Partner, Chris Richardson, who pointed out that the urbanisation in South-East Asia, especially in China and India, still had a long way to run and 'PNG has what the world wants': not only minerals but also agricultural capacity.

2. The next decade will be about 'being boring'

With the supply side of resources finally starting to catch up with demand, after a decade of catch-up, it was no surprise that prices were coming down, said Richardson.

He urged the industry to not just focus on revenue, but also on costs.

'May I recommend to you being boring?' he said to delegates.

PNG's miners are already taking up this recommendation, with Newcrest Mining removing costs across all areas of its gold mine on Lihir Island, and Ok Tedi Mining repatriating expat workers, and cutting back on employment of consultants, contractors and vehicles.

Exploration programs by 'juniors' have also been radically cut back too, as capital is conserved in order to weather the low point of the price cycle.

3. The guard is changing

Two of the PNG resources industry's most senior executives, Nigel Parker of Ok Tedi Mining and Peter Graham of ExxonMobil PNG, have moved on.

In both cases, their replacements will have very different projects to manage: Ok Tedi COO Werror will be faced with the challenge of extending the life of what has been for many years PNG's largest mine, with significantly less resource (see page 33). Meanwhile, new MD Andrew Barry will be inheriting a fully functioning PNG LNG project and must address the challenge of how and when to expand production into the future.

There were newer kids on the block too: this year, Total Oil's Jean-Marie Guillermou, Senior Vice President for Asia-Pacific,



was given a prominent place in the program on the opening morning. The French major was keen to sell its vision for the Elk-Antelope gas project it hopes to pursue with InterOil (see page 27).

Meanwhile, PNG's next major mining project may well be under the sea or underground, with Nautilus Minerals' Solwara 1 project finally back on track (see page 35) and the pre-feasibility study for the Harmony Gold/Newcrest Mining Wafi-Golpu project—PNG's first major underground mining operation—is now complete (see page 34).

4. Stability is the key

In his speech to the conference, PNG's Prime Minister Peter O'Neill emphasised the importance of political and policy stability for the resources sector and expressed an understanding of the importance of encouraging foreign investment in the sector:

'We can and we must build on our success and we can't do it without quality foreign investment and skills.'

With the fiscal frameworks for the industry under review, such a statement was welcomed.

5. PNG needs to see more for its resource exports

Many of the presentations at the conference emphasised the benefits delivered by resources projects to landowners and communities.

For instance, Newcrest Mining's David Woodall told delegates that about 60% of the US\$565 million 2014 revenue from the Lihir gold mine was spent in PNG, while Barrick Gold's Chris Trainor spoke extensively about the Mining and Petroleum Industry Investment Fund, which the Porgera miner has established as an investment vehicle for landowner royalties.

InterOil revises its PNG strategy

InterOil has undergone a major reorganisation in the past 12 months, changing its management team, divesting itself of its downstream assets and focusing instead on exploration and the development of the Elk-Antelope project with France's Total SA. Its CEO, Dr Michael Hession, explains the strategy.

In 2014, we prepared for growth. We renewed our management team, streamlined our business, focused on monetising our gas resources, and began renewing our board.

Second, we focused on effectively and efficiently developing Elk-Antelope—potentially the lowest-cost LNG project in the Asia-Pacific.

Third, we remain focused on financial discipline and have a strong balance sheet with cash in the bank and very little debt.

Finally, our deal with Total SA provides for additional cash on certification of Elk-Antelope gas volumes, which is expected in the second half of 2015.

Our strategy is simple and focused—we find hydrocarbons, monetise and develop them, and then do it again.

If 2014 was about us focusing the company and freeing us from distractions, 2015 is about delivery.

Elk-Antelope sits on the doorstep of Asia, the world's largest LNG market, and we are poised to take advantage of our proximity to markets.

We are now focused on using our funds effectively and efficiently in a competitive contractor market for seismic, drilling and LNG development.

Elk-Antelope is a single gas field that can be developed without the cost of collecting gas from multiple fields.

It is closer to the coast and Port Moresby than other major gas fields in PNG and it is close to a major river, an important cost benefit when transporting people and equipment.

The gas field is in a less-mountainous region than other major gas fields, a big factor in development cost, and, it is within Papua New Guinea's least populated province, a key factor in negotiating land access.

All of these factors point to lower cost, and lowest cost projects go first.



Credit: InterOil

InterOil's Dr Michael Hession



InterOil

Energy for the Asian Market



What ExxonMobil learned in Papua New Guinea

The giant ExxonMobil-led PNG LNG project has proven Papua New Guinea is a viable place to carry out major resources projects. Former ExxonMobil PNG Managing Director Peter Graham reflects on the lessons learned.

Business Advantage PNG (BAPNG): What was the critical factor in getting the PNG LNG project completed on time?

Peter Graham (PG): Alignment with the Government was critical, and I think the Government recognised very early on that this was a transformational project. That truly was critical from the outset.

Without their support and direction from the then-Prime Minister, Sir Michael Somare, and subsequently from Peter O'Neill, it would have been far more challenging to achieve what we have done. Agencies and departments across all levels of Government have stepped up and done an absolutely spectacular job.

Nothing got held up on the docks, permits and visas were processed in an extremely timely manner. That sort of achievement is world class, but the Government gave it special project status—that was critical.

BAPNG: ExxonMobil was completely new to PNG when this project started. So what tips and recommendations would you pass on to newcomers?

PG: I think probably number one is learning how to deal with communities. It's just so critical in Papua New Guinea, particularly when it comes to access to land—and you can't do anything without access to land. I think that was probably one of the earliest and toughest lessons for us to learn.

A lot of our projects elsewhere in the world are offshore, and you don't have landowners to deal with offshore! But with an onshore project, learning how to co-exist with landowners and understanding the strong bond landowners have with their land... it took us a while to figure out how to make it work, and how to relate to those traditional landowners and find solutions that were mutually beneficial. Now, I think we have very strong relationships and a mutual understanding and respect.



Credit: ExxonMobil

ExxonMobil's Peter Graham signs a memorandum of understanding for the use of PNG LNG project gas for power generation in Port Moresby with Acting Minister for Petroleum and Energy, the Hon. Ben Micah while PNG Prime Minister Peter O'Neill, and incoming MD Andrew Barry look on.

BAPNG: The challenge now is to make the most of the infrastructure that you built for the PNG LNG project, and the most obvious thing is to extend to a third train. What are the prospects?

PG: I think the prospects are good. However, there is work that needs to be done before you can start talking seriously about the next step. The starting point for any development is accumulating proved reserves, and it's a challenge for every development, not just us. We are on our way, though.

BAPNG: What's the latest on the prospects of using some of the gas for domestic energy?

PG: We have signed an MOU with the PNG Government to supply up to 20 million cubic feet a day of natural gas for 20 years to support government plans to improve the capacity and reliability of the country's power supply.

We think that this is a great step towards improved supply for Port Moresby, and will be working with PNG Power and doing our best to support them so they can quickly access the power.

We've also had a longstanding commitment under the Gas Agreement to supply four million cubic feet a day in the Highlands for power generation, and we stand ready to deliver that as well.

Talisman Energy prepares to drill at Stanley gas project

Despite the takeover of its Canadian parent by Spanish energy company, Repsol, it's business as usual for Talisman Energy PNG as it develops the Stanley gas field in PNG's Western Province. Vice President and General Manager Grant Christie explains what 2015 holds.



Talisman Energy's Grant Christie.

Business Advantage PNG (BAPNG): What do you see will be the next phase of the project?

Grant Christie (GC): We've got a drilling campaign starting up in mid-2015 going through to 2016, so that's going to be focused on appraisal and additional exploration to add volume to aggregate to a critical mass of gas reserves.

There's a second phase, which is the Stanley Gas Project, and we're the operator of that project, so we're focusing our efforts at the moment on getting that project back on track to produce an oil stream and a domestic gas stream as soon as possible.

BAPNG: Your strategy in PNG is centred around the aggregation of smaller fields to create one larger reserve. What's the tipping point for you where you can say, okay we now have enough reserves to go to the next stage?

GC: I think the critical volume for a gas aggregation is between three and five trillion cubic feet (TCF). That's sufficient volume to start into front-end engineering and start an LNG train design.

We've looked at schemes for smaller volume, but what we find in the Western Province is that the infrastructure requirements are not insignificant, and so it pushes you towards requiring larger volumes to economically justify the development.

BAPNG: What are the challenges in Western Province?

GC: The biggest challenge is the logistics. It's remote so it requires helicopter operations for everything. A rig move means about 400 separate heavy-lift helicopter moves, in addition to all the light helicopter people movement.

With the remoteness, the lack of infrastructure and industry also means you have to bring everything in that you need.

We're now starting to see with the likes of Total and ExxonMobil coming to the party in more serious conversations about sharing infrastructure, and setting up infrastructure that is sustainable.

BAPNG: What opportunities are there to share infrastructure to take the gas to market?

GC: Sharing logistics infrastructure—sharing rigs, helicopters, and, if you're working in the same area, using the same base, using the same heavy-lift helicopters. There're only a few of them in the world.

And, obviously, there are the synergies when you're into a development phase of sharing pipeline and facilities infrastructure with ExxonMobil or Total, and that's probably the key discussion.

BAPNG: And how are those discussions going?

GC: It's early days. Actually, it's probably in the last six to 12 months that I think people have started to realise what we realised about three or four years ago, which is aggregation is the way to accelerate the activity, share resources, have a common pipeline, and develop these resources collectively, as opposed to each consortium running in their own direction.

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Mining Projects

- Operating Mine
- Mine Under Development
- Possible Mine
- Large Scale
- Medium Scale
- Small Scale

Petroleum Projects

- Oil Project
- ◆ Gas Project
- Possible Oil or Gas Project
- Oil Export Pipeline
- Gas Pipeline

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Puma Energy's executives. From left: Patrick Meyer (Head of Corporate Affairs), Rob Jones (COO, Asia-Pacific), Peter Diezmann (GM), Hulala Takome (Business Support Manager)

Puma Energy plans \$US220 million refinery upgrade in Papua New Guinea

Singapore-based Puma Energy, which acquired the downstream assets of InterOil Corporation in Papua New Guinea for US\$525.6 million in the middle of 2014, is planning a major US\$220 million upgrade of its Napa Napa refinery outside Port Moresby.

