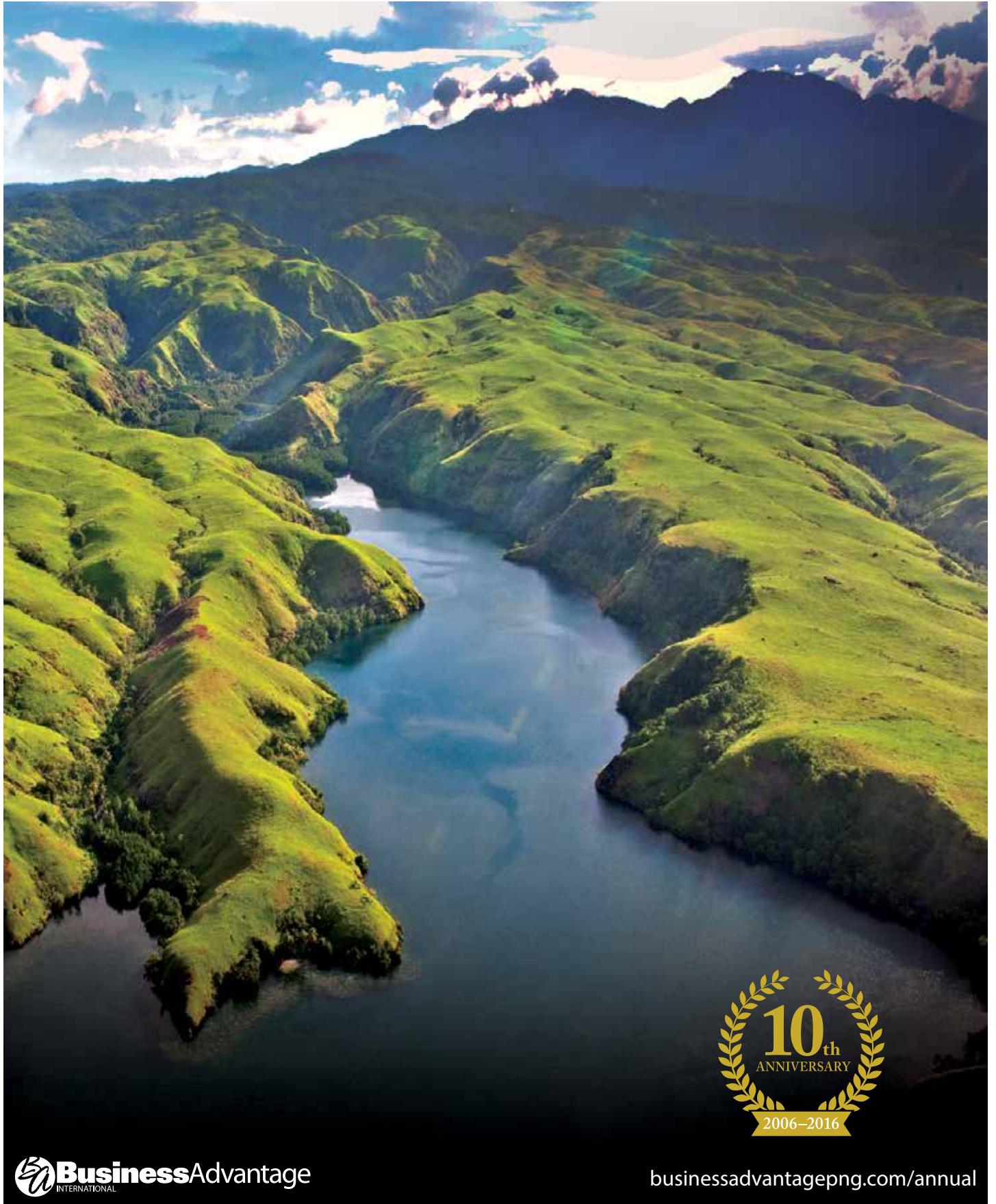


BUSINESS ADVANTAGE

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# Welcome

Welcome to the tenth anniversary edition of *Business Advantage Papua New Guinea*.

Back in 2006, before we launched our inaugural edition of *Business Advantage Papua New Guinea*, we did what we'd advise any business person to do if they're thinking of doing business in the Pacific's largest economy—we got on a plane to Port Moresby.

We spoke to business leaders, industry associations, government officials and ordinary Papua New Guineans, and then—and only then—we set about producing the first ever annual business and investment guide to the country.

PNG in 2006 had a much smaller economy than it does today, but it was rich in promise and opportunity, having emerged successfully from the tougher times of the 1980s and 1990s.

A decade ago, PNG was under-scrutinised and under-reported internationally, and no more so than in the area of business.

*Business Advantage Papua New Guinea* was designed to correct that anomaly and, over the past

decade, we have distributed around 150,000 copies of our annual publication to business people across the globe to promote PNG as a business destination.

Since 2013, we have also reached hundreds of thousands more through its companion online business magazine, [businessadvantagepng.com](http://businessadvantagepng.com).

PNG has now experienced over a decade of impressive and continuous economic growth and, notwithstanding current global challenges, continues to attract international and local investment, and host resources projects of global significance.

Clearly, PNG is now on the global business map.

This 10th anniversary edition of *Business Advantage Papua New Guinea* seeks to reflect on how far PNG has come, as well as report on the next chapter in its economic growth.

#### Andrew Wilkins

Publishing Director  
Business Advantage International

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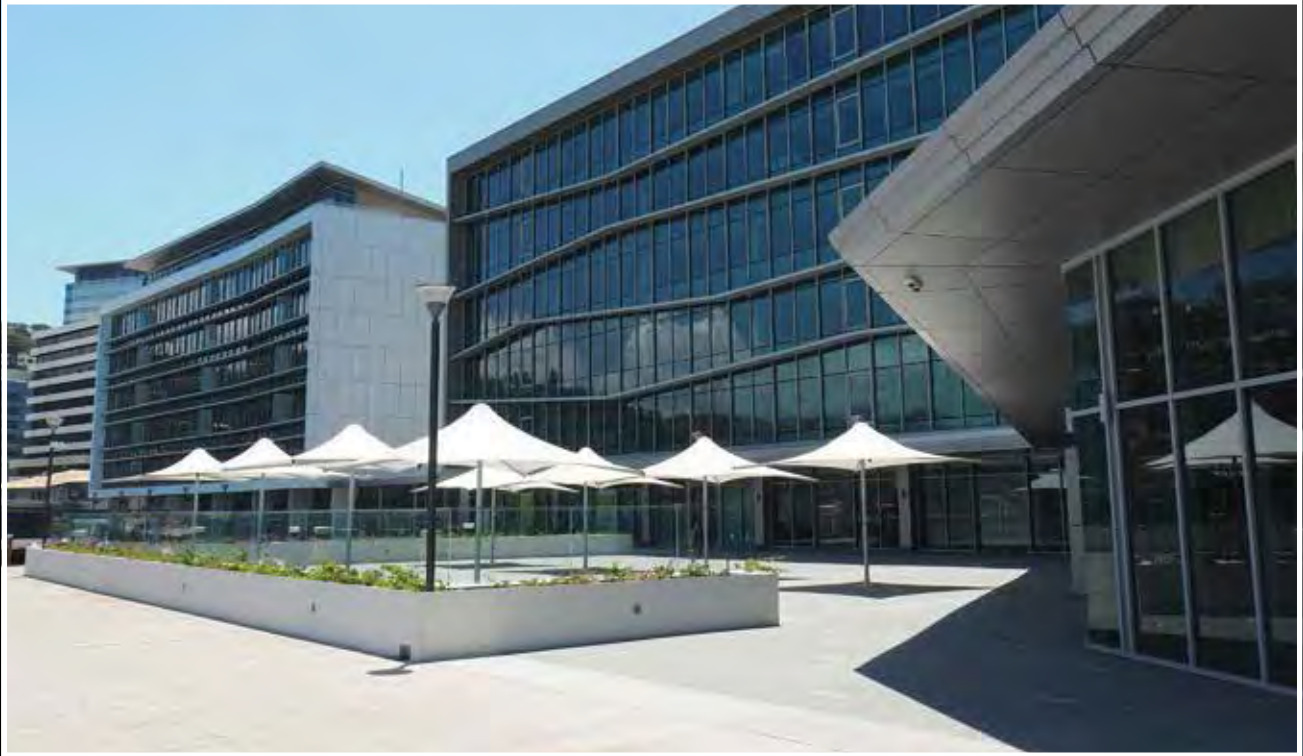
#### DISCLAIMER

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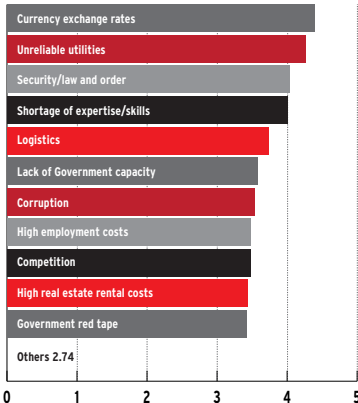
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Business Advantage Papua New Guinea 2016 was made possible by the support of the following organisations:





Steamships' new Harbourside development is the first development to open up the CBD foreshore to offices and recreation.

# Business confident slowdown will be short-lived

Global and domestic factors have combined to slow Papua New Guinea's economy. However, as **Andrew Wilkins** discovers, the Pacific nation's business leaders are still confident about its future prospects.

In last year's edition of *Business Advantage Papua New Guinea*, we noted clear signs that PNG's economy was changing down a gear or two after averaging impressive, double-digit economic growth over several years.

A year on, and the Pacific's largest economy is clearly still in a hiatus, with the slump possibly even more prolonged than expected. GDP growth will be modest in 2016—around 3.1%, according to International Monetary Fund projections.

## Global factors

The primary driver behind PNG's record growth—the construction of the US\$19 billion ExxonMobil-led PNG LNG gas project—was straightforward to identify, but there are multiple reasons for the subsequent downturn.

Global oil and gas prices have tumbled since the PNG LNG project started exporting, ahead of schedule, in May 2014. In spite of impressive production levels, income to the project's venture partners, including the PNG State, has been significantly lower than budgeted.

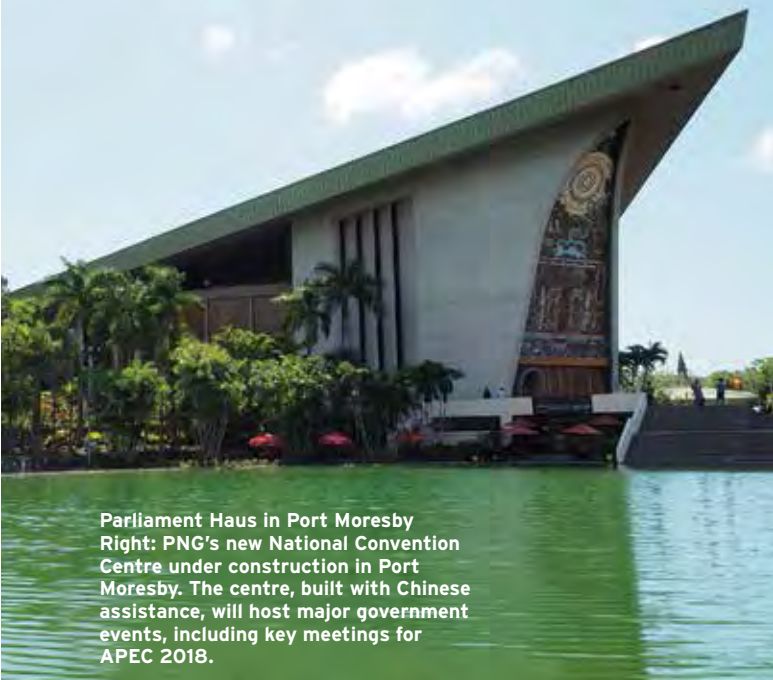
PNG's minerals-reliant economy has also taken a hit from major falls in the international prices for gold, silver, copper and nickel.

Such falls have affected investment in PNG's mining and petroleum sector. Mining exploration expenditure fell by K37 million to K323 million from K360 million in 2014, according to PNG's Mineral Resources Authority 2015 annual report, and all existing mines in PNG have sought to reduce costs.

At the same time, income from the country's major agricultural exports has also been affected by global price falls. The price of palm oil fell throughout 2015, as did that of coffee, while cocoa has proved volatile and sales of round log exports to China have been affected by reduced demand.

## Weather pattern

PNG's economy has also been affected by a more localised phenomenon: drought. The El Niño weather pattern,



Parliament Haus in Port Moresby  
 Right: PNG's new National Convention Centre under construction in Port Moresby. The centre, built with Chinese assistance, will host major government events, including key meetings for APEC 2018.



prevalent in 2015, caused reduced rainfall, especially in PNG's breadbasket, the Highlands.

Production of both food staples and cash crops fell in the second half of 2015, affecting an estimated two million Papua New Guineans. The drought has had other effects, too. It reduced the production of hydro-electricity and caused two of PNG's major mines, Ok Tedi and Porgera, to close temporarily, faced with lower river and reservoir levels respectively. Ok Tedi re-opened in March 2016 and there were hopes that drought mitigation efforts, and welcome rain, were starting to improve matters.

**Cyclical**

Like droughts, commodity prices are cyclical. When commodity prices rise, PNG has several strong resources projects in the pipeline. These include a second LNG project, Papua LNG, to be led by France's Total SA, Harmony Gold and Newcrest Mining's Wafi-Golpu gold project in Morobe Province—potentially, a 50-year mine—and Pan Aust's Frieda River copper-gold project.

'When the cycle comes round, PNG is better placed than at the last downturn [1997 to 2002],' notes Greg Anderson, Executive Director of the PNG Chamber of Mines and Petroleum. 'The difference now is we have an LNG industry, and PNG is seen as No.1 globally in terms of attractiveness for future LNG construction.'

**Broadening the economy**

Further confidence can be derived from the steady growth of PNG's non-resources sector, which is projected to grow by 3.8%—ahead of overall GDP—during 2016.

One sector that is showing significant growth as the economy matures is services.

'The services sector in particular has grown,' says David Conn, Chief Executive Officer of the Port Moresby Chamber of Commerce and Industry, the country's largest business chamber.

'It was fairly healthy in those areas servicing the mining

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Kumul Consolidated Holdings' Chairman, Paul Nerau

sector already. Clearly, with a new gas industry coming in, it has improved. The basic services are here in PNG—the accounting firms, the logistics suppliers—but, in terms of services for business, I think we've still got an area of the economy to grow in that regard. It will happen.'

Meanwhile, Paul Nerau, the Chairman of the state's Kumul Consolidated Holdings (the state entity which controls PNG's state-owned enterprises) has flagged its interest in diversifying into agriculture and tourism—two areas where PNG has considerable natural advantages.

At the same time, a growing middle class has resulted in the development of a strong retail sector in PNG, both for staples and consumer goods.

'Despite all the doom and gloom about the world commodity prices, the El Niño etc, CPL is surging ahead with its expansion plans and growth in the country and is confident about PNG, and has faith in the country and its people,' noted Mahesh Patel, Chairman of the country's leader retailer, CPL Group.

The relative weakness of the national currency kina also presents an opportunity for PNG's manufacturers, as Michael Kingston, Chief Executive Officer of K K Kingston observes:

'A number of our customers have been saying that, in relation to foreign currency, local supply is looking more appealing to them and they are looking to prioritise scarce available foreign currency. And that means an opportunity for local producers like ourselves to pick up additional business.'

### Foreign investment

There has also been a remarkable growth in the sources of foreign investment in

recent years.

According to PNG Investment Promotion Authority figures, the number of foreign companies investing in PNG grew to 3,794 in 2015, a massive increase on the 303 firms that had a presence in the country in 2004. Notably, some 55% of these companies were from Asia—illustrating a trend away from PNG's traditional, and still largest, source of investment and trade, Australia.

'If you look at Westpac's top 50 clients, two-thirds of them now are domiciled out of Singapore,' notes Greg Pawson, Westpac's General Manager Pacific Banking. 'So there's been a big shift from Australia to Singapore in the control of subsidiaries of those companies that are in PNG. There's obviously quite a significant trade corridor that's opened up between Asia, PNG and, to a lesser extent, Fiji.'

### Government finances

During the slowdown, the economy has been relying on government investment to keep things ticking over. As Ian Tarutia, Chief Executive Officer of superannuation fund Nasfund, observes:

'It has been funding all major economic activity in the past year, while the private sector has downsized.'

As well as increased expenditure on health and education, the PNG Government has set out a welcome program of investment in infrastructure development, including the relocation of the capital Port Moresby's port and the extension of the busiest port in Lae, improved electricity generation and transmission, developing a national fibreoptic cable network, road construction, and urban improvements ahead of Port Moresby's hosting of the 2018 APEC Economic Leaders Meeting. Meanwhile, stimulus measures

to drive much-needed housing construction are already bearing fruit, particularly in Port Moresby.

While much of this investment is progressing, the sharp falls in government revenues during 2015 have inevitably led to a more constrained National Budget for 2016, as the O'Neill government endeavours to return to surplus by 2020, while continuing to protect key development priorities.

The Government—which faces national elections in mid-2017—has also taken other measures to stabilise its finances into the longer term.

It is cutting expenditure judiciously.

'If the government doesn't have money, that affects the whole economy,' observes Tarutia.

### Papua New Guinea in brief

<b>Population</b>	7.167 million (2012, source: World Bank)
<b>Capital</b>	Port Moresby
<b>Surface area</b>	463,000 sq km
<b>People</b>	Melanesian, Papuan, Negrito, Micronesian, Polynesian
<b>Time zone</b>	GMT +10 hrs
<b>Business language</b>	English
<b>Political status</b>	parliamentary democracy
<b>GDP</b>	US\$16.8 billion (2014, source: IMF)
<b>GDP growth</b>	3.1% (2016 projected, source: IMF)
<b>Inflation</b>	6% (2016 projected, source: IMF)
<b>Currency</b>	PNG kina
<b>Major industrial sectors</b>	mining, crude oil petroleum refining, palm oil, coffee, plywood and wood chip production, construction, fisheries, tourism, manufacturing
<b>Exports</b>	oil, gold, copper ore, logs, palm oil, coffee, cocoa, seafood
<b>Major export markets</b>	Australia, Japan, Philippines, China
<b>Imports</b>	machinery and transport equipment, manufactured goods, food, fuels, chemicals
<b>Major import markets</b>	Australia, Singapore, China
<b>World Bank Ease of Doing Business Ranking 2016</b>	145 out of 189 economies





## **Oil Search: part of the PNG success story**

When Oil Search was established in Port Moresby in 1929, the Company recognised that the people and country held great potential. The development of PNG's oil fields, with uninterrupted production since commencement in the early 1990s, and the smooth completion and start-up of the PNG LNG Project in 2014, have proved that large-scale oil and gas developments can be successfully delivered and operated in PNG.

Today, Oil Search remains just as committed to PNG as it was 87 years ago. The Company is working closely with Government and key partners, not only to develop world scale, high returning oil and gas developments, but also to deliver major infrastructure projects, reliable access to power and healthcare services, to improve the lives of Papua New Guineans.



## Fund up and running

The enabling legislation for PNG's own Sovereign Wealth Fund was passed by Parliament in 2015, clearing the way for the 'offshore invested, onshore managed' fund, which has been devised to help PNG stave off the 'Dutch disease' experienced by some other resource-rich developing countries.

Dividends from state-owned enterprises—including Kumul Petroleum, which holds the nation's 16.57% stake in the PNG LNG project—will at first be paid into the SWF's Stabilisation Fund, and thereafter, when revenues permit, into a longer-term Savings Fund.

## Currency pressures

Availability of foreign currency for exchange purposes, most especially US dollars, has been a major problem for business since the country's central bank imposed a trading band for the kina in July 2014, when the currency began to fall strongly against the US dollar. At end of 2015, there was an estimated K1.2 billion of advance orders waiting to be converted (see story below).

To alleviate pressure on the currency in the short term, the PNG Government has been seeking to establish a US\$1 billion Sovereign Bond to help it restructure its domestic debt portfolio.

Robin Fleming, CEO of the country's largest bank, Bank

South Pacific, describes the bond—at the time of writing still being formulated—as 'a critical piece of financial infrastructure and it becomes more so with the passage of time.'

'If it is able to broaden the investor base beyond just Papua New Guinea, it would enable the Government, from a debt perspective, to alleviate any concerns of another deficit budget in 2016.'

## Business confident

That said, PNG's business leaders are showing confidence that the current downturn, while not without its challenges, will be short-lived.

Business Advantage International's annual survey of the CEOs of PNG's largest companies indicates that 76% of them are planning to increase or at least maintain their current levels of investment in PNG, while just 10% are planning to reduce their workforce in 2016 (see page 18).

'The RH Group continues to see PNG as an attractive investment destination and we increased our business activities throughout 2015,' Chief Executive Officer James Lau tells *Business Advantage PNG*.

'I'm confident the Government cashflow will be addressed over the next year and funding will come through,' agrees Ian Tarutia. 'The Elk-Antelope project [Papua LNG] will kick-start another wave of economic activity.' ♦

# Relief in sight for PNG's foreign exchange shortage?

There is some relief ahead for businesses struggling to access foreign exchange, according to Robin Fleming, CEO of the country's biggest bank, BSP.

Since June 2014, Papua New Guinea businesses have been struggling to gain access to foreign exchange, with an estimated K1.2 billion waiting to be converted as of the end of 2015.

But the CEO of Bank South Pacific, Robin Fleming, is optimistic that access will begin to flow during 2016.

'With the Ok Tedi mine reopening in March—and that in itself will start providing another US\$30 to US\$40 million into the market per month—the pressure will start to ease,' he told *Business Advantage PNG*.