The company plans to create a more modern and flexible refinery at Napa Napa, capable of processing all PNG's domestic crude oil and condensate (currently sourced from the Kutubu oil fields in PNG's southern highlands), as well as imported crude from other markets.

Robert Jones, Puma's Chief Operating Officer, Asia Pacific and Middle East said that the additional processed condensate would then be sold back into the local market, or exported to markets such as Australia, Indonesia and the Pacific islands, effectively making PNG an oil trading hub for the region.

'We're positive about the future prospects for Papua New Guinea, with its geographical position between both Asia and Australia, and the US and Asia'

Increased capacity

Subject to approvals, the Napa Napa upgrade would involve a 68% increase in current production capacity (from 25,000 to 42,000 barrels a day), the installation of an additional 10 megawatts of electricity production, the building of additional storage facilities for crude and refined oil, and the upgrading of the site's two jetties.

'We're positive about the future prospects for Papua New Guinea, with its geographical position between both Asia and

Australia, and the US and Asia,' said Jones, who told *Business Advantage PNG* that current estimates put the cost of the upgrade at US\$220 million over two years.

Rebranding

The investment is part of a major overhaul and expansion of planned by the multinational company in PNG, which also includes the rollout of additional fuel retail sites, new storage facilities and rebranding of existing retail sites acquired from InterOil.

'We're still working on the remainder of our investment plan for PNG, but the overall dollar figure will be significant,' said Jones.



Puma has rebranded InterOil's former retail outlets in PNG.

Ok Tedi mine commences new phase

The life of the key Ok Tedi copper mine in PNG's Western Province is to be extended for another 11 years. New Chief Operating Officer Musje Werror outlines the plan.

BAPNG: PNG's Parliament passed legislation in November 2014, extending the life of the Mine by 11 years until 2025, what are the plans for the coming years?

MW: We have been preparing for the mine life continuation since 2009, when we commenced the consultation process with the mine-associated communities in the Western Province.

During the consultation, we informed the communities that the mine will be smaller, generating less revenue and profits and because of this, the company will be implementing a number of initiatives to ensure the business remains viable.

Over the coming years, we will continue to review and validate the changes that have been implemented to ensure that we fully realise the benefits and savings from these initiatives.

We are also preparing for the future beyond 2025 and will continue to fund our exploration programs on our near-mine exploration leases.

BAPNG: How much of the mine life extension is going to be drawn from the existing resources you currently have in pit, and how important is it to actually find new deposits?

MW: The current life of mine plan is based on the current ore body. The next four-to-five years are going to be very lean times for the company and therefore we are conducting enhanced drilling programs within the current operating mine lease, in addition to accelerated exploration programs at our near-mine exploration leases, to provide additional ore.

BAPNG: What are your hopes for finding more resources?

MW: There is huge potential for this mine to continue well beyond 2025, given the high mineral prospects in the area. However, this is dependent on us finding acceptable waste solutions.

BAPNG: Regarding your exploration programme specifically, where are you looking at the moment?

MW: We are actively drilling a number of exploration leases owned 100% by OTML around our current Special Mining Lease and will undertake prefeasibility studies to determine if they are economically viable before we advance to the next stage.



Credit: PNGSDP

Blasting at the Ok Tedi mine at Mount Fubilan, Western Province

BAPNG: You're a Papua New Guinean involved at the highest level in running a PNG-owned mine. This is a first in Ok Tedi's history. How significant do you feel this is?

MW: I think it's very significant, in the sense that Ok Tedi has been the leader in a number of leading edge initiatives and my appointment is one such example. It paves the way for other PNG resource companies to follow the same path in the near future.



Ok Tedi Mining's Musje Werror speaking at an industry conference in late 2014.

Engineering at home in PNG and the South West Pacific.

Kramer Ausenco
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The Morobe Mining Joint Venture camp at Wafi

Wafi-Golpu project set for production by end of decade

The Wafi-Golpu gold–copper project in Papua New Guinea’s Morobe Province is a bright spot in an otherwise tight mining environment. The Morobe Mining Joint Venture partners believe it will be one of the world’s lowest cost gold projects, and expect production to begin in 2020.

Morobe Mining Joint Venture (MMJV) has estimated that the first stage of the Wafi-Golpu gold–copper project in Morobe Province of PNG will cost US\$2.3 billion (K5.9 billion) to develop, less than half of the original forecast it made during 2012.

In an updated version of the original Wafi-Golpu pre-feasibility study, MMJV achieved an aim to lower the forecasted capital costs to develop stage one, or the Golpu deposit, with the new estimate, and outlined an expected life-of-mine expenditure of US\$3.1 billion. The original forecast for stage one, delivered prior to an extensive fall in the value of gold, was US\$4.8 billion.

The first stage of the project, which is jointly owned by South Africa’s Harmony Gold Mining Company Ltd and Newcrest Mining Ltd, was approved to move into a feasibility study by its partners in December 2014.

Feasibility of the Golpu deposit is expected to be completed by the end of 2015, with first production targeted for 2020.

‘World class’ deposit

‘Stage one really targets the higher grade portion of the orebody. It mines 30% of the tonnes and delivers 40% of the metal content—this is of the reserve as it has been declared,’ Graham Briggs, Chief Executive Officer of Harmony Gold, told media during conference call in early 2015.

Describing Golpu as a ‘world-class’ deposit, Briggs added: ‘We believe our objectives (at the project) will be met, which are to target high grades to get early payback on the capital, low capital and to have a project which is scaleable ... something we can build bigger in time, especially if commodity prices change.’

‘By targeting the high value core of the ore body first, we have increased the economic returns from the mine by being cash-flow positive earlier in the life of the mine, as well as funding the infrastructure that will support stages of ore extraction and processing,’ says Newcrest CEO Sandeep Biswas.

Stage one will consist of two block cave mines, the first being a 3 million tonnes per annum (mtpa) operation, which will be replaced by a deeper version operating at 6mtpa from 2024.

With an estimated mine life of 27 years, annual production for stage one is expected to peak in 2025 at 320,000 ounces of gold and 150,000 tonnes of copper.

Next step

Briggs said the JV would continue to update the 2012 pre-feasibility study for stage two of the mine and expected this component to be completed by December 2015, alongside the stage one feasibility study.

‘Stage two, which we don’t have tonnage for, it would optimise the resource and really focus on the other 70% of the tonnes and 60 per cent of the metal content. We intend to go into an updated pre-feasibility study on this.’

‘The ore body is still open at depth and the only real way that we will be able to explore further is once we get underground to do some exploration drilling from underground,’ Briggs said.

Harmony and Newcrest each own a 50% interest in the project, with the PNG Government having a right to buy a 30% stake in the operation if a mining lease is granted.

Nautilus targets Solwara 1 production in 2017/18

After overcoming several delays, development of Nautilus Minerals' deep sea copper-gold mining project, Solwara 1, is taking significant steps forward. We talked with Nautilus Chief Executive Officer Michael Johnston about Papua New Guinea's world-first project.

Deep sea miner Nautilus Minerals Inc believes it finally has a clear development path leading to production at the Solwara 1 copper-gold project in Papua New Guinea, potentially the world's first deep seafloor mining operation.

The pioneering project, located in the mineral-rich Manus basin in the Bismarck Sea, was originally expected to begin production in late 2013, but development was delayed by a number of setbacks, including a commercial dispute with the PNG Government.

Nautilus' progress at Solwara 1 has, however, taken a positive turn after the company resolved the dispute with the state, and signed a contract with Dubai-based Marine Assets Corporation (MAC) in November 2014 to provide the vessel and shipyard for the operation by the end of 2017.

In November, Nautilus also completed negotiations with the PNG Government to allocate a 15% stake in the project (worth US\$120 million) to state nominee, Eda Kopa, a subsidiary of Petromin PNG Holdings.

World first



Nautilus Minerals' Mike Johnston.

With these milestones, Chief Executive Officer Michael Johnston says Nautilus was confident of developing Solwara 1 into the world's first deep-sea mining operation.

He explains that once MAC has delivered the vessel to the region Nautilus would aim to start producing almost immediately.

'As soon as it arrives on site with all the equipment—we've estimated about three months of integration of equipment and getting the vessel

to the Solwara 1 site from when we take delivery,' he says.

Advanced workforce

Nautilus hopes to take advantage of the existing skill base in the local mining industry as much as possible to build its workforce, with an aim of including over 50% PNG nationals.



Credit: Nautilus.

An artist's impression of Nautilus' production support vessel.

Before the vessel's arrival the staff will require extensive training of the mining systems for operation of its electrical and mechanical components, Johnston explains.

'The machines are all driven by electrical and hydraulic motors. There's a lot of high-tech electronics,' he says.

'The people of Papua New Guinea don't want to be bystanders, they want to be active participants in the development of their resources.'

'There's a lot of training involved. We're in the process of looking at building a simulator to help accelerate that training ... The challenge for us is to try and get as many national staff into the mix as possible.'

Government harmony

With negotiations now complete, Johnston says PNG Prime

Minister Peter O'Neill is showing his support by reaffirming that the Government wants to be strongly involved with the project.

'The people of Papua New Guinea don't want to be bystanders, they want to be active participants in the development of their resources,' says Johnston.

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Service companies hopeful of improving mining conditions

Services companies and contractors are often a casualty of a mining industry downturn. We talk to companies servicing the sector in Papua New Guinea about how they have coped with the downturn, and the potential for a turnaround.

Despite difficult conditions in Papua New Guinea's mining industry, Lihirian landowner company, Anitua Mining Services, is hopeful of a rebound and is considering a number of new opportunities that would grow its project portfolio.

Mining-focused companies in PNG continue to face challenges as the country's minerals sector struggles to recover from a downturn that has been felt on a global scale.

While conditions have been forecast to improve, with Deloitte PNG saying in its November budget analysis that the mining sector will grow by 12% in 2015 as new strategic mining plans take effect, Anitua Mining Services general manager Mark Edwards believes a rebound in PNG will take more time.