'And there is talk that the Wafi-Golpu [gold] project will be getting close to agreement on financial terms, and that could introduce an additional US\$200 to US\$300 million during 2016. There is also possibly some early works for the [Total-led] Papua LNG towards the end of 2016.

'And there are bigger sums coming in 2017 and 2018,' he says.

## Conservative

Fleming says the Bank of Papua New Guinea has taken a 'conservative' approach to managing its reserves, still about US\$1.9 billion or seven-to-eight months of import cover (or

12-to-14 months of non-mining import cover).

'It doesn't want those reserves to be exhausted.'

That said, Fleming says despite the central bank's imposition of a kina trading range, the kina's value has been 'coming off' 1.5% to 2% per month.

## Bond to the rescue?

Fleming is positive about the PNG Government's planned US\$1 billion Sovereign Bond issue.

'It should alleviate concerns in terms of businesses crowding out of investment opportunities, and also provide some relief on interest rates.

'It would certainly be a cheaper way for the Government to raise debt, and be attractive to international investors.

'The feedback I get talking to potential overseas investors is that they feel that there is certainly an appetite for this type of debt.

'And, in an emerging market, debt has been one of the performers in the bonds markets overseas, and therefore it continues to remain of interest, particularly when you do the analysis and see the future revenue streams that are available to PNG, with two world-class LNG projects with lives of 40-to-50 years.' ♦



BSP's Robin Fleming



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# A tale of two cities

The executives of Papua New Guinea's two largest business chambers, in Port Moresby and Lae, reflect on their cities' progress over the past decade.



## DAVID CONN

CEO, Port Moresby Chamber of Commerce & Industry

In the nation's capital, it's just exponential change. It's very, very heartening to see. Port Moresby has really grown up in the last 10 years, and the infrastructure development continues apace.

If you compare it with 10 years ago, I think it's shaken off the mantle of being a dangerous place. I mean more and more people are coming in and saying: 'What's the fuss? This is a vibrant city in a developing country.'

With law and order moving back down the scale, it's being replaced by new issues. The energy situation has become critical, and in many ways that was inevitable. When you see such exponential growth in the city, the infrastructure—power, water, sewerage, drainage—is all creaking and groaning.

But there are many encouraging things in the energy sector coming, so Moresby is heading to be very well covered in that regard—it's going to be a lot better for business as well.

It's all happening in Port Moresby. I visited Vision City, a shopping mall that would be the measure of any shopping mall in Asia, sitting under a new 433-room hotel—the Stanley. There are six new restaurants opening up in Steamships' Harbourside development. You have one of the most magnificent harbours in the world that you're sitting on.

You just you need to drive around Port Moresby to see what is happening. People are gentrifying: old fibro shacks have come down and people are building half a dozen units on the block of land.

New road infrastructure is opening up massive areas of real estate on the fringes of the city, and you know many of us thought that a lot of these traditional settlements would never go, and that's been proven wrong. I like to see development translating to a better standard of living for people.

I think it's positive that the port is moving to the northern side of the harbour. It's going to be well connected by a new road. I would like to see some consideration given to the spin-offs in that economic development corridor around the harbour. There's huge potential there. I'd like to see Hanuabada, Tatana Island, Baruni—places sitting right on the fringes of the nation's capital—developing as well. I hope for a better quality of life for everybody in Port Moresby.

## PNG's share market

Heavily-weighted as it is with dual-listed mining and petroleum stocks, the overall value of the Papua New Guinea bourse, the Port Moresby Stock Exchange (POMSoX) fell during 2015.

Globally, resources stocks followed the pattern of 2014 and fell significantly, along with falling global oil and mineral prices.

PNG's main mark index, the Kina Securities Index (KSI), which lists 18 companies, closed at 3,417.51 points, falling 77.37 points or 2.1 % during the year. The exchange's weighted market capitalisation is K51.5 billion (US\$19.74 billion), slightly lower than

the end of 2014 (K53.3 billion or US\$ 20.1 billion).

There were three major changes on POMSoX during 2015.

Kina Securities became one of the first dual-listed Papua New Guinea companies in July 2015. It raised A\$97 million (K210million) on listing on both POMSoX and Australia's ASX, and had a market cap of \$164 million (K356 million) at the start of 2016.

Junior miner Marengo Mining delisted in 2015, and is now only tradeable on the Toronto Stock Exchange, while New Britain Palm Oil delisted after its takeover by Malaysia's

Sime Darby in late February 2015.

In June 2015, Prime Minister Peter O'Neill announced the Government would introduce legislation to ensure the independence of the Securities Commission of Papua New Guinea, and open the Port Moresby Stock Exchange to greater competition.

He added that the Securities Commission would be given an independent organisational and administrative structure, to enable it to perform its regulatory functions by providing oversight of the Papua New Guinea Capital Market, including oversight of share trading. ♦

**ALAN MCLAY**

President, Lae Chamber of Commerce



Thank goodness the name ‘Lae: the Pothole City’ hasn’t stuck. But, 10 years ago, it was synonymous with Lae, as most of the arterial road complex in the city had collapsed.

This had a dramatic effect on how business was conducted in the city. Bad roads added costs to business:

- Vehicles had to be repaired or replaced more often.
- Employee punctuality was a problem, as buses ran late or in extreme cases just did not operate.
- The poor health of workers, particularly with respiratory illnesses, caused downtime.
- Dust affected machinery and caused filthy stock.
- Deliveries were difficult.

In 2008, a program to seal Lae’s roads was commenced and gained momentum in 2011, when the concreting of major city roads was started.

Now, only a few major roads are yet to be sealed. Unfortunately, these are the most important roads in the city, especially the last kilometre of Milfordhaven Road leading to the Lae Wharf, which is the main artery for normal traffic as well as all the trucks and heavy vehicles to and from the port. We are hopeful that these roads will be sealed in 2016.

The PNG LNG gas development in the Highlands brought ancillary business to Lae, which saw the city expand quickly. Little available land in Lae Township itself meant that much of the development was in the direction of the Nadzab airstrip.

This development was haphazard but a new Urban Development Plan currently being done by professional town planners provided by JICA (the Japanese International Cooperation Agency) will cater for Lae’s continued expansion as far as the Erap River, just past Nadzab.

In November 2015, PNG again signed a deal with JICA for Nadzab Airport to be extended, with K650m funding, starting in 12 months’ time, allowing for a new terminal, runway improvement and provision for airport-related businesses.

The completion of the ‘super highway’ from Lae to Nadzab will guarantee swift access to these new facilities from Lae. Business houses have commenced planning for future international flights from Nadzab and the Lae Chamber of Commerce hopes these will benefit not only businesses in Lae but those in the Highlands, Madang and Islands as well.

PNG is undergoing a business slump and Lae is no exception. As the manufacturing hub of PNG, the shortage of ready cash in the country has resulted in a downturn in business across the board. However, when the economy recovers, Lae is well placed to pick up quickly and will be able to operate more efficiently, taking full advantage of the improved infrastructure. ♦

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# Port Moresby 2018 APEC Summit to

In November 2018, Port Moresby will host the Asia-Pacific Economic Cooperation Leaders Meeting. Interim CEO of Papua New Guinea's APEC 2018 Coordination Authority, Christopher Hawkins, highlights the opportunities for business.

Businesses throughout Port Moresby can expect to find a wide range of opportunities in the lead-up to the Asia-Pacific Economic Cooperation (APEC) leaders' summit over the next two years, according to the PNG APEC 2018 Coordination Authority.

'The direct benefits for business in PNG are that: from what we spend on hosting APEC, most will go to the private sector because the government is not in the business of delivering the items that we need,' PNG APEC Authority Interim Chief Executive Officer Christopher Hawkins told the 2015 Papua New Guinea Advantage Investment Summit in August 2015.

'That's including transportation and freight,



Interim CEO of Papua New Guinea's APEC 2018 Coordination Authority, Christopher Hawkins.  
Stephen Rae/Media Haus

venues, catering, uniforms, communications—everything from gifts and handicrafts. These are things that will be outsourced.'

The Summit is taking place in PNG for the first time in 2018, leaving Hong Kong and Chinese Taipei as the only APEC economies yet to host the event.

## Chain of events

Hawkins said Port Moresby's experience of hosting the 2015 Pacific Games, and also several upcoming events, would be ideal preparation for Port Moresby and PNG ahead of APEC.

'Those of you who were in Port Moresby for the (Pacific) Games will know that everything came together,' Hawkins said.

'It was on time and it was on budget. It's a big act to follow but at APEC we are building our team in much the same way as the Games built their team.'

Hawkins said the Authority was confident of building a

skilled workforce to coordinate APEC that would require 'only a couple of expat staff'.

The APEC Summit is also being planned following similar models to previous summits in the past decade, including Australia's, Peru's and Chile's.

'We have three years—it's not long but we are on track,' said Hawkins.

Port Moresby's APEC responsibilities have already commenced, with the capital hosting the APEC meeting of ministers responsible for forestry in October 2015.

## Overcoming challenges

Port Moresby's shortage of hotel rooms remains a key challenge the Authority is working to overcome, Hawkins explained.

He said the Authority was dealing with this position by organising a more 'intimate' event compared with previous summits held elsewhere, such as China in 2014.

'We will need cruise ships to take on accommodation

## Paga Hill development to transform Papua New Guinea's capital

Work began in 2015 to develop the Paga Hill Estate, at the iconic headland of Papua New Guinea's capital city, Port Moresby. The development's architect, Paul Gallagher, tells *Business Advantage PNG* the project will transform the capital.

After a controversial start, the Paga Hill Estate project has been now declared a 'Project of National Significance' by Papua New Guinea's Government and is expected to be ready to play a key role hosting the Leaders' meeting at the APEC Summit in Port Moresby in 2018.

### Ring road

Lead architect, Paul Gallagher, whose Sydney-based company Studio GA has been involved in the project for 12

years, says the scale of the development is 'substantial'.

'The second major stage was the building of the Ring Road,' he tells *Business Advantage PNG*.

'The Ring Road links Paga Hill with the city and provides public access, which runs the full perimeter of the headland.'

The site has now been cleared, and civil and infrastructure works have commenced, according to Gallagher. The K85 million works program includes the benching and levelling of individual development sites across the hill, reconfiguration of Chalmers Crescent and the installation of all infrastructure for the site.

The Chief Executive Officer of Paga Hill Development Co, Gudmundur Fridriksson, says in five years time, the area will be 'incredible, creating a whole new economy' in the city.