Edwards says over the past 18 months in particular Anitua Mining Services had felt the effects of the industry downturn in PNG.

'Conditions will improve but it is going to take time—it is the same throughout PNG—it has been a bit of a roller coaster but I don't think the industry here has been hit as hard as it has been elsewhere in Australia,' Edwards tells *Business Advantage PNG*.

Future opportunities

Despite an outlook that will require patience, Edwards says the Anitua mining services team was currently considering a number of new projects to bolster its portfolio.

'PNG is actually presenting itself with quite a few opportunities (for us) at the moment. We have to make sure what we choose is sustainable and it is going to be the right thing by the landowners—at the end of the day we work for the Lihirians,' Edwards explains.



Credit: Anitua

Lower activity

Engineering company Kramer Ausenco is another that has been affected by the mining downturn, with Chief Executive Officer Frank Kramer saying the lower activity had probably been the 'most notable aspect' of the company's performance in 2014.

Kramer adds that there is no sign of a rapid change to these conditions, but PNG's major mines do have the potential to deliver a lift in activity.

'The really large mineral resources projects—Wafi Golpu and Frieda River—they're still just ticking along, there's no definitive sign that anything significant is going to happen,' Kramer says.

'Lihir, which is a brownfield site also, can actually kick back up more quickly if the Newcrest people decide to do something with it, and that's got a much shorter response time than the green field sites.'

Technology pull

While investment into exploration and mining expansions has fallen, operational optimisation continues to be a key part of strategic plans for mining companies.

AllcomMCR PNG managing director Luke Byer says there has been quite a significant increase in mining companies seeking out the ICT services it provides.

'Conditions will improve but it is going to take time'

'Mining is something that has always been on our radar and we have seen that area grow. Communications are of key importance to them,' Byer says.

'We are finding work with the more established miners in the country. Some of the more junior miners and their exploration projects are only in their infancy and have been wound back or shelved until market conditions improve. But certainly, the more established miners are already there, already active and they know what they want.'



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PNG Forest Products' power plant in Morobe Province is selling some of its electricity to state utility PNG Power.

Government encourages private sector participation in PNG's energy sector

Papua New Guinea's national government is encouraging the private operators to generate and supply electricity to state utility PNG Power, which in turn may be set for a partial privatisation.

The lack of a reliable energy supply is consistently identified as an impediment to doing business in PNG—indeed, unreliable utilities were named as the second most critical issue facing business in this year's PNG 100 CEO Survey (see page 10). Most companies of any size are thus forced to have the generators necessary to meet their own energy needs—a major added cost.

It is no simple matter to supply electricity across a country with a geography and climate such as PNG. State electricity company PNG Power currently runs three main separate power grids and 16 smaller systems, while Western Power owns and operates small isolated grids in Western Province. To complete the complex power mix, there is some private generation for mining operations, as well as mini-grids in provincial centres and stand-alone generators for individual businesses and communities.

PNG's total installed capacity is about 500MW, according to the Senior Investment Officer at the Asian Development Bank's Sustainable Infrastructure, Srinivas Sampath, which

means only 13% of the country has access to electricity. The aim, he told the 2014 PNG Advantage Investment and Infrastructure Summit, is that by 2030, 70% of the country will have access to electricity.

The challenges facing energy providers in PNG include a reliance on imported diesel, exponentially-increasing demand, and a remote and harsh terrain over which to establish and maintain transmission lines.

Reform under way

While a declared state of emergency in the power sector in early 2015 suggests that inherent problems in PNG's energy sector persist, there are clear signs of both progress and reform.

Public Enterprise and State Investment Minister Ben Micah told the 2014 PNG Advantage Investment and Infrastructure Summit that all new major power generation projects will come from Independent Power Producers in the private sector. Already, companies such as New Britain Palm Oil and PNG



The Yonki Toe of the Dam hydroelectric project in Eastern Highlands Province.

Forest Products are selling excess power to their regional grids and several other companies are in negotiations.

Reference pricing will also be introduced to help calculate prices.

Alternative power sources

PNG Power is looking at private enterprise to provide gas, biomass and geothermal as alternative energy sources to imported oil.

‘One of the most fundamental ways of reducing the cost electricity is through reducing diesel consumption,’ says Paul Nerau, Chairman of the Independent Public Business Corporation, the state company which manages PNG Power and other state-owned enterprises.

The national government has acquired two gas turbine generators, which will supplement power demand by 30 megawatts in Port Moresby and Lae, he says.

In January, ExxonMobil—which operates the country's first LNG plant—signed an memorandum of understanding with the PNG Government to supply up to 20 million cubic feet a day of natural gas for 20 years for domestic consumption.

‘A portion of the natural gas supply allocated for domestic use will enable PNG LNG to provide up to 25 megawatts of electrical power for an interim period while the government addresses long-term power generation options,’ says ExxonMobil's now former Managing Director, Peter Graham.

‘The remainder of the gas supply will be used to fuel state-owned gas fired power generation units expected to be located near the LNG Plant outside of Port Moresby.

‘We think that this is a great step towards improved supply for Port Moresby, and will be working with PNG Power and doing our best to support them so they can quickly access the power.’

Oil Search's CEO Peter Botten says executives are talking with the government about other projects, too

‘In Lae, we've been working very hard on a biomass power generation station—something in the 30-to-35MW range—which would provide very competitively priced power for the Lae and north coast area. We're working with PNG Power on that. We're very confident it is feasible, and would involve some 2500 to 3000 local landowners growing trees to provide fuel for the power station.

‘We're also working with the government on power in the Highlands, both at Hides and at Kutubu, and looking at a number of opportunities and joint venture partners for increasing power generation in the Port Moresby area.

‘There's a very constructive dialogue going on with the Government about how that might be achieved, but it does require some long-term thinking and long-term investment in infrastructure.

‘Over the next three to five years you will see a number of significant developments under way in the Highlands and the north coast, and certainly extra power in Port Moresby. It may be earlier than that,’ says Botten.

Hydropower

A feasibility report on the Ramu Two hydro power project was delivered to the National Executive Council (PNG's Cabinet) in January 2015 for endorsement.

This project will add another 180MW to the existing Ramu hydroelectric scheme to meet increasing demands, particularly from mining and industrial developments in the Highlands region.

A further hydropower project is being considered for the Naoro River near Port Moresby, while talks on the giant 10,000 MW Purari River hydro power project may also restart in 2015. It is believed the output could feed into the Port Moresby and Highlands grids, as well as the export of electricity to Australia. Power from the scheme will also be used for rural electrification.

Nerau also says a proposed geothermal project in West New Britain Province could provide 4,000 MW of power.

Privatisation

As for privatisation of PNG Power itself—there is more work to be done. Before PNG Power can be partially or wholly sold off, the first job will be to unbundle its various functions.

‘These are the retail, transmission and generation elements,’ explains Paul Nerau.

Thereafter, it could be that PNG's electricity sector will follow the reforms being made in telecommunications, where wholesale and retail functions are in the process of being separated (see page 39).



Data services are increasingly overtaking phone calls as the number one use for mobile phones, with a range of financial services transactions possible.

Telcos bring city and rural PNG into the digital world

PNG's telecommunications companies are in the throes of extending their coverage across the country, and adding television, data communications and IT services to their suite of offerings.

Since the PNG government began deregulating the telecommunications market in 2005, the range of technologies has expanded, the number of providers increased, prices have fallen and access to services has improved.

Digicel

Irish-owned Digicel PNG controls about 95% of PNG's mobile phone market and is increasingly presenting a wider range of services, including internet connectivity. In November 2014, it launched up its own multi-station, free-to-air and pay-TV network, adding to its 2013 purchase of internet service provider, Daltron.

Since entering PNG in 2007, Digicel has invested K1.7 billion into building its network and in 2014 committed itself to expanding its network to cover 100% of PNG's population, in the process going from 800 transmission towers to 1160.

Digicel executives estimate that 80% of Digicel's internet traffic goes out over satellite, with only 20% going out across fibre.

Telikom

State-owned Telikom PNG has provided mainly fixed-line and data services since it divested itself of mobile phone arm, bmobile in 2007.



Telikom PNG's Michael Donnelly.

Recently, it has been in expansion mode to remain competitive with Digicel. It bought ISP Datec in 2014 and acquired the country's free-to-air broadcaster EMTV from Fiji TV in February 2015 for K27 million (US\$9.98m).

'So Telikom's strategy is very clear: to move our business to being a data and internet provider using the infrastructure to provide high valued services and content and capacity to

our customer base,' Telikom PNG's Chief Executive Officer Michael Donnelly tells *Business Advantage PNG*. 'And we are recalibrating our staff skill sets through an aggressive graduate programme where we bring in people from a number of different disciplines out of the universities in PNG, whether they're in economics or in HR, in ICT or physical sciences, because our business covers a lot of those disciplines.'

Bmobile

Meanwhile, an injection of funds and a partnership with an international mobile phone partner is enabling bmobile to be more competitive.

Bmobile joined in the expansion by establishing a marketing partnership with telecommunications giant Vodafone UK and plans to double its retail presence by mid-2016.

CEO Sundar Ramamurthy told *Business Advantage PNG* that, since he took over as CEO, bmobile has improved its performance and is adding new customers, while call completion rates have risen from 33% to in excess of 98%. Bmobile also operates the second mobile phone network in the Solomon Islands.

New wholesaler

The government has created a new wholesale entity to allow Telkom, Digicel, bmobile and others to focus on competing in the retail space.

Established by the PNG Government to acquire the transmission assets previously controlled by Telikom PNG, PNG DataCo was launched to upgrade, own and operate the National Transmission Network (NTN)—PNG's national broadband network.

PNG DataCo will make the NTN available to ICT operators, such as Telikom PNG and Digicel PNG, who will then on-sell their retail services to corporate and residential users.

As PNG DataCo Ltd Chairman Reuben Kautu explains to *Business Advantage PNG*, the launch of the company puts PNG on a path to superior ICT infrastructure.