With a 99-year lease, the Paga Hill Development

# deliver significant opportunities

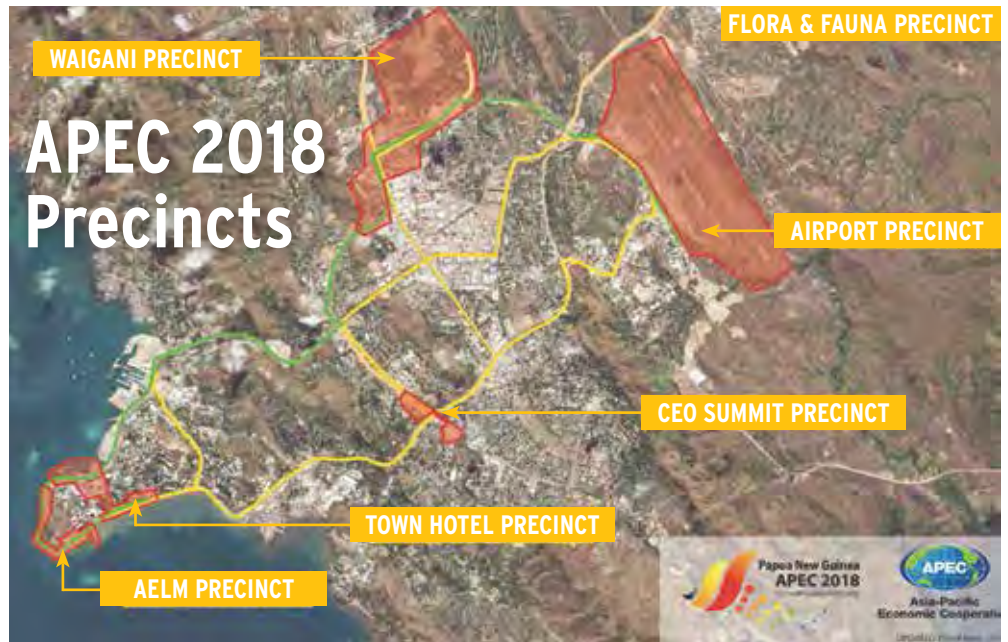
capacity, which is commonplace these days. We are talking to the cruise ships now,' Hawkins said.

'We have sufficient accommodation for leaders to have the rooms they require.'

Hawkins said security and transportation were other areas where extensive preparation was already under way.

'Security is always the big challenge for any APEC meeting—you have got 21 leaders from some of the world's largest economies in one place meeting together. We have been working with our security partners, especially Australia,' Hawkins said.

'The airport is a concern for any APEC week. We will have a new airport terminal (in Port Moresby) by 2018 that will go where the old terminal used to be.' ♦



Port Moresby will not be in total lockdown during the one-week APEC summit in November 2018, assures Christopher Hawkins. There are three key meeting areas as show on the map above.

APEC leaders will meet at Paga Hill, marked AELM (APEC Economic Leaders Meeting). Most accommodation and cruise ships will be located in the Town Hotel precinct. CEOs

and heads of major regional companies will meet Leaders in the CEO Summit Precinct for formal and informal talks.

Meetings with Trade Ministers and officials will take place in the Waigani Precinct, where some accommodation will be provided, including the new Hilton Hotel. The Gala Dinner will be hosted here.

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An artist's impression of what the Paga Hill Estate will deliver to the PNG capital.  
Paga Hill Development Co.

Company's master plans include 68 serviced apartments as part of a six-star luxury hotel, commercial buildings, restaurants and eateries, a cultural centre, a marina and an international cruise liner terminal.

The hotel will contain 200 luxurious guest rooms, a large ballroom venue suitable for state dinners, conference and meeting room facilities, restaurants and cafés, with views across Fairfax Harbour and the Coral Sea.

The high point for the Paga Hill development is that it will be the venue for the Leaders' meetings at the Asia-

Pacific Economic Co-operation summit in Port Moresby in November, 2018.

However, Gallagher emphasises that, while the anticipated NCDC approval establishes a master plan strategy for the estate, investment interest and market demand will progressively roll out individual developments across the 22-hectare site.

He also says cruise liners could bring tens of thousands of extra visitors annually, providing 'an opportunity that's too good to miss'. ♦

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# What we learned in Papua New Guinea: Hawkins Group CEO



The high-profile Kumul Flyover project in Port Moresby was New Zealand construction company Hawkins Group's first major project in Papua New Guinea. Hawkins Group CEO Geoff Hunt reflects on the lessons learned from the project.

The K161 million Kumul Flyover project involved the design and build of a 2.2 km, four-lane road, including a 600-metre flyover, to connect Port Moresby's Jackson International Airport to the administrative, sporting and retail hub of Waigani.

The Pacific's first four-lane overpass was opened on 31 May 2015, in time for the hosting of the 2015 Pacific Games.

As the 'main contractor', Hawkins Group subsidiary Hawkins Construction led the design and construction, with focus on undertaking the bulk of the work through local sub contractors.

While the project was a success, it was also an education in the challenges that face contractors on major infrastructure developments in PNG, according to Hawkins Group Chief Executive Officer Geoff Hunt.

## International standards

Hawkins adopted a strict approach to lifting health and safety on the project to an international standard, Hunt explained, adding that 'once we stated our requirements and enforced them' it quickly improved to the required level.

'We ran a very strong compliance-based approach and that meant every day we started with breath-testing everybody on the site for alcohol,' Hunt said.

He said the first person to lose their job under the strict approach was the original, locally employed health and safety manager.

'That caused a seismic shift in the understanding that safety was to be taken seriously,' he said.

## Valuable lessons

As the company's first large project in PNG, Hunt said overcoming the challenges led



Above: Hawkins Group's Geoff Hunt  
Top: The Kumul Flyover on completion

to several 'learnings' from the experience.

He said the company soon learned that they were expected to negotiate on-site access, making the project a more involved undertaking than first thought.

All items that might be considered 'extras' in an Australian or New Zealand setting are also considered to be already included in the contract, he said, which means you need to increase the size of the management team to get the required results.

## Prestige

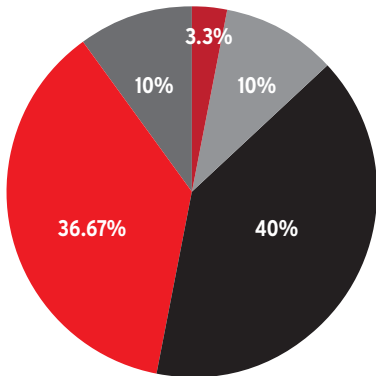
The Flyover has also caused a major shift in the scale of road infrastructure projects that have been completed in PNG.

Hunt said the project was very prestigious for PNG, the company and all of the subcontractors who were involved.

'It is the gateway to Port Moresby,' he said. 'A total of 800 people worked on the project; 85 per cent were PNG nationals. It was also a project that caught the imagination of the residents of Port Moresby.' ♦

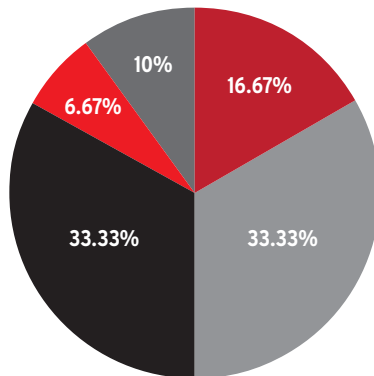
# The 2016 PNG 100 CEO

Looking back on your business's performance in 2015, did your profits



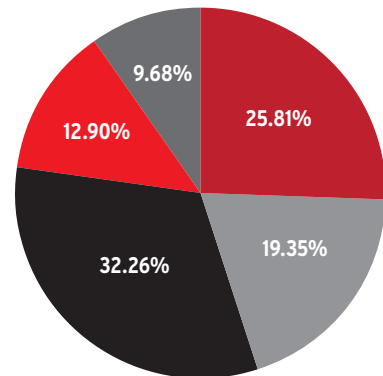
- Greatly exceed expectations?
- Slightly exceed expectations?
- Meet expectations?
- Fall slightly short of expectations?
- Substantially fall short of expectations?

In 2016, do you anticipate that your profits will



- Substantially exceed 2015?
- Somewhat exceed 2015?
- Be about the same as 2015?
- Be slightly less than 2015?
- Be substantially less than 2015?

How much investment (e.g. in plant, equipment/land or other assets) are you planning in 2016?



- A substantial increase on 2015
- A slight increase on 2015
- About the same as 2015
- Slightly less than 2015
- Substantially less than 2015

This is the fifth year that *Business Advantage PNG* has run the PNG 100 CEO Survey—our exclusive survey of the executives who run PNG's largest companies.

Each year, the survey aims to uncover business confidence by asking CEOs about their anticipated profit, investment and recruitment expectations for the year ahead—2016.

It also encourages them to identify the key issues they face in their businesses.

## Profits take a hit

Twelve months ago we asked the CEOs of PNG's largest companies what their profit expectations were for 2015. They were predominantly bullish, with some 56% saying they were expecting higher profits in 2015, compared to the previous year. Meanwhile, just 8% expected profits to fall.

One year on, and it's clear expectations were not met, and in dramatic fashion.

Some 47% of respondents to the survey said profits had actually fallen short of

NORMALLY, THE ISSUES FACING PNG BUSINESSES DON'T CHANGE TOO MUCH FROM YEAR TO YEAR. HOWEVER, IN OUR LATEST SURVEY, ONE ISSUE HAS LEAPED TO PROMINENCE

expectations in 2015, while a meagre 4% had exceeded profit expectations.

While another 40% of respondents said profits had met expectations, this was the third year in a row in which more than 40% of respondents reported profits below expectations.

## What will 2016 bring?

In spite of a tough 2015, PNG's largest companies remain remarkably positive about the year ahead.

Over 50% told us they expected profits to rebound. Meanwhile, only 17% were expecting profits to drop further—although this pessimistic group is twice as large as last year.

A third of CEOs were expecting similar profits in 2016 as they had experienced in 2015.

## 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.

In spite of poor conditions in 2015, around 45% of respondents told us they were planning to increase their investment in plant, equipment and other assets during 2016.

While this is slightly down from the 52% in our last survey, and markedly down from the years of the PNG LNG construction boom (2012 to 2013) it is on a par with our 2014 survey.

A further 32% of CEOs say they are planning to maintain 2015 levels of expenditure, while 23% say they are going to cut investment in the year ahead—a 5% improvement on last year's survey.

## Recruitment intentions

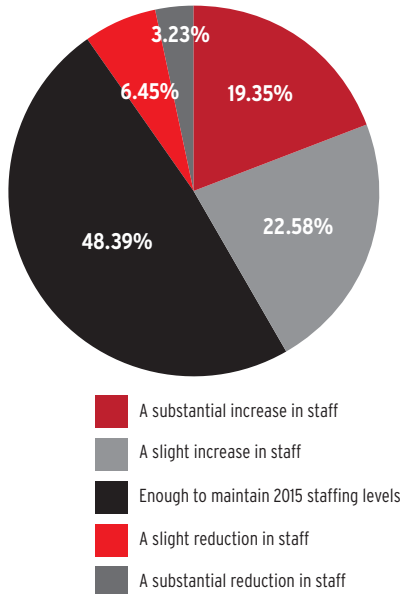
Last year, we suggested that the job-shedding that we noted in our 2014 survey might be coming to an end, with just 12% of CEOs saying they were planning to reduce their workforce during 2015.

This year's survey seems to

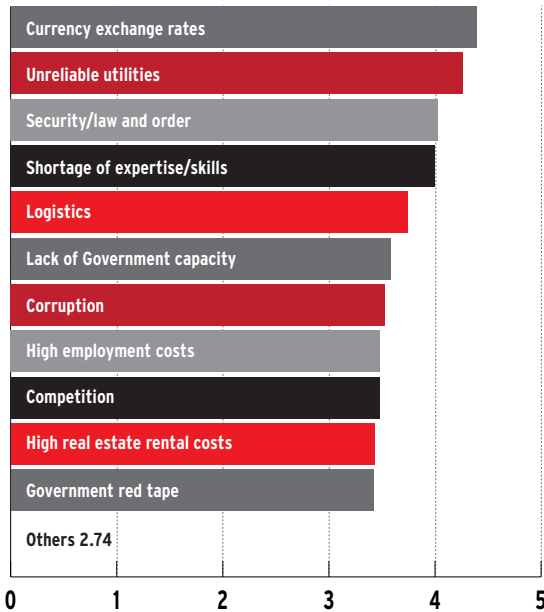
# Survey

While our annual survey of PNG's major companies reveals that profit expectations for 2015 failed to materialise, there is clear optimism about the year ahead.

What level of recruitment are you planning in 2016?



What are the critical issues facing your business in 2015?



issues nominated by our CEOs.

Drought makes an appearance on our list for the first time. PNG has been affected by an El Niño weather pattern. Its comparatively low ranking is not a reflection on the drought's limited impact, but more on the fact that, while some companies reported being affected, others had yet to feel any impact. ♦

The 2016 PNG 100 CEO Survey was conducted by Business Advantage International between late November 2015 and early February 2016. The survey included senior executives from a representative sample of Papua New Guinea's largest companies, across all sectors of the economy.

confirm this, with just 10% of respondents saying they were planning further workforce reductions during 2016.

Almost half (48%), on the other hand, are planning to keep their headcounts steady for the coming year—only 28% said the same thing last year.

Meanwhile, 42% are actually planning to employ more people—encouraging, given the circumstances. This is a worse result than last year, when 60% said they were planning to add to the staff numbers, but is comparable with the responses to our 2013 survey, when profit expectations were significantly higher.

## Issues facing PNG business

Normally, the issues facing PNG businesses don't change too much from year to year. However, in our latest survey, one issue has leaped to prominence, while another has made its first appearance in the five years of the survey's

existence.

There is no question about the top issue cited by our CEOs this year: foreign exchange.

While it was the fourth most cited issue in our 2015 survey, the shortage of foreign currency, most especially US dollars, has had a real impact on business, hampering its ability to pay for overseas goods and services, make overseas investments, and repatriate profits offshore.

Unreliable state utilities—a constant across all our surveys—was the second-highest ranked issue, followed by security/law and order (last year's top issue).

This year, the shortage of skills rises in the rankings, only just below security/law and order, suggesting that employers see it as a constraint to their future recruitment plans.

Logistics (getting material around PNG remains a major challenge) and lack of government capacity are the fifth and sixth most critical



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# Summit focuses on investment in PNG



Since its launch in 2011, the Papua New Guinea Advantage Investment Summit has established itself as PNG's leading investment event. The most recent event was held in Brisbane, Australia in August 2015 and attracted record numbers from the local and international business community.

The two-day event focused on investment opportunities across the economy, with the entire second day reserved for opportunities in infrastructure.

Around 450 high-level delegates from 12 different countries attended the event. ◆

[www.pngadvantageconference.com](http://www.pngadvantageconference.com)



**Top:** Delegates and media gather for the opening of the Summit.

**Above left:** Prime Minister Peter O'Neill advised delegates of several key reforms, including the establishment a Sovereign Wealth Fund, a National Procurement Authority to award and oversee government contracts, a restructure of state-owned assets and enterprises, and an Independent Commission Against Corruption.

**Left:** Business Advantage International's MC Andrew Wilkins shares a joke with Syd Yates (Kina Bank), Mahesh Patel (CPL Group), Frank Kramer (Kramer Ausenco) and Stan Joyce (S P Brewery).

Right: Keynote speaker Pete Williams of Deloitte's Centre for the Edge spoke of the opportunities emerging technology offers developing countries like PNG.

Below: All the major players in PNG's gas industry at the one table. From left: ExxonMobil PNG's Andrew Barry, Oil Search's Peter Botten, Total SA's Olivier de Langavant, REPSOL's Mike Fox and Kumul Petroleum's Wapu Sonk.



Above: Steve Ciobo, now Australia's Minister for International Development and the Pacific, speaks of the bilateral opportunities for Australian and PNG business.



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# Ela Motors takes a long-term view of Papua New Guinea market

Papua New Guinea's largest motor dealer, Ela Motors, is planning further investment in the country as part of a move to bolster its already-strong position in the domestic vehicle market. *Business Advantage PNG* speaks with CEO Takeshi Abe.

## By Tony Kaye

Having already invested substantially in its logistics and branch operations in PNG over the past two years, Ela Motors intends to rebuild both its Badili head office and branch, and also its Lae branch.

The company, owned by Toyota subsidiary Toyota Tsusho South Pacific Holdings, has more than 50% of PNG's motor vehicles market.

Interviewed by *Business Advantage PNG*, the Chief Executive Officer of Ela Motors, Takeshi Abe, said PNG remained in the top group across Toyota's South Pacific regional network, based on overall business volumes.

## Big potential

'Regarding PNG, Ela Motors does think there is a big potential for the automotive market,' he said.

After several years of record sales, total automotive sales in PNG were down by around 3% year-on-year in 2015, from 8,305 to 8,054 units. Abe notes Ela Motors' own sales had dropped in proportion to its overall market share.

'However, considering the potential of PNG in the long

term, we did not stop our investment and also sustained the number of employees by improving our business efficiency and reducing unnecessary costs,' he says.

## Investments

Ela Motors' most recent investments in PNG included a new showroom at Waigani and a logistics centre at Lae, which commenced operations in February 2015. The logistics centre incorporates its national parts depot, which supplies spare parts and accessories to the group's national network of 16 branches.

The centre also has a bond yard and parking area to cater for up to 400 vehicles, and a dedicated workshop for pre-delivery inspection and accessory fitting.

To grow and develop the technical skills and knowledge of staff, Ela Motors has also established a new training centre, called the 'Ela Academy', at its Badili head office.

'The next big investment plan, which we look to span five years, will be the total renovation of our Lae branch and Badili branch and head office,' noted Abe.

## Tough conditions

Abe acknowledges that business conditions in PNG are currently 'very tough', and have been exacerbated by the country's recent foreign



REGARDING PNG, ELA MOTORS DOES THINK THERE IS A BIG POTENTIAL FOR THE AUTOMOTIVE MARKET

Takeshi Abe



exchange restrictions, which had affected the ability to pay product and parts suppliers.

He added that the depreciation of the kina would increase the cost of imported items and may force the automotive sector to review



**Above: Ela Motors' new showroom in Waigani opens in style. Left: Training in vehicle maintenance is carried out at the 'Ela Academy'.**  
Ela Motors



costs and pricing, which would in turn affect business.

'The majority of vehicles and outboard motors sold in PNG are not used for recreation, but are essential items to run a business,' he observed.

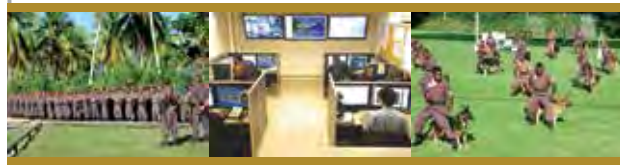
### Long-term view

Abe said Ela Motors was in PNG for the long term: 'Looking at the future potential of the country, we will not stop our improvement. PNG's ongoing and planned resources and infrastructure projects may boost the economy in the long term.

'Especially for the vehicle market, the development of infrastructure will be the key. Vehicle demand may increase with the improvement of roads and the development of new road connections which, in turn, will create further demand for transportation and distribution of goods and people.' ♦



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## Securing PNG

# Employing expats in PNG

As its economy has grown, the number of foreign workers coming to Papua New Guinea has increased. Scott Roberts of recruitment consultants Cadden Crowe gives his do's and don'ts for bringing expats to work in PNG.

Like any other independent nation, Papua New Guinea has its work permit and visa regulations for non-nationals and if you don't abide by the rules, both the employer and the employee are liable.

It is important to know the requirements and your role as an employee or an employer.

All expats looking to come and work in PNG, be it for the short term or long term, require a visa. The options range from a business visa to cover short trips for meetings through to a three-year residential work permit and visa.

## Business visa

There is a myth that it is okay to come into PNG and work on a business visa until told otherwise or until the regular visa is 'sorted out'. Don't fall into this trap.

If you are coming to work in PNG, or are employing expats to do so, then they must have a valid work permit and visa aligned to a specific employer and a specific job.

The business visa only allows you to travel to the country to attend meetings, check on progress, carry out functions



Cadden Crowe's Scott Roberts.

necessary to the operation of your business and is for those people whose role is based outside PNG.

## Applying for a visa

The system to obtain the relevant visa is straightforward but requires you to understand the system and cooperate with the Department of Labour and Industrial Relations and PNG's Immigration and Citizenship Service.

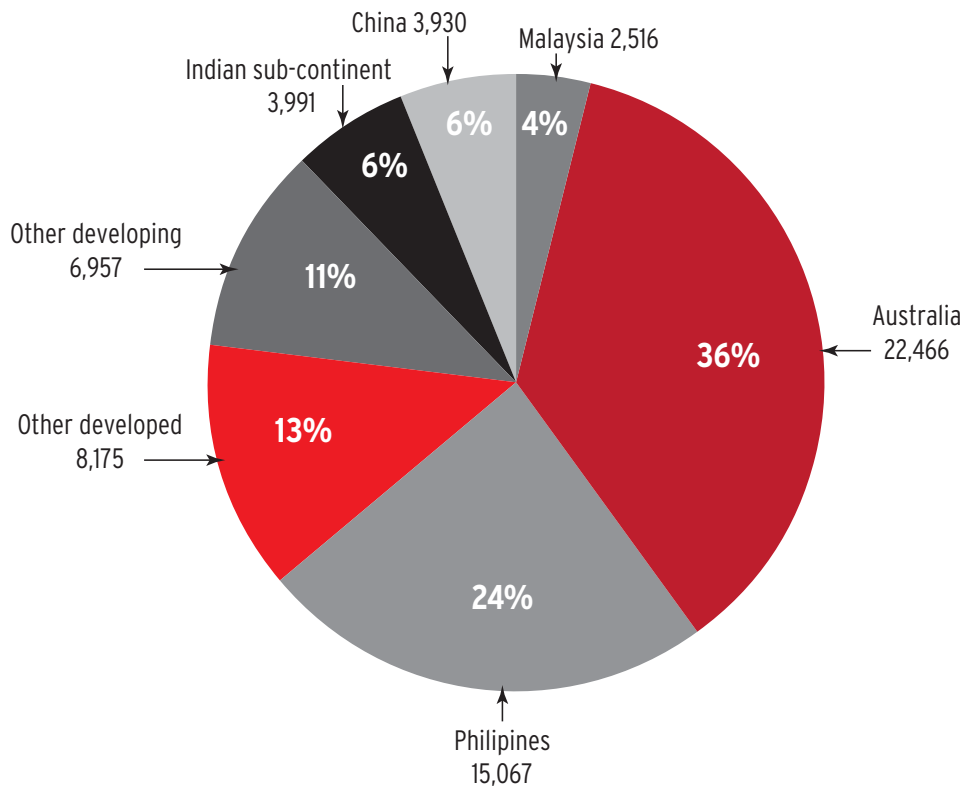
Using a registered

employment agent in PNG can be a shrewd investment—they understand the systems, know the departments, will check all the necessary paperwork before anything is lodged and will follow up until processing is complete.