'With DataCo's creation, we are now working to connect and provide a complete loop from Madang right through the



bmobile Vodafone's Sundar Ramamurthy

Highlands down via the PNG LNG fibre optic cable to connect to Port Moresby,' Kautu says.

'This link will ensure that this traffic or internet data can be re-routed to Madang and out, increasing the utilisation on the PPC-1 Cable [the ocean cable which connects PNG to the world via Madang].'

Kautu outlines how the restructure will benefit internet service providers (ISP), saying: 'We are building the infrastructure and we are encouraging and inviting the retailers like Telkom, bmobile, Digicel, and other ISPs to come on board.'

'They have a choice to build their own infrastructure in some areas but we are determined to provide international and domestic capacity services at competitive rates.'

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Aviation industry moves through transitional phase

Leading airlines and airports in Papua New Guinea are experiencing significant change as the country's economy grows and it prepares to host major international events.



An artists' impression of the new international terminal at Port Moresby's Jacksons International Airport

Papua New Guinea's aviation industry is set for a new era after national carrier Air Niugini delivered a major shake-up by establishing domestic subsidiary, Link PNG.

Having recently celebrated 40 of continuous service, Air Niugini launched Link PNG in November 2014 with the aim of providing more choice to local travellers through a safe, low-cost carrier. The new airline will compete with the POMS-X-listed airline Airlines PNG and charter services.

'The carrier will also service PNG routes on a community service obligation (CSO), ensuring that not only are remote and less profitable services maintained, but progressively expanded to meet the growing transport needs of the nation and its people,' Air Niugini Chairman Sir Frederick Reiher explained at Link PNG's launch.

The creation of Link PNG removes the risk of air services being reduced through an ownership restructure of Air Niugini or private sector capital injection, according Reiher. Instead, he said, services will be 'guaranteed and increased'.

Popular routes between Port Moresby and Lae have been expanded, while destinations such as Mount Hagen, Kavieng, Hoskins, Lae, Kundliawa, Madang, Wewak, Mendi and Daru have also received a boost.

Modern-day company

Link PNG, which is led by Chief Executive Officer Daniel Wanma and based at Port Moresby's Jacksons Airport, operates as a separate entity with its own board and management. It launched with seven aircraft and 145 employees.

Air Niugini CEO Simon Woo said the move geared Air Niugini to engage in smarter business practices through the delivery of aviation services in a cost-effective manner.

'It's imperative that Air Niugini embraces new and modern ways and means of delivering its services,' Woo says.

Air Niugini is planning to add new international services to accompany the domestic restructure, and has acquired

a Fokker 70 aircraft for use on expanded routes to Fiji, Vanuatu and other Melanesia countries.

Airlines PNG demand

Meanwhile, customer demand has led to Airlines PNG strengthening its domestic network, with the company improving its services between major routes such as Port Moresby and Lae, expanding island links to airports at Kimbe and Kokopo on West and East New Britain, and adding several new destinations.

Airlines PNG has also welcomed a new Chairman, Murray Woo, to the company following the resignation of Simon Wild after more than six years in the position, and bolstered its fleet to 14 by adding two Dash 8 aircraft.

Airport expansions

Expanding domestic and international services are being complemented by the National Airport Corporation's K1.4 million (US\$520 million) redevelopment of PNG's major airports.

Ahead of the 2015 Pacific Games and 2018 APEC Summit in Port Moresby, Jacksons International Airport is undergoing widespread improvements to accommodate the increases in traffic associated with a growing economy.

The centrepiece will be an extension to the international terminal, which is expected to be completed in time for the Pacific Games in July 2015.

Lae's Nadzab Airport is preparing for a range of projects to cater for growing requirements in the coming years, including an improved runway, bigger and more functional terminals, and development of airport related industries.

Meanwhile, construction of the Lae-Nadzab Road upgrade into a four-lane highway is continuing, with its completion expected during 2016.

Airport reopens

Aropa Airport on Bougainville was reopened last December, 24 years after being shutdown due to a crisis on the island.

Three airlines—Air Niugini, Airlines PNG and Travel Air—made their first flights to Aropa during the month, and there have been discussions regarding the possibility of launching flights between Bougainville and the Solomon Islands.

A new airport in Mount Hagen is expected to open in 2015 to help the city emerge as an agricultural hub.



Link PNG's Daniel Wanma



Motukea Island, the site of Port Moresby's new port, due for completion in 2018.

Credit: Rocky Roe

PNG's key ports undergo major redevelopment

The port of Port Moresby is set to be re-located to nearby Motukea Island, while the redeveloped port of Lae prepares to receive huge container vessels, cutting time and costs for business.

The port congestion worries of PNG's recent past look set to be significantly reduced.

Port Moresby's main wharf will be relocated to nearby Motukea Island, after the PNG Government signed a K725 million agreement with Curtain Brothers to buy the current wharf on Motukea, plus about 60 hectares of land.

An additional K550 million is budgeted for construction and extension of the port.

The Minister for Public Enterprises and State Investments, Ben Micah, says the relocation will enhance economic growth and transform Port Moresby's central business district:

'The CBD of Port Moresby has reached operational capacity and has been hamstrung by traffic congestion and growth issues, forcing the government to seek a viable solution that will assist in the long-term development of the city.'

Micah says the relocation will be completed by 2018, when the city hosts that year's APEC summit.

Dry dock facilities

Motukea Island is currently home to civil engineering firm, Curtain Group, which plans to expand its own ship repair facilities by building a very large dry dock.

Its current dockyard can repair a wide range of vessels up to 110 metres in length and weighing up to 4000 tonnes.

The new dockyard, says General Manager, Justin McGann, will be 300 metres length, with a door width of 44 metres, and a sill depth of 10 metres at mid-tide.

'This facility will be able to accommodate vessels up to some 100,000 DWT capacity,' he tells *Business Advantage*.

'We'll have our dry dock for Panamax repairs, and we'll have our shipyard where we want to build new ships. For example we'd like to build defence force ships for PNG.'

It also plans to build various facilities for port related operations, including an examination scanning facility already underway for PNG Customs.

Lae port expansion

Lae is the manufacturing hub of Papua New Guinea and its port handles more than 60 per cent of PNG's international and domestic trade. In 2015, the port—which handles around 55 vessels a month currently—is expected to handle some 130,000 international and 56,000 domestic containers.

The first phase of a long-anticipated upgrade of Lae's port was finished in December 2014.

The project, funded by the Asian Development Bank, cost K734 million (US\$275 million) and is the bank's largest regional project, according to Marcelo Minc, the ADB's Country Director for PNG.

New facilities include a tidal basin, a multipurpose berth, and terminal works with buildings, storage areas, roads, drainage, water, electricity and sewerage services.

The improvements will significantly boost the port's cargo-handling capacity, with government estimates suggesting that ultimately the upgrades will result in a tripling of capacity.



Leaving Port Moresby port

The port expansion will not only benefit the businesses in Lae; it will also serve people in the Highland provinces, for whom Lae is the major port, handling exports of commodities and imports of equipment and supplies via the Highlands Highway.

When fully operational, government estimates suggest the port will create new jobs and related opportunities for over 5,000 people—with projections of this reaching 10,000 as port business increases in coming years. Increasing pilotage, wharfage and berthage revenue streams are also expected.

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Banks and finance companies broaden services as competition increases

Competition among the leading commercial, micro and retail banks in Papua New Guinea is increasing, resulting in acquisitions and an expansion of services.

In the biggest news in PNG's finance sector in the past 12 months, local bank BSP has agreed to buy Westpac's banking operations in Samoa, Cook Islands, Solomon Islands, Vanuatu and Tonga, for A\$125 million.

BSP already operates in PNG, Solomon Islands and Fiji, and has a history of growing through acquisition, having bought Habib Bank's Fiji assets in 2006, the National Bank of Solomon Islands in 2007, and National Bank of Fiji and Colonial Fiji Life Insurance Limited in 2009.

'This expansion positions BSP to make its mark as the pre-eminent bank in PNG and the South Pacific,' says BSP Chief executive, Robin Fleming.

'It is a regional strategy,' says the Chairman of BSP, Kostas Constantinou. 'We have and will continue to have a strong presence in the region for a very long time.'

'Our decision to sell our operations in these nations reflects our desire to increase focus on our growth plans in the larger markets of PNG and Fiji, where we have a strong history,' explains Rob Whitfield, Chief Executive of Westpac Institutional Bank, Westpac Pacific's parent division.

Asset financing

BSP also launched BSP Finance, an asset finance business aimed at offering finance deals of between K20,000 and K3 million, increasing pressure on ANZ and Westpac and smaller finance companies such as Kina Finance and Credit Corporation (which BSP tried unsuccessfully to buy in late 2013).

'We also see asset finance as a vehicle to being able to test the waters outside of our traditional geographic boundaries because it's a lower capital, lower cost establishment, and that's certainly in the area where we're looking to see how we may well be able to use a BSP Finance model to extend beyond our normal markets,' says Fleming.

'It's now about going back to our clients and saying that we can do this business for you as and we are keen to do it,' says Jodi Herbert, PNG Country Manager for the new subsidiary.

Digital banking

Managing Director of ANZ's PNG operations Mark Baker says in retail banking the emphasis is now on digital—'everything from mobile phone banking to ATMs to how do we use SMSs to wireless EFTPOS machines'.

Baker says the uptake of mobile phone banking 'is steady rather than spectacular', largely because people are not yet familiar with phone banking.

BSP's Fleming says while 15 years ago all banks are closing branches, BSP included, his bank is now opening sub-branches.

'Our approach has been to continue the introduction of the BSP rural sub-branches,' he says.



PNG's financial sector is regulated by the Bank of Papua New Guinea.

'We've got 44 BSP rural sub-branches as we speak, and they are two- to three-person branches out in rural areas which do transactions over a tablet, therefore it's very much predominantly individual retail-based.'

Financial literacy

All banks are heavily involved in financial literacy programmes. ANZ has responded to demand from small traders and families with its 'Money Minded' programme, delivered by staff, often in their own villages, while Westpac runs 'Financial First Steps' for school students and community groups.