Despite the stories, the system is not complicated, runs relatively smoothly and many of the delays and war stories often relate to poor planning, not allowing enough time and incomplete documentation.



Where foreign workers come from



Source: Carmen Voigt-Graf, National Research Institute

Therefore, some simple do's and don'ts may be worth considering:

**Do**  
Follow all instructions—doing so will save time in the long run.

Ensure all documentation is completed correctly and supporting documents are authenticated.

Allow enough time. Timeframes are given for each type of visa and these are adhered to by the departments. Plan your business around these timeframes and not vice versa.

Cooperate with the Department of Labour and Industrial Relations, the PNG Immigration and Citizenship Service and the relevant consulate.

Know the requirements of the home country you are employing out of as some, such as the Philippines, will require additional focus in PNG.

Ensure that the role you wish to obtain a visa for is on the list of roles open to expats.

**Don't**  
Take short cuts. The systems, timeframes and instructions are there for a reason. Taking shortcuts will only delay the application.

Assume they will let you in. PNG is an independent nation. Like Australia: no visa, no entry!

Assume a business visa will be approved. If you are residing and working in PNG it won't. Don't break the law—

get the required work permit and visa. If your employer says it is okay, then request written confirmation from the Department of Immigration.

Expect the departments to fit into your timetable. They are very open with the timeframes and they stick to them. They are not there to work around your company's timetable. It is up to you to plan accordingly around these timeframes. (At the same time, some industries or companies will get fast-tracked.)

Assume that because someone is employed by one company then they can work for you. All work permit and visas are fixed to a specific job and specific employer. If either your job title or employer changes, then you will need a new work permit and visa to match. ♦

Scott Roberts is Managing Principal of Cadden Crowe.

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# PNG's next LNG project



A gas rig at Antelope 6—one of the wells that will feed the Papua LNG project. InterOil



With the PNG LNG project now in production, all eyes are on the country's next likely gas project: Papua LNG. InterOil Corporation has been with the project, based on the Elk-Antelope gas fields in Gulf Province, since its inception. Chief Executive Officer Michael Hession tells *Business Advantage PNG* why the project continues to be promising, even in a time of low global gas prices.

**Business Advantage PNG:** When we last interviewed you, in early 2015, you said that 2014 had been about re-focusing InterOil as a business and that 2015 would be about delivery. How has InterOil fared against that stated goal? What are your priorities for 2016?

**Michael Hession:** In 2015, we made significant progress in our Elk-Antelope project. The joint venture unanimously appointed Total SA as operator of the project. We also selected key infrastructure sites for the development.

This year (2016) is about staying focused on the Elk-Antelope appraisal program, our certification payment and advancing into basis of design. Outside of Elk-Antelope, we have three other discoveries that we are firming up for future monetisation.

**Business Advantage PNG:** Has the drop in global prices changed the timeframe or any other aspect of the Elk-Antelope project in recent months?

**Michael Hession:** The major advantage of developing LNG in PNG is that it offers the lowest costs compared to many other greenfield projects around the world; not to mention being close to the world's largest LNG markets in Asia.

In recent months, this interest in PNG has been accentuated with considerable commercial activity and interest in PNG as an LNG producer—with Repsol's acquisition of Talisman, Woodside's attempted acquisition of Oil Search and Scepter's bid for Santos.

On a geopolitical front, PNG's Prime Minister Peter O'Neill made a visit to Japan in October last year. In the same trip, Japan had mentioned that it is considering PNG as a priority for LNG procurement.

So, interestingly, despite the oil prices falling, we are actually seeing PNG gaining prominence on the global stage.

Global LNG forecasts suggest that LNG demand will exceed contracted supply early in the next decade, right about the time when Papua LNG is expected to deliver its first gas. We believe we are in an advantaged position to capture the next wave of growth.

**Business Advantage PNG:** What are the development prospects for Gulf and Central Provinces as a result of the project?

THE PROJECT IS EXPECTED TO HAVE A SIMILAR IMPACT ON PNG'S GROSS DOMESTIC PRODUCT AS THE PNG LNG PROJECT, RESULTING IN A BOOST TO ECONOMIC ACTIVITY.

**Michael Hession:** The first LNG project for PNG was a real nation builder, which provided PNG and the Highlands region with opportunities for training, employment, support infrastructure and revenue. We expect the second LNG project to provide a similar positive impact for the community.

The partners will work closely with all levels of government on benefits sharing and the development forum process will help to identify employment, business, infrastructure and community development opportunities.

The project is expected to have a similar effect on PNG's gross domestic product as the PNG LNG Project, resulting in a boost to economic activity.

**Business Advantage PNG: How do you see the longer-term demand for LNG in the region?**

**Michael Hession:** We are optimistic about the long-term demand for LNG. In fact, global forecasts have suggested global demand will outstrip contracted supply in the 2020s. During that time, Papua LNG will be ready to supply LNG to a growing market.

Beyond the Elk-Antelope discoveries in PRL 15, we have



A well test at Antelope 5 in Gulf Province. InterOil

made discoveries at Triceratops, Raptor and Bobcat, and we have significant equity in our exploration acreage over the highly prospective East Papuan Basin.

Outside of the Papua LNG project, InterOil has significant equity in its three discoveries, with many options for their monetisation, including feeding back to one of the two projects that are in country or, if it is large enough, to feed its own LNG development. ♦



InterOil

Energy for the Asian Market





# Papua New Guinea gas projects will be prioritised, says Oil Search

Papua New Guinea's largest company, Oil Search Limited, says it is generating positive cash-flows and will be making a priority of future investment in the PNG LNG and Papua LNG gas projects.

In the company's December 2015 quarterly report, Managing Director Peter Botten said that, while production was at record levels, revenue fell 10 per cent to US\$342.9 million, adding that the company is presently re-assessing its 2016 work programs to improve efficiency and reduce costs.

With spot oil prices at US\$30 a barrel as of February 2015, Botten said that—based on its current cost structure—the company would generate positive operating cash flow 'even if oil prices fell to US\$20 a barrel'.

Botten expects production during 2016 will be 27.5 million to 29.5 million barrels of oil equivalent, with the upper limit in line with the 29.2 million barrels of oil equivalent produced in 2015.

Oil Search is unique in having a strong minority interest in both of PNG's major gas projects.

## Long and hard

With oil and gas prices halving this year, energy companies are thinking really long and hard about what they invest in and how much money they have to invest, Botten told the 2015 PNG Advantage Summit in August 2015.

Quoting analysts, Botten said current LNG prices are between US\$7.50 to US\$8 per MMBtu (million British Thermal Units) and, beyond 2021, it could be in the US\$8 to US\$10 per MMBtu range.

But PNG is 'lucky' because 'many of our projects are still viable in this sort of pricing scenario', he said.



The 100th PNG LNG cargo since exports began in April 2014. ExxonMobil



“THERE’S A WORLD MARKET FOR LNG, RATHER THAN A REGIONAL MARKET FOR LNG”

Peter Botten

### Review of operations

Botten said Oil Search was reducing its capital costs and putting pressure on suppliers to reduce their costs, as well as reviewing its operation to find more efficient ways of getting oil and gas out of the ground.

Despite recent price falls, he said the company has about US\$1.6 billion in liquidity, which meant it could ‘pick up assets that may be sold reasonably—or even companies that may be cheap on the market’.

Botten said: ‘We continue to look for that.’

### PNG gas valued

Botten quoted energy analysts Wood MacKenzie, which reported that PNG ‘ranks extremely well’ against other LNG projects in the Asia-Pacific region.

But he also warned of increased competition, and the threat of a more flexible North American gas market, which offers short-term contracts, as well as the traditional medium and long-term contracts.

The world is changing towards a greater level of flexibility, he noted, and this means there’s a world market for LNG, rather than a regional market for LNG.

‘The good news is that, although we are oversupplied with LNG and are likely to be for a few more years—most analysts say global demand will be met until about 2021—but, after 2021/2022 there is predicted to be a hollow, which is basically an opportunity for new players to come in.’

‘Very, very few projects will get sanctioned in the next 12 to 18 months.

‘As the lead time to feed that LNG and gas into the market is somewhere between three and five years, we’re very well situated for both the expansion of PNG LNG and [the Total-led] Papua LNG to meet that market,’ he told delegates at the summit. ♦



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# Economic map of Papua New Guinea



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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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# Wafi-Golpu project shows huge potential

## About the Wafi-Golpu Project

- Tenement estimated to contain 11 million ounces of gold and 4.8 million tonnes of copper;
- The deposit is 60km south-west of Lae in the Morobe Province;
- Newcrest and Harmony Gold each currently own 50% of Wafi-Golpu through Morobe Mining Joint Ventures;
- The PNG Government retains the right to purchase up to a 30 per cent equity interest before mining starts;
- Harmony says Golpu will add about 500,000 ounces (45 per cent) to its annual production;
- The 'Block caving' method will extract the ore, whereby a large section of rock is undercut, creating an artificial cavern that fills with its own rubble as it collapses. It is regarded as cheaper and safer than other methods.



The latest feasibility studies for Papua New Guinea's proposed Wafi-Golpu copper and gold project confirm 'a robust investment case'. The mine, which could open as early as 2020/21 and operate for decades, has the potential to transform the economy of Morobe Province.

The latest feasibility study for Stage 1 of the project (and the pre-feasibility study for Stage 2) show it is 'a world-class copper-gold resource, due to its large-scale, high-grade, long-life with low operating costs', according to statements by venture partners, Newcrest Mining and Harmony Gold.

The proposed gold and copper Wafi-Golpu project will cost US\$2.6 billion (K7.9 billion) to build, providing an

internal yield of 16 per cent, they report.

The updated ore reserve estimates the project contains 11 million ounces of gold and 4.8 million tonnes of copper.

The companies say they are continuing to work with the Papua New Guinea Government to finalise a pre-mine development agreement.