BSP's retail banking education programme reaches about 4,000 people per month, says Fleming, 'and then we start doing the smart business training, whether it's town hall meetings or other one-on-one with businesses as well.'

Kina pegging

In June, 2014, the Bank of PNG pegged the Kina to the US dollar, to stop a decline in its value. It also ordered banks trade within a 75-basis point range of the reference rate, US\$0.4130. The Kina had slumped to a low of US \$0.32 the previous month, down almost a third from \$0.47 in 2013.

Reserve Bank Governor, Loi Bakani, said the trading range had spread by as much as 600 basis points before

intervention. In spite of reduced income from foreign exchange transactions, liquidity among the commercial banks increased in the six months to December, 2014. The central bank, the Bank of Papua New Guinea, reports that 'liquid assets margin to deposits' among the banks rose from 44.7% to 46.1%. In that time, bank deposits rose from K14.2 billion to K15.1 billion.

An untapped market

Insurance is also regarded as a huge untapped market.

'Insurance penetration in PNG is still very low; it's still under five per cent, and there is still a great opportunity to deliver insurance,' says Tony Westaway.

Among the institutions venturing into the life insurance market this year are BSP, Kina Securities and the Women's Micro Bank.

Fleming says BSP will be using its BSP Life subsidiary as a way of tapping into the insurance market over the next three to five years.

Wayne Dorgan of Pacific MMI, the country's second largest insurer, says the industry is 'flat' at the moment, following the end of the construction phase of the LNG project. He notes however that the car insurance sector has potential, with about 500 cars coming into the country per week. While third-party insurance is compulsory, Dorgan says only 25% of car owners actually insure their vehicles against accidental damage or theft through comprehensive insurance policies.

The board of Pacific MMI is looking to expand the company, he says, probably through acquisition, either in PNG or elsewhere in the Pacific.

MICROFINANCE REACHES OUT TO NEW CUSTOMERS

With nearly 500,000 clients, Papua New Guinea's micro finance industry is expanding its reach, its numbers and its services.

There are 12 licensed finance institutions, including the People's Micro Bank, Nationwide Microbank, PNG Microfinance, Kina Finance and the Women's Micro Bank, which was launched in August 2014.

Each provides loans, some provide banking services, and with the advent of mobile phone technology, each is expanding across the country.

'Micro-credit is increasingly becoming an important means to bridging the gap of providing access to formal banking services for the marginalised and unbanked population of the country,' says Anthony Dela Cruz, Chief Executive Officer of the People's Micro Bank.

Mobile phone technology is allowing PNG's largely rural dwellers access to banking services. Nationwide's Tony Westaway says about half his account holders use mobile phone technology.

'In the very remote locations, 80% of our new accounts are with people who've never banked before and they're all banking by mobile wallet.'

Meanwhile, Kina Finance has partnered with Westpac to use its mobile banking platform for its Esiloan customers.

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ICT industry shake-up continues with mergers and acquisitions

Allcom PNG and mcr PNG have become the latest technology services companies in Papua New Guinea to consolidate, after announcing a merger that will see the enlarged entity realise a number of operational synergies.

Growing demand for information and communications technology (ICT) in Papua New Guinea provided Allcom PNG and mcr PNG with the incentive to merge into one of the country's largest ICT service providers, Allcom MCR PNG.

The merger follows Telikom PNG's acquisition of internet service provider (ISP), Datec PNG in early 2014, and Digicel PNG's purchase of ISP and services company Daltron in late 2013.

It also marks the first involvement by either company in merger and acquisition activity in PNG and, according to Luke Byer, Managing Director of the new entity, it comes at an appropriate time in the development of the country's ICT industry.

'Since we have been established in PNG, there has been a shake-up in the industry—there is rationalisation happening.

'I think our merger was timed to give us a bit more size in the market at this very important time in the evolution of the industry in PNG,' Byer tells *Business Advantage PNG*.

Technical service

Allcom PNG and mcr, which have been operating in PNG since 2008 and 2009 respectively, have combined with the aim of delivering a stronger technical service to their clients, which sit in broad range of industry sectors, including resources and government, Byer explains.

He adds that the two companies had a 'fairly complementary skill set'.

'We did compete in a number of areas [before the merger] but found overall that it was more of a complementary vision if we merged the two companies together,' Byer said.

'Our main area of overlap is in our networking practice, as we are both Cisco (Systems Inc) partners and we both have Cisco engineering expertise.

'We also saw that as an advantage. At different times, we struggle to provide the level of engineering support required in PNG, given it is a growing market. Now that we have a bigger team of engineers with different skill sets, we have a bigger team to utilise.'

Future opportunities

The merged company, whose clients will include Bank of South Pacific, InterOil Corporation, Airlines PNG and Paradise Foods, will have around 30 staff, predominantly made up of ICT engineers, with focus on development of PNG locals.

Byer was confident of expansion for the new company, saying that while PNG's economic growth was being driven by the PNG LNG project, there were opportunities for ICT companies in not only oil and gas, but also other sectors.

'PNG, even before the LNG project, was an emerging market,' Byer said. 'Infrastructure may lag behind what we would expect in countries like Australia, but customer expectations are not far behind.

'It is up to companies like us to come up with innovative ways of providing a customer experience that would also be expected somewhere like Australia.'

DIGITAL MEDIA EXPANDS IN PNG

In late 2014, dominant telecommunications company Digicel PNG launched its new 29-channel digital TV service, Digicel Play, while the new entrant to the PNG market, Click TV, launched its own set-top box, which will offer 25 channels through its local network, PNG TV.

The development reflects a radical change in the media landscape, which has also seen state-owned telco Telikom PNG purchase free-to-air commercial broadcaster, EMTV.

While Digicel is primarily using its network of mobile phone towers to reach its audiences, PNG TV has signed a five-year deal with Intelsat to beam its programs via satellite not just across PNG but the Pacific.

'Right now,' says Click TV Managing Director Richard Broadbridge, 'if you go into any part of the Highlands you need very large dishes to get local content.'

'To get international content you need a separate dish for the international channels. But our commercial model is based on the ability to compress about 30 channels into a one-metre receiver dish.'

Broadbridge also intends to sublease mobile phone towers from state-owned wholesaler PNG DataCo, which is taking over the transmission assets of Telikom PNG.

Broadbridge is also talking to local investors and expects Click TV to be majority PNG-owned during 2015.

'Currently the company is owned by two Fijian citizens and we are talking to institutional investors right now. That will also see capital injection of around K21 million into Click TV.'



Credit: R D Tuna Cannery

Fisheries' sustainability challenge

PNG has the Pacific's most productive fishing zone and has made great advances in onshore processing in recent years. Sustainability remains a challenge, however.

The largest sector within Papua New Guinea's fishing industry is the catching and processing of tuna, although inland river fisheries, aquaculture and reef fisheries are also significant.

Between 10% and 20% of the world's tuna catch is caught in PNG waters, with catches of up to 580,000 tonnes per year. The PNG fisheries zone of 2.4 million square kilometres is the largest in the South Pacific.

The Pacific Tuna Forum estimates that the value of the annual tuna catch in PNG is about US\$1.3 billion, which could double to US\$2.7 billion if the industry explored more value-added activities.

There has already been significant investment in the onshore processing of tuna in PNG, creating thousands of new jobs. There are now six tuna canneries in PNG, mostly in Lae, the biggest of which is Majestic Union, run by the Thailand fishing company, Thai Union.

R D Tuna Cannery was the country's first integrated tuna fishing and tuna cannery company, based in Madang, and employs about 3500 workers. Managing Director Pete Celso, who is also Chairman of the PNG Fishing Industries Association, says exports make up 63% of company sales.

EU market

Driving much of the expansion of onshore processing is the European Union (EU), which has an Interim Economic Partnership Agreement with PNG that allows for tariff-free imports.

However, in June 2014 the EU issued what it calls a 'yellow card' to PNG because it is failing to ensure the sustainability of

tuna fishing in its waters, after more than 720,000 tonnes was caught in 2012, well above the maximum sustainable yield of 500,000 tonnes estimated by PNG's National Fisheries Authority.

Monitoring the activities of foreign fleets is extremely difficult and the government has increased surveillance.

Fishing stocks

The industry is also concerned that illegal fishing and new controls will cause over-fishing and therefore stock depletion.

The Parties to the Nauru Agreement, which governs the exploitation of region's fishing grounds, have introduced the Vessel Day Scheme, which limits the number of fishing days, which are then allocated by country and sold to the highest bidder.

Pete Celso says the scheme has been somewhat counterproductive. He says the increase in fees has meant boats are catching twice a day, and the average size of the fish is getting smaller and smaller.

Professor Glenn Hurry, the outgoing executive director of the Western and Central Pacific Fisheries Commission, says stocks of yellowfin, bigeye and bluefin tuna have all been reduced.

Celso suggests that fishing in a country's economic zone be allowed only by companies that operate canneries, thus adding socio-economic value to fishing nations, such as Papua New Guinea.

Celso is also concerned at the 'dumping' of canned tuna, caught in PNG waters, by Thai, Indonesian, Vietnamese and Chinese cannery companies.



S P Brewery's production plant in Port Moresby.

Mixed year ahead for PNG's manufacturers

Papua New Guinea's manufacturers are expecting a 'mixed year' with some new products coming onto the market, and hopes that local building suppliers will benefit from a government-backed affordable housing scheme.

The manufacturing industry plays a modest but growing role in PNG, contributing between six and nine per cent to overall GDP, in spite of a small domestic market, relatively high labour and transport costs, and competition from imports.

PNG manufactures a wide range of produce, including beer, soap, concrete products, clothing, paper products, matches, ice cream, canned meat, fruit juices, furniture, plywood, and paint.

Some manufactured products are being exported, including food and beverages, building materials, handicrafts, household items and furniture, and paints and coatings.

Paradise Foods, the oldest established food manufacturing company in the country, produces food products for the international and regional markets, including biscuits, corn chips and potato chips. International companies such as Coca-Cola Amatil, Nestlé and Goodman Fielder also have a manufacturing presence in PNG.