**Long life**

The life of Stage 1 is expected to be 28 years, according to Harmony Gold's Chief Executive Officer, Peter Steenkamp. Earthworks are expected to start shortly after the agreement is signed with the PNG Government and production is expected to commence in 2020-21.

Harmony says the net present value of the first stage has been put at US\$1.1 billion (K3.35 billion), assuming a copper price of US\$3 per

pound (K9.1) and a gold price of US\$1200 per ounce (K3,649).

Harmony and Newcrest have a proven track record of working together in Papua New Guinea, having opened the Hidden Valley gold and silver mine in 2009.

**Infrastructure**

Golpu currently does not have the infrastructure to support mining operations, meaning a green light for the project will be the catalyst for a raft of infrastructure projects.

Among the major infrastructure requirements are: access roads, a processing plant, a tailings storage facility and an export pipeline for the concentrate. Also required are associated dewatering and loading facilities at the Lae Tidal Basin, an accommodation camp and a power transmission line. ♦

“THE UPDATED ORE RESERVE ESTIMATES THE PROJECT CONTAINS 11 MILLION OUNCES OF GOLD AND 4.8 MILLION TONNES OF COPPER.”



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Since its inception in 2009 as NCPC Holdings, the NOC was operating as a commercial entity with its core commercial interest being the interest in the PNG LNG Project.

KPHL is currently responsible for managing the State's 16.57% equity in the S\$19b PNG LNG Project; becoming the 3rd largest partner in this single largest investment made by the nation to date.

[www.kumulpetroleum.com](http://www.kumulpetroleum.com)

# Nautilus edges closer to underwater mining



It has been a long voyage to date, but Canadian-listed copper-gold explorer Nautilus Minerals is on course to commencing deep-sea mining operations at its Solwara 1 deposit in the Bismarck Sea, reports **Tony Kaye**.

Nautilus Minerals expects to commence operations at the world-first underwater mining project in the first quarter of 2018.

Nautilus' Chief Executive, Mike Johnston, told *Business Advantage PNG* that the company had recently taken delivery of the three seafloor mining machines, collectively worth over \$100 million. Johnston said construction of all the other hard components for the company's project, the riser and lifting systems that will be needed to convey minerals from deep below the ocean's surface, and the huge floating vessel that will act as a refinery to process and refine the extracted material, were well on track.

## Major boost

The Solwara1 project received a significant boost late last year when Nautilus signed an offtake agreement with China's Tongling Nonferrous Metals Group, under which Tongling will buy the bulk of production from Solwara 1.

'Under the deal they have to take all our production up to 1.44 million tonnes. However, we have the option to sell up to 20% of our product elsewhere if needs be,' noted Johnston.

He also confirmed that under the new agreement Tongling will take all the high-grade material produced from Solwara 1 directly to China, effectively removing all the associated tailings.

'It must be one of the only

“IT MUST BE ONE OF THE ONLY MINING PROJECTS I KNOW OF IN THE WORLD WHERE WE DON'T END UP WITH TAILINGS.”

Mike Johnston



**Above: An artist's impression of Nautilus' production support vessel, currently under construction.**

mining projects I know of in the world where we don't end up with tailings,' he said.

### **Social benefits**

Johnston said that under separate Memorandums of Understanding with PNG's New Ireland and East New Britain provinces Nautilus is continuing to develop social programs in the regions adjacent to its mining activities. These include the delivery of a water and sanitation program which will see schools receive new toilets and fresh water infrastructure. The company has also completed site investigations for a number of river crossings in preparation for the construction of bridges along the west coast of New Ireland.


Nautilus is also working with the provincial government and other groups to explore other business opportunities in the region, including the potential to revive its cocoa and copra industry.

'There are different uses now coming through for cocoa and copra, so we're trying to get that happening,' he said.

Johnston added that other areas being considered by Nautilus included the potential to buy local food produce for its mining operation, and the opportunity to boost local employment once its operation begins. This could be achieved by running multiple worker shifts at the company's site.

'There are people from the communities nearest to Solwara 1 who potentially will be able to do semi-skilled tasks when they're trained,' he said. 'We have a CSR Strategic Plan which is being delivered alongside the relevant provincial governments which will see community based programs delivered in the villages nearest to the Project site.'

'But also we're very conscious of the fact that it has to be a lasting legacy, it has to be infrastructure and community programs which can help the foundation for building a better life for the people.' ♦



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# What's next for LNG in PNG?

The transformational PNG LNG project has been exporting gas to Asian markets since 2014. But what's next for the project and its developer, ExxonMobil? *Business Advantage PNG* speaks with Andrew Barry, the Managing Director of ExxonMobil PNG Limited, to find out.

**Business Advantage PNG:** Now that the PNG LNG project is operating successfully, what do you see as your major challenges and goals for the year ahead?

**Andrew Barry:** My goal for ExxonMobil PNG is that we continue to maintain the reputation PNG LNG has built for being a reliable supplier of LNG to our customers. We do this by remaining focused on our fundamental values: safety, security, environment, integrity, excellence and teamwork.

Last year (2015) was an outstanding year, with the PNG LNG facilities operating at levels of efficiency and reliability above our expectations.

We produced 7.4 million tonnes of LNG in 2015, which represents an increase of 7 per cent from the original design specification.

The benefits of this increased production are wide-ranging and include additional revenues for the Government of Papua New Guinea, landowners and provincial governments.

Clearly, the industry is dealing with the challenge of low crude oil prices. ExxonMobil believes prices over the long term will continue to be driven by market supply and demand, with the demand side largely being a function of global economic growth.

Our assessment is that PNG LNG operations will continue to be successful in a variety of market conditions as a result of our approach to disciplined investing, expense management, asset enhancement programs, and a highly skilled and dedicated workforce.

**Business Advantage PNG:** ExxonMobil has a number of agreements to partner with the PNG Government. How are the current projects progressing?

**Andrew Barry:** PNG LNG is itself a partnership between the State and landowners and private companies such as ExxonMobil. The nature of this partnership means that the Government and people of Papua New Guinea directly benefit from multiple revenue streams from the Project, including equity dividends.

We are very supportive of the Government's plans to

improve the power-generation capacity in the country, which will serve as a catalyst for more business and economic growth. We believe that investment in power generation has the biggest value-multiplier effect of all potential domestic market investments.

The Memorandum of Understanding that we signed with the Government in January 2015 provides for the supply of domestic gas to improve the capacity and reliability of Papua New Guinea's power network. We delivered on the first phase of that commitment, to generate 25 megawatts of electricity, in just five short months.

The P'nyang field reserves have the potential to increase the supply of domestic gas for power generation and to also provide energy for future growth of the PNG LNG Project. We are continuing to work with the Government on the petroleum development and associated pipeline licences for the P'nyang field, which are required prior to our investment and development of an additional 50 megawatt gas-fired power station near the LNG Plant, on behalf of PNG Power.

**Business Advantage PNG:** What do you see as the potential for uncovering and developing further gas reserves in PNG?

**Andrew Barry:** In the past five years, together with our joint-venture partners, we have invested more than one billion kina in PNG exploration alone. We are looking to confirm resources for the potential expansion of the PNG LNG Project and in the first half of 2015 we completed a seismic data acquisition program covering more than 100 kilometres around the Juha and Hides fields in the Southern Highlands, which once analysed, we hope will lead to further field drilling programs in those areas. In 2016, we have an active onshore and offshore seismic acquisition effort.

**Business Advantage PNG:** What do you see as the potential for cooperation between new and existing players in LNG?

**Andrew Barry:** ExxonMobil supports the principle of cooperation when technically feasible and commercially attractive for both parties. I can't speculate on specific companies but what I can say is that, in the same way major projects have partners to help reduce risk and cost by sharing the significant investment costs, sharing infrastructure between projects is also an effective way to help manage risk and cost.

**Business Advantage PNG:** How viable do you think onshore value-adding of petroleum products is for PNG?

**Andrew Barry:** We support the Government's efforts to explore options to derive additional benefit from Papua New Guinea's significant resources. ExxonMobil PNG's view is that each opportunity needs to be evaluated for the full economic benefits for the country, and we continue to support the Government's efforts in evaluating these. ♦



ExxonMobil PNG's Andrew Barry  
Richard Dellman/ExxonMobil

# New projects to boost power generation



With PNG's fast-growing economy demanding ever more electricity, public and private sector investment is being directed towards new power-generation projects, many of which will use sustainable technologies.

The Ramu 2 Hydro Power Project is expected to increase total electricity generation capacity in Papua New Guinea by 36%, according to the Managing Director of Kumul Consolidated Holdings (KCH), Garry Hersey.

The project has been on the drawing board since 2008. When completed, it will lift the Yonki dam's electricity capacity from the current 93MW to 273MW. The capacity of Ramu 2 will be 180MW.

Ramu 2 will be based on a public-private partnership (PPP) model, which will see traditional landowners assume equity, says Hersey. KCH, the government entity which manages all state enterprises—including State power utility, PNG Power—is managing the project.

Hersey says construction of the estimated US\$2 billion (K 5.97 billion) project should begin in December 2016. KCH is now in the process of finalising the structure to attract a private sector development partner.

The launch of the Ramu 2 project is one of six agreements using renewable energy to supply additional power to PNG.

## Chimbu Hydropower

KCH is currently reviewing a feasibility study for the

**Private power stations such this one, owned by PNG Forest Products, will play an increasingly important role in providing electricity to state utility, PNG Power. PNGFP**

construction of a proposed US\$2 billion, 1800MW dam at Karimui, Chimbu Province.

The study follows a Memorandum of Understanding entered between the Government of Papua New Guinea, the Simbu Provincial Government and Italian company Salini Impregilo in April 2015.

Assuming approvals, construction is expected to commence in 2017 and be completed by 2023. Salini-Impregilo has built more than 230 dams worldwide, but this will be its first in Papua New Guinea.

## Edevu hydropower

PNG Power has agreed to buy power from the Edevu Hydropower project, a 50 MW capacity station to be built along the Brown River,

# PNG's transmission challenge

While more electricity is becoming available to state utility PNG Power, its next challenge is the improvement of its transmission network.

An analysis of the country's three main power grids has revealed that inadequate maintenance of plants and the transmission lines is the primary cause of frequent power outages, according to a review conducted by London-based consultants, Economic Consulting Associates.

The report calls for 'a strenuous effort' over the next two years to ensure the grids meet internationally accepted sector benchmarks.

'Basically, the review concluded that there is sufficient existing generating capacity within each of the grids to



The IFC's Gavin Murray

meet current demand,' the International Finance Corporation's Country Manager, Gavin Murray, told *Business Advantage PNG*.

'The key issue is that the power cannot be delivered to the consumer in a reliable way, due to poor availability of generating assets and deficiencies in the maintenance and operation of the transmission grids.'

The consultants concluded that demand for the Port Moresby grid could increase by between 3% and 6%; the Ramu grid by between 2.5% and 5%; and the Gazelle grid by between 1% and 3.5% over the next 10 years.

about 40 kilometres from Port Moresby.

Chinese company PNG Hydro Development will build the project over the next five years.

## Biomass Power

PNG Biomass will use wood chips from new plantation trees grown and sustainably harvested in the Markham Valley, in Morobe Province, to provide up to 30MW of base load power to the Ramu grid.

The construction of an initial 15 MW unit is due to commence in late 2016, with the unit expected online in late 2018.

PNG Biomass is a joint venture between PNG's largest company, Oil Search (70%),

“THE LAUNCH OF THE RAMU 2 PROJECT IS ONE OF SIX AGREEMENTS USING RENEWABLE ENERGY TO SUPPLY ADDITIONAL POWER TO PNG.”



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

and Aligned Energy (30%), an international biomass energy consultancy.

## Highlands Power

Highlands IPP (100% owned by Oil Search) will construct an initial 2 MW gas-fired pilot power project, located near Hides in the Hela Province, with potential to ramp up to 5 MW in the short-term and up to 65 MW by 2030.

## Baruni waste project

State utility PNG Power has also signed an agreement with Australia's Landfill Energies to turn waste at Port Moresby's Baruni dump into power.

'Most of the trash dumped daily at the Baruni landfill area can be converted to usable

power energy that will be able to supply 2 MW of power to the city grid, boosting power to the residential and business properties,' according to Landfill Energies Director, Del Smeeton.

## Gas

Since 2014, PNG has been recognised as a major gas producer. In July 2015, ExxonMobil PNG Limited, operator of the PNG LNG project, commenced delivery of up to 25MW of electricity (or about a fifth of the electricity required to power Port Moresby) from the PNG LNG plant to PNG Power following a Memorandum of Understanding with the PNG Government. ♦

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# More coverage, more services

The telecommunications industry in PNG is undergoing rapid development, including the completion of a long-awaited national fibreoptic network, reports **Kevin McQuillan**.

By the end of 2017, 100% of Papua New Guineans will have access to modern communications technologies—including the internet—according to Michael Donnelly, the CEO of state-owned telecommunications company, Telikom PNG.

With about 85 to 90% of the geography of the country covered (up from just 3% in 2006), the bulk of PNG's population now has the capacity to connect to the internet through a mobile, fixed line network, microwave or satellite solution. Indeed, the World Bank has recently released a tender to alleviate blackspots in those areas where there is currently no coverage, and also to enable the upgrade 'from 2G to 3G to 4G' in some of those areas.

## Dominant player

The dominant player is Digicel, which entered PNG in 2006. Its mobile services now reach some 75% of the country and it intends to expand its offerings in the PNG market. In August 2015, Digicel acquired ICT provider, Allcom MCR PNG, and also now owns and operates TVWAN (free-to-view), Digicel Play (pay-TV) and PNG Loop, an online news site.

What is happening in PNG, says Digicel PNG Chief Executive Officer Maurice McCarthy, is what is

happening across the world: 'where data connectivity and content is becoming more and more important'.

'The consumers' appetite for data just continues to grow and grow as we continue to provide premium content services. We will therefore work to ensure we have the network on-island and off-island to deliver an improved customer experience and access to data technologies in line with our consumers' appetite,' he told *Business Advantage PNG*.

To ensure competition, in 2013 the PNG Government recapitalised state-owned mobile phone company bmobile (now called Bmobile Vodafone following a partnership deal with Vodafone UK), taking an 85% shareholding.

'We have undertaken a significant exercise in 2014 and 2015 to ensure that our network is world class,' says Group CEO Sundar Ramamurthy.

Bmobile Vodafone is now playing catch-up on Digicel. In December it launched a roaming service for Papua New Guinea prepaid customers, and plans to expand the service to other countries, according to Ramamurthy.

## Convergence

Donnelly notes that convergent technology has seen customers asking for things 'that are arriving on the shores of PNG not too far behind anywhere else in the world.'

Donnelly said that with 'a very strong balance sheet' and with the support of Kumul Consolidated Holdings (formerly the Independent Public Business Corporation), Telikom had made some significant investments in the



Telikom PNG's Michael Donnelly

previous 12 to 18 months.

'We've acquired Datec, an information and community technology provider and we also acquired EMTV,' he says.

Telikom PNG has signed an agreement with Australian Data Centres, a large provider of high-end data centres to the Australian government, to build a new data centre in Port Moresby.

'Data and data storage is one of the big issues for small and medium sized enterprises because they can't make those investments themselves—

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## National progress

Over 2015–2016, key developments in PNG's telecommunications sector include:

- Further progress on developing PNG's National Transmission Network: the main fibreoptic connection between all the Highlands provinces, Lae, Madang and Port Moresby, expected by the third quarter of 2016.
- The commencement of work on a new submarine cable fibreoptic cable, ICN2, which will connect PNG to its Melanesian neighbours, Vanuatu and the Solomon Islands. The cable, which will connect with the existing ICN1 cable, which connects Vanuatu to Fiji and thus to the trans-Pacific Southern Cross Cable Network, is scheduled to be ready by June 2016.
- Digicel and other telcos' use of O3b's low-orbiting satellite fleet to expand the 3G/4G network.
- The K20 million purchase by Telikom PNG of Media Niugini, which owns and operates the PNG's main commercial TV company, EMTV.



Bmobile Vodafone's Sundar Ramamurthy

hence our investment in a data centre,' he said.

'It's a large investment and it is an example of how a state-owned enterprise can build an infrastructure, using best practice from overseas, for the banking, mining or private sector to onshore its data.'

### Costs down

For most of the past decade, telecommunications services in PNG have been costly.

'In the last 18 months,' says Donnelly, 'we've reduced the wholesale price for data by about 60% and the plan is to continue to drop that over the coming two to three years to get it to a point where we're achieving international benchmarks.'

Interconnection and termination fees are also coming down, he says.

'But, ultimately, what's going to drive the price down is connecting consumers, businesses and organisations to that network and then allowing more entrants to enter the market to really drive the prices down.'

Telikom will also spend about K26 million in 2016 on wifi and fibreoptics, laying additional fibre around the country.

### National Transmission Network

The underlying objective of PNG's Government is to push competition across the retail telecommunications sector by upgrading, building, owning and operating the National Transmission Network (NTN) and making it available to ICT operators at the wholesale level only.

State-owned PNG DataCo will be the wholesale infrastructure and capacity provider, including managing capacity on submarine cables, satellites and microwave.

In early 2016, PNG DataCo completed the main fibreoptic connection between all Highlands provinces and the Lae–Madang sector, as part of the NTN.

DataCo General Manager Commercial, Une O'Ome, says the next stage is to complete the link between Mendi and Hides, which will complete the fibre-optic connection between Port Moresby and Lae and Madang, by the third quarter of 2016. ♦



# Airline sector expands with airport and fleet upgrades

PNG's airline industry and aviation infrastructure are undergoing huge changes, with the redevelopment of major airports, fleet upgrades, and more domestic and international flights.

Weary business travellers can now enjoy world-class facilities at Port Moresby's Jacksons International Airport following its upgrade in 2015, prompted by expectations of a huge increase in traffic over the next 10 to 15 years.

The expanded Jackson International Airport can now process two million passengers a year. New facilities include expanded check-in counters, additional immigration facilities, foreign currency exchange, cafés, duty-free liquor shops, souvenir shops, restaurants and public bars for passengers awaiting departures.

National Airports Corporation (NAC) Chief Executive Officer, Joseph Tupiri, says an extra 26,000 square metres of airport terminal building will be completed by January 2018, in time for the APEC meeting later that year.



The new terminal at Mount Hagen. NAC

## Regional airports

The country's 21 regional airports are gradually being improved to provide safer, more secure and all-weather air transport services.

By 2018, the program will see extended runways, strengthened pavements, new airport fencing and parking bays for aircraft, state-of-the-art fire trucks, and upgraded navigation and air traffic management systems.

Kagamuga Airport at Mount Hagen was redeveloped to international standards in August 2015, and Hoskins Airport in West New Britain has also been upgraded. Goroka and Tokua (Rabaul) airports are next in line.

In December 2015, the Japan International Cooperation Agency agreed to begin the US\$225 million

(K600 million) redevelopment of Lae's Nadzab Airport for the NAC, scheduled for completion by August 2020.

## Fleets upgrade

Both the international/domestic carrier, Air Niugini, and its publicly-listed competitor, PNG Air (formerly Airlines PNG) are upgrading their fleets.

Air Niugini is replacing its domestic Dash-8 fleet with nine Dutch-built Fokker 70 aircraft by 2017, and upgrading its international fleet with four new Boeing 737s, for delivery in 2020/21 (see story below).

Meanwhile, PNG Air is replacing its entire Dash 8 fleet with the 74-seat French-Italian built ATR 72-600, which will number 13 by 2020. ♦

## INSIDE VIEW

# New fleet, new opportunities

**Sir Frederick Reiher, Chairman of PNG's national airline, Air Niugini, describes the airline's plans for expansion and, potentially, a new ownership structure.**

Air Niugini enters 2016 in sound shape, optimistic about the future for the airline, and for all our valued employees.

During 2015, we had two major achievements.

Firstly, we established Link PNG as a wholly owned subsidiary, servicing distant and remote airports and communities to help us deliver our community service obligations.

Secondly, the first two of nine Fokker F70 jet aircraft arrived. Four more aircraft will be added in 2016. Four Boeing 737MAX aircraft have also been ordered, for delivery in 2020 and 2021, to upgrade our international services.

As we expand our fleet—and have what will be a substantially jet aircraft fleet—we must improve our productivity substantially.

That means longer flight hours each day, driven by the growth in night flying, which our passengers



Air Niugini's Sir Frederick Reiher

increasingly expect.

The establishment of Jacksons Airport as a regional 'hub' for our Pacific neighbours is well advanced and will be a priority in the year ahead, with expanded and new services.

The redeveloped Jacksons Airport terminals really provide the right arrival and departure environment for our passengers, and for the passengers of our regional partnership airlines.

Better terminals, more passenger-friendly arrangements, and faster and more fuel-efficient aircraft will ensure we meet the growing demands of our passengers and our commercial customers.

One of the great challenges of the immediate future will be the partnership of new investors at the same level of ownership in Air Niugini as the national government, which is currently the sole shareholder.

Our aim is to achieve this in the present decade.

# Major investment transforms PNG's major ports



Port Moresby's current port, due to be relocated by the end of 2018



Motukea Island: site of Port Moresby's new port. Curtain Bros

After years of congestion and under-investment, the ports of Lae and Port Moresby are being transformed, opening the way for the next phase of the country's development.

Work on Phase Two of the Lae port redevelopment is expected to start in 2016, as the relocation of the port of Port Moresby begins in earnest.

In Lae, PNG's busiest port, the construction of a second berth follows the completion of Phase One of the port's development in December, 2014, at a cost of K700 million. The work includes a new tidal basin, a multipurpose berth, and terminal works including buildings, storage areas, roads, drainage, water, electricity and sewerage services.

Lae's port handles more than 60% of PNG's international

and domestic trade