Mixed bag

The year 2015 represents a 'mixed bag' for manufacturing, says the Chief Executive Officer of the Manufacturers' Council, Chey Scovell, with concerns centred around government revenues.

'We've had a number of members make significant capital investments over the last two years, so that was a sign of their confidence in the market,' he tells *Business Advantage PNG*.

There is now the start of a holding off of investment, particularly in the fisheries sector, with some looking to set up elsewhere in the Pacific.

'For members of our Manufacturers Council, they realise it's time to get the processes right and to find those growth markets, so that they're not looking at a boom-and-bust scenario.'

Housing is one area Scovell is optimistic about, saying local building suppliers could benefit from a government-funded 'affordable housing' scheme, which will see 40,000 new homes built in Port Moresby.

New products

After completing the upgrading of its Lae and Port Moresby plants in 2014, South Pacific Brewery—part of the Heineken international group—is pioneering new products, according to General Manager, Stan Joyce.

'We see in Papua New Guinea an emerging middle class.

'We see a growing number of younger drinkers whose tastes and expectations are different from their parents'

COLA WAR A SIGN OF EFFERVESCENT MARKET



The beverages market in PNG has remained strong, with local and imported brands competing side by side.

As a developing market, Papua New Guinea presents new marketing opportunities—in beverages, for instance.

According to Chey Scovell of the Manufacturers Council of PNG, Papua New Guinea's retail beverage market remains positive.

'We've got a population of 7.5 million and the reality is that we are still only getting regular sales into a minority of the country. I think PNG is one of the largest untapped markets in the developing world.

'Having the bulk of the population access to manufactured goods in supermarkets, for instance, represents a major challenge.'

The newly appointed General Manager of Coca-Cola Amatil, Somu Bhattacharya, describes the PNG operating environment as 'high cost, with poor infrastructure and low efficiency', but is optimistic about 2015.

He says the beverage market is competitive, with two locally-owned suppliers, Paradise Foods (which launched Pepsi under licence in PNG in 2014) and Pacific Industries (which produces its own GoGo Cola and other beverages in Rabaul in East New Britain Province).

'I think PNG is one of the largest untapped markets in the developing world.'

Bhattacharya notes, however, that all local manufacturers are also facing stiffer competition from cheaper imports.

'Cheaper imports violate the law of land in terms of declarations to safeguard consumer interest. There is also a loss to the national exchequer as well.'

generation, and we believe the establishment of an international premium segment in Papua New Guinea will occur over a period of time.'

'We're a member of the global Heineken Brewery Group.

They have over 220 brands in their portfolio. So we have a continuous process of looking at opportunities where we might do those.'

Cider is developing as one of those new drinks, he says.

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Palm oil leads agricultural expansion

With about 85% of the population living at subsistence level in rural and regional Papua New Guinea, agriculture is a mainstay of the economy.

Agricultural products account for about 18% of Papua New Guinea's exports and 25% of its GDP, approximately US\$3.80 billion.

The main export crops are palm oil, coffee, cocoa, copra, rubber and tea. PNG also has a livestock sector, mainly focused on poultry products.

Major palm oil investment

In early 2015, the world's biggest palm oil producer, Malaysia's Sime Darby, bought a majority stake in PNG's major palm oil operation and second-largest employer, New Britain Palm Oil Limited, from Kulim Malaysia in a deal worth K5.09 billion (US\$ 1.74 billion)

Sime Darby has offered a shareholding of up to 30% for the PNG government to buy into NBPOL, whose palm oil products are certified against the Roundtable on Sustainable Palm Oil standard.

Sime Darby is expected to expand the company's operations, and has proposed a public-private partnership with the provincial government to provide electricity from its waste materials.

NBPOL's General Manager in West New Britain, Harry Brock, says that by using methane and palm kernel, the company could provide the province with renewable energy. Talks are underway with the provincial government and state utility PNG Power to invest in this energy source.

New plantations

Another big palm oil plantation investor is R H Group, whose Chief Executive, James Lau says the company's Sigite Mukus project in East New Britain province will be fully developed by 2017 with 31,000 hectares under plantation.

'Construction of the first crude palm oil mill has commenced and is expected to be completed in first half of 2016,' he tells *Business Advantage PNG*.

'This mill will process 60 tonnes of palm oil per hour. A second mill, capable of processing 120 tonnes per hour, will be constructed during phase 2 of the project. Investment for both mills totals K240 million [US\$92 million].

'Once fully operational, the project will employ 3,500 people on an ongoing basis, and inject K33 million [US\$12.6 million] per year into the economy of East New Britain.'

Rising to the challenges

Coffee prices jumped by 57% from December 2013 to June 2014, while copra rose by 10% in the first half of 2014 and cocoa by 12%.

On the surface, this sounds like good news for PNG's farmers. However, the Asian Development Bank reports production response to these higher prices has been constrained by the unexpectedly sharp appreciation of the PNG kina in July 2014, as well as by structural constraints



Credit: R H Group

Oil palms growing in East New Britain

like weak transport and logistics networks, a cocoa pod borer infestation, and ageing coffee and tea plantations.

Cocoa producers are bouncing back from the devastating effects of the cocoa pod borer, which hit production in the mid-2000s.

Trader and exporter, Agmark, supported by World Bank expertise and funding, set up the Cocoa Board's Productive Partners in Agriculture Projects (PPAP). Using new and hardier seedlings, which have the potential to more than double the cocoa yield for farmers and to withstand the borer and other diseases, PPAP is showing positive results.

A new training facility has also been built at Tokiala, outside Kokopo in East New Britain, where farmers are taught management of cocoa plantations.

Agmark Managing Director John Nightingale says more than 234,000 cocoa seedlings have now been planted on 1,172 smallholder farms, and the plan is to plant another 234,000 cocoa seedlings, and develop the concept of rotational replanting of the cocoa crop throughout its farmer networks.

He says an intensive management strategy called 'Every Pod, Every Tree, Every Week', could see yields rise from 0.4 tonnes per hectare to 2.5 tonnes.

Rice industry for PNG?

A super-hybrid rice pilot project funded by National Development Bank in Central Province is progressing well, according to the bank's Managing Director, Moses Liu.

The bank has invested K2.6 million (US\$1 million) in Gabadi Agriculture Ltd, which has teamed up with Philippines-based SL Agritech Corporation, to develop 10 hectares of rice-growing land without using chemicals or fertilisers. Yields are expected to reach at least seven metric tons per hectare.

PNG Coffee Ltd also wants to pioneer commercial production of hybrid rice from the Philippines.

Spices, including vanilla, cardamom and ginger, are also grown on a small scale in PNG and around 8,000 households are also involved in growing rubber trees.

Forestry industry looking to more on-shore processing

According to International Tropical Timber Organization figures, Papua New Guinea is the second-largest exporter of tropical hardwoods in the world after Malaysia, with about 15 million hectares of the country's 30 million hectares of total landmass considered suitable for forestry development.

Products include raw log exports, sawn timber, veneer sheets, logs, plywood, processed timber and woodchips.

Most raw timber logs are exported to China, which bought 78% of PNG's forest exports in 2011.

Of PNG's total forest area, 1.2 million hectares have been set aside as 'protection forests', based mainly on their biological or cultural significance. A further 13.2 million hectares are yet to be classified, while PNG also has around 62,000 to 70,000 hectares of plantation forest.

Almost all of PNG's forests (99%) are owned by customary landowners.

Value-adding

Currently, only about 20% of timber is processed in-country, for which the main export markets are Australia and New Zealand. However, the PNG Government has established a policy to increase onshore processing to 80% by 2030.

While only 0.2% of PNG's forest products are sold in the European Union (EU), the EU's demand for Chinese goods utilising PNG timber means there is a need to demonstrate a sustainable supply chain.

'We are the only country in the world where our export of logs is subject to 100% independent auditing and certification, prior to exporting,' says Bob Tate, Executive Director of the peak industry body, the PNG Forest Industries Association. This is carried out by the Swiss company, SGS.

Commission of inquiry

In the past few years, PNG's forest industry has had to address a Commission of Inquiry into forestry-related Special Agricultural Business Leases (SABLs). This found most of the 70-odd leases were obtained corruptly, mostly for the benefit of logging companies.

'Our position has always been that the concept of land mobilisation for real agricultural development has underpinned forestry development in PNG since the late 1960s,' says Tate.

'We do believe it was seriously hijacked in this latest round of SABLs and there was significant abuse.

'Of the 70-odd leases granted for forestry there are only four which will become real, viable: two in East New Britain and two in Sepik that are making real and significant progress and which will become serious, large-scale operations.'

Stiff competition

Fortunately, 2014 was a better year for the sector, with timber prices higher and total export income from round log exports up around 25% for the 12 months ending September 2014, according to Bank of PNG figures.

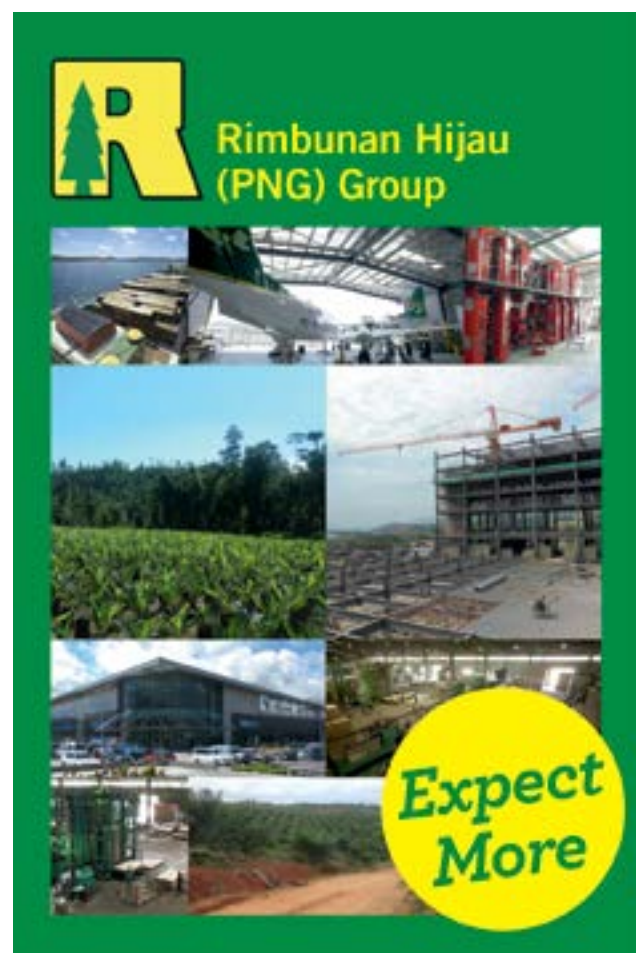


Credit: R. H Group

Manufacturing plywood: the PNG Government has established a policy to increase onshore processing to 80% by 2030.

However, Bob Tate says the PNG industry is facing significant competition in Asian markets from softwood producers.

'For example, New Zealand exports of timber into China are nearly four times the level of PNG. From North America, Canada and far eastern Russia, exports into the Asian markets are rocketing ahead. We do not have the potential to compete with their scales of production.'



Selling PNG's unique culture and beauty

From modest beginnings, Papua New Guinea's tourism sector is starting to make progress internationally. Robert Upe reports.

Papua New Guinea tourism was in the world spotlight in 2014, with a startling publicity campaign in New York. Two PNG tribesmen, in traditional dress, stopped cars and crowds as they wandered the streets of the Big Apple and visited sites such as the Empire State Building.

Additionally, one of the world's leading travel publishers, Lonely Planet, selected PNG Village Stays on its list of the 26 experiences to do in the world in 2015, and the *New York Times* named the new Lake Murray Fishing Lodge in its 52 places to go in 2015.

Leisure travel

It's the type of invaluable publicity that PNG tourism needs. Of PNG's 182,188 visitors in 2013, only 41,000 were leisure travellers, according to figures provided by the Papua New Guinea Tourism Promotion Authority (TPA).

While leisure tourism is on the rise, helped along by the ever-popular Kokoda Track and a boom in cruise ship visits, it is business and employment travel that is really sending PNG's visitor numbers on a trajectory that would please the National Government. Business and employment travel into the country has more than tripled since about 2002.

But in raw figures, leisure travel has only increased by 10,000 people in the past five years.

'While leisure tourism numbers are increasing due largely to the growing awareness of Papua New Guinea as a viable tourist destination, business travellers are a more significant source of inbound tourism expenditure,' says Euromonitor International, a London-based market intelligence firm.

'Australia, New Zealand and the US represent key business traveller source markets and mining is the dominant foreign investment activity.'

Government target

The World Travel and Tourism Council says the 'direct contribution' of travel and tourism to the country's GDP was K369.5 million in 2013 and it forecasts this to rise by 4.3% between 2014 and 2024. Tourism's 'total contribution' to PNG's 2013 GDP was 2.5 per cent.



Passengers on a Coral Princess cruise encounter local canoes.

Credit: David Conn

To help these figures along, the National Government has targeted tourism as a priority area for economic development and for the creation of employment opportunities.

Tourism hub

One of the Government's major initiatives is to turn Rabaul in East New Britain into PNG's tourism hub.

The Rabaul project manager, Kayleen Allen from TPA Australia, says that in order to make Rabaul the tourism capital, it is important to work and train those in the industry up to the standard where they can take in international guests.

'We need a holistic approach, hard work and commitment from everyone here in East New Britain. We must all work together to make this happen.'

'Over a three-year period, we will be looking at how customer services are being provided here in East New Britain, the pricing structure in the hotel industry, tour packages, scheduling, expectations of customers, training, law and order and many other areas. We will be working with everyone to make this happen.'

Last May, the national carrier, Air Niugini, made a commitment to support the government's initiative when it implemented twice-weekly direct flights between Rabaul and Cairns in Australia.

Australians are, by far, the key source of visitors to PNG, and the convenient new Cairns flights should help bolster leisure arrivals, especially since travellers can bypass the country's capital, Port Moresby, which suffers from an image problem.

Image challenge

The TPA says that many visitors do not understand the vast difference between Port Moresby and the safe regional areas such as New Ireland, East New Britain and Mine Bay.

On that point, Linda Honey, owner of the popular Tufi Resort that helps arrange the village stays that Lonely Planet endorses, says PNG does suffer from negative media reports.

'But where tourists are going is very, very safe and the people welcome and nurture the tourists,' she counters.

'There is so much more (tourism) potential in PNG and that's the story that doesn't get out,' she says.

Adventure tourism

Regis St Louis, a writer for London's *Telegraph* newspaper, reported recently:

'A land of thriving tribal cultures, smouldering volcanoes and vast swathes of pristine mountainous rainforest, Papua New Guinea is one of the world's last great frontiers and remains largely untouched by mass tourism.'

'There is so much more tourism potential in PNG and that's the story that doesn't get out.'

Indeed, Honey says the village stays attract adventure travellers rather than mass-market commercial tourists.

She says it is a raw, grassroots experience that helps villagers earn income and shows visitors a very old culture.

Trekking, especially on Kokoda, also remains a major drawcard.

Cruising boom

'Fishing, diving and other coastal adventures are also enticing people to PNG shores and, of course, cruising is now making a difference to visitor numbers as well,' says Leigh Reading, a sales and marketing executive with the TPA.

'Cruising was 2014's strongest new trend for the destination,' Reading says. 'The arrival of a large number of cruise ship operators meant that the destination was required to adapt to service a new style of traveller. We're seeing more mass cruising, such as P&O Cruises, visiting places like Rabaul and Milne Bay, making them more accessible to a new audience. Travellers are enticed by the comfort of the ship's

accommodation and dining options, while still being able to experience the culture and the beauty of the country.'

To embrace the cruise boom, new jetties have been built at Kitava and Kaibola, among other places, but Milne Bay has been the focus of the ships because it already had a good port.

P&O visits five PNG ports and is adding Kavieng and Madang to its 2015 itineraries.

'P&O's return to PNG was possible because of the strong support of the National Government and local authorities, particularly in relation to the provision of infrastructure to accommodate cruise ship visits,' P&O's CEO, Anne Sherry, is on the record as saying.

Other visiting cruise companies include the Holland-America Line, Japan's NYK Cruises, the British ships Black Watch and Caledonian Sky, French Polynesia-based *Paul Gauguin*, the residential cruise ship *The World*, Silversea and Hapag Lloyd. Small-size expedition ships continue to have a strong presence.

An obvious benefit of the cruise boom is that village economies are boosted through the provision of shore excursions, cultural experiences and the sale of handicrafts.

Attracting investors

Meanwhile, the National Government, through the TPA, is promoting new investments in major tourism facilities, such as large-scale resorts.

Packages, including financial incentives for investors, are available. Planning guidelines and suitable sites have been identified and investors are being sought to develop projects.

The TPA says it can help arrange pre-feasibility and feasibility studies for certain projects and will work closely with other agencies to assist in identifying business partners—local or foreign—and assist in the licensing and registration clearances with local authorities.

Robert Upe is Editor of Paradise, the in-flight magazine of Air Niugini, PNG's national airline.



Increasing numbers of cruise ships are making their way to PNG.



*Asaro Mudmen from Goroka
in Eastern Highlands Province.*

Credit: PNG Tourism Promotion Authority

This directory provides contact details for organisations featured in this edition, plus other key contacts.

AGRIBUSINESS/MANUFACTURING

Coca-Cola Amatil PNG

+675 472 1033
www.ccamatil.com

Goodman Fielder International (PNG)

+675 308 2200
www.goodmanfielder.com.au

K K Kingston

+675 472 2745
www.kingston.com.pg

Lae Biscuit Company

+675 475 9988
www.lagaindustries.com.pg

Mainland Holdings/Tablebirds

+675 472 3499
www.tablebirds.com.pg

New Britain Palm Oil

+675 985 2177
www.nbpol.com.pg

Paradise Foods Limited

+675 325 0000
www.paradisefoods.com.pg

Ramu Agri Industries

+675 474 3299
www.nbpol.com.pg

S P Brewery

+675 302 8200
www.sp.com.pg

Trukai Industries Ltd

+675 472 2466
www.trukai.com.pg

BANKING, FINANCE & INSURANCE

ANZ

+675 321 1079
www.anz.com/png

Bank of Papua New Guinea

+675 322 7200
www.bankpng.gov.pg

BSP (Bank of South Pacific Limited)

+675 320 1212
www.bsp.com.pg

BSP Capital Limited

+675 321 4333
www.bspcapital.com.pg

Kina Group of Companies

+675 308 3800
www.kina.com.pg

Nambawan Super Ltd

www.nambawansuper.com.pg

National Development Bank

+675 324 7500
www.ndb.com.pg

National Superannuation Fund Limited (NASFUND)

www.nasfund.com.pg

Pacific MMI Insurance

+675 321 4077
www.pacificmmi.com

Port Moresby Stock Exchange Limited

+675 320 1980
www.pomsox.com.pg

Westpac Bank PNG Limited

www.westpac.com.pg

BUSINESS & GOVERNMENT ORGANISATIONS

Asian Development Bank

+675 321 0400
www.adb.org

Australian Trade Commission (Austrade)

+675 325 9150
www.austrade.gov.au

Australia–Papua New Guinea Business Council

www.apngbc.org.au

Business Council of PNG

+675 320 0700
www.bcpng.org.pg

Business & Professional Women's Club of Port Moresby

www.bpwpng.org

Independent Public Business Corporation

www.ipbc.com.pg

Institute of National Affairs

Industry-funded think-tank.
+675 321 1045
www.inapng.com

International Finance Corporation (IFC)

+675 321 7111
www.ifc.org

Investment Promotion Authority

+675 308 4444
www.ipa.gov.pg

Lae Chamber of Commerce & Industry

+675 472 2340
www.lcci.org.pg

Manufacturers Council of PNG

+675 321 7143

Ministry of Commerce & Industry

+675 327 7350

New Zealand Pacific Business Council

+64 9 270 3746
www.nzpbc.co.nz

Pacific Islands Trade & Invest

www.pacifictradeinvest.com

Port Moresby Chamber of Commerce & Industry

+675 321 3077
www.pomcci.com

BUSINESS SERVICES

Air Energi Pacifica

+675 320 3095
www.airenergi.com

Datec

+675 303 1222
www.datec.com.pg

Deloitte PNG

+675 308 7000
www.deloitte.com/pg

DHL Express (PNG)

+675 325 9866
www.dhl.com

Ela Motors

+675 322 9500
www.elamotors.com.pg

Gadens Lawyers

+675 308 4600
www.gadens.com/portmoresby

Guard Dog Security Services

+675 7373 2300 (POM)/7202 1069 (Lae)
www.GuardDogSecurityPNG.com

Lynden Air Cargo

www.lyndenpng.com

Peddle Thorp Architects

+675 321 4688
www.peddlethorp.com.au

PVM Advertising

+675 325 7419
www.pvm.com.pg

CONSTRUCTION & ENGINEERING

Avenell Engineering Services

+675 320 3288
www.aespng.com

Cardno (PNG)

+675 325 4606
www.cardno.com/emergingmarkets

Hebou Constructions (PNG)

+675 325 3077
www.hebou.com.pg

Hornibrook NGI

+675 472 3599
www.hornibrook.com.pg

Kramer Ausenco (PNG)

+675 321 7333
www.KramerAusenco.com

Lamana Development

+675 323 4791
www.lamdev.com.pg

FISHERIES

RD Tuna Cannery Limited

www.rdtunacannery.rdgroup.com.ph

FORESTRY

PNG Forest Authority

+675 327 7919
www.forestry.gov.pg

PNG Forest Products

www.pngfp.com

MINING & PETROLEUM

Barrick Gold

+675 322 4800
www.barrick.com

ExxonMobil PNG Ltd (PNG LNG Project)

www.pnglng.com

InterOil

www.interoil.com

Marengo Mining Ltd

+61 8 9429 0000
www.marengominer.com

Mineral Resources Authority

+675 321 3511
www.mra.gov.pg

Morobe Mining Joint Venture

www.morobejv.com

Nautilus Minerals

+675 321 1284
www.nautilusminerals.com

Newcrest Mining

+675 321 7711
www.newcrest.com.au

Oil Search Limited

www.oilsearch.com

Ok Tedi Mining Ltd

www.oktedi.com

PanAust

www.panaust.com.au

PNG Chamber of Mines and Petroleum

+675 321 2988
www.pngchamberminpet.com.pg

USEFUL ONLINE RESOURCES FOR PAPUA NEW GUINEA

www.businessadvantagepng.com

Business Advantage International's online business magazine for PNG and the region.

www.ipa.gov.pg

PNG's Investment Promotion Authority.

www.pomcci.com

The PNG Chamber of Commerce and Industry. Information on networking, PNG business generally, useful links and POMCCI's training workshops.

www.pngindustrynews.net

Online/email news service—subscription required for full access.

www.thenational.com.pg

www.postcourier.com.pg

PNG's two daily newspapers, *The National* and *The Post-Courier*.

www.emtv.com.pg

Commercial TV broadcaster.

www.pngchamberminpet.com.pg

The PNG Chamber of Mines and Petroleum (see page 56) produces a number of useful publications including *Profile* magazine, which coincides with its major biennial conference.

Economic bulletins

Informative quarterly bulletins are produced by the Asian Development Bank (*Pacific Monitor*; www.adb.org), and the central bank of PNG (*Quarterly Economic Bulletin*; www.bankpng.gov.pg). ANZ Research also produces the helpful *Pacific Monthly*.

PNG INVESTOR'S MANUAL BY PORT MORESBY CHAMBER OF COMMERCE

The *PNG Investors' Manual* is a handbook for investing and doing business in Papua New Guinea.

Co-published by the Port Moresby Chamber of Commerce and Industry (POMCCI), the PNG Investment Promotion Authority and the Asian Development Bank, the third edition of the guide is designed to provide an in-depth guide for new and existing investors.

Topics covered include PNG's legal and tax system, profiles of PNG's key economic sectors and information on living and working in PNG.

To obtain the printed manual, email bizcentre@pomcci.com or view it online at www.pomcci.com.



Talisman Energy
www.talisman-energy.com

Total E&P (PNG)
www.total.com

TOURISM/TRANSPORT

Airlines PNG
+675 325 2011
www.apng.com

Air Niugini
+675 327 3444
www.airniugini.com.pg

Tourist Promotion Authority
+675 320 0211
www.pngtourism.org.pg

UTILITIES/TELECOMMUNICATIONS

bmobile Vodafone
www.bmobile.com.pg

Digicel
www.digicel.png

PNG Ports Ltd
+675 308 4200
www.pngports.com.pg

PNG Power
+675 324 3200
www.pngpower.com.pg

PNG Waterboard
+675 323 5700
www.waterpng.com.pg

Telikom PNG
+675 300 4000
www.telikompng.com.pg

LANDOWNER COMPANIES/FUNDS

Hides Gas Development Company
+675 321 4360
www.hgdc.png

Ok Tedi Development Foundation
+675 649 5550
www.otdf.png

Trans Wonderland Limited
+675 321 8077
www.twl.com.pg

DIVERSIFIED INDUSTRIAL GROUPS

Rimbunan Hijau (R H) Group
+675 325 7677
www.rhpng.com.pg

Steamships Trading Company Limited
www.steamships.com.pg

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YOUR GATEWAY TO PAPUA NEW GUINEA AND THE REGION





*Sunrise over Ela Beach,
Port Moresby's city beach.*

Practical tips and advice for the business traveller.

CLIMATE

With the exception of the Highlands, PNG has a warm tropical climate. The wet season in Port Moresby is from December to April.

COMMUNICATIONS

Internet: Web access in Port Moresby has improved immensely in recent years. Although it remains costly, all the Port Moresby hotels listed in this guide provide a fast-speed internet service. In other urban centres, you may still be relying on dial-up. For those staying longer, wireless internet via a USB modem is available, although download speeds can vary.

Phone: International mobile phone roaming is possible in PNG but it is costly. A cheaper option is to buy a local SIM card and prepaid credit (including data packs for smartphones). It is much cheaper to make international calls from PNG than vice versa.

ELECTRICITY

The current in PNG is 240V AC 50Hz, using Australian-style plugs.

GETTING AROUND

As a general rule in PNG, you need to plan your travel carefully.

Taxis: Recommended firms in Port Moresby are Comfort (+675 325 3046) and Scarlet Taxis (+675 7220 7000), although availability can vary and they do not operate late at night.

Car hire: Deal with one of the international names and ask

them to provide a driver (around PGK400 per day). With the poor state of roads, especially in Lae, 4WDs/SUVs are recommended.

Airport transfers: For arrival/departure in Port Moresby, any of the hotels listed in this guide will provide a complimentary transfer.

Domestic flights: Travelling within PNG often means taking an internal flight (for instance, you cannot drive between Port Moresby and Lae) with Air Niugini, its subsidiary Link PNG, or private airline Airlines PNG. Air Niugini offers passengers the chance to book (and check in) online but make sure you print out a copy of your receipt to show at the check-in counter. Aircraft and helicopter charter services are available for travel to remote locations.

HEALTH

Serious medical conditions typically require treatment outside the country. Travellers should ensure they have adequate health cover (the cost of medical evacuation alone can reach US\$30,000). Visitors should also note that malaria is prevalent in PNG and there have been cases of measles and tuberculosis in some parts of the country.

MONEY

PNG's currency is the kina (PGK). ATMs are located at Port Moresby's international airport, as well as around Port Moresby, Lae and other urban centres.

SAFETY

While the situation is not as bad as portrayed by some international media, you should always take precautions, especially at night.

TIME ZONE

PNG has a single time zone, 10 hours ahead of UTC/GMT.

HOTELS

Airways Hotel: PNG's only top-tier hotel, Airways, is located within a large, secure compound next to Jacksons International Airport. An inspiring setting, luxurious rooms and excellent service. See airways.com.pg.

Crowne Plaza: Upmarket rooms and suites in the heart of the CBD. Decent gym, business centre, undercover parking, thriving café and Mediterranean restaurant. Tel +675 309 3329.

Ela Beach Hotel and Apartments: On the fringe of the CDB, this constantly expanding hotel/ apartment complex is part of the Coral Sea Hotels group. Its main eatery is popular at lunchtime. See coralseahotels.com.pg.

Gateway Hotel: Another member of Coral Sea Hotels, this time located next to the airport. A range of amenities include Port Moresby's largest dedicated conference space. See coralseahotels.com.pg.

Grand Papua: This quality hotel features 156 suite rooms (short and long stay), an executive floor, gym and conference facilities. The separate restaurant and bar areas are

popular venues for business meetings in town. See grandpapuahotel.com.pg.

Holiday Inn: Located in the Government district of Waigani. Large grounds with walking track, in a tropical garden setting. Outdoor restaurant dining and bar area, business centre and gym. Tel +675 303 2000.

Laguna Hotel: The Laguna is the latest hotel to open in Port Moresby, providing high-end facilities. The 60-room property is located in Waigani. Tel +675 323 9333.

Lamana Hotel: Also in Waigani, this modern hotel's facilities include the popular Palazzo restaurant (steaks, pizzas and Indian cuisine), business centre, conference facilities and fashionable nightspot, the Gold Club. Tel +675 323 2333.

HOTELS IN LAE

In PNG's industrial hub of Lae, the **Lae International Hotel** has a secure, central location, pleasant grounds, cable TV and several dining options. Tel +675 472 2000, see www.laeinterhotel.com.

The smaller **Lae City Hotel** has quickly established a good name since opening in 2013, but be sure to make a reservation well in advance, laecityhotel.com.

Finally the **Melanesian Hotel**, part of the Coral Sea Hotels group, also provides business-standard hotels in several other urban centres.



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AIRWAYS HOTEL
PORT MORESBY

Airways Hotel, Jacksons Parade, Port Moresby

Tel +675 324 5200 Fax +675 325 0759 reservations@airways.com.pg www.airways.com.pg

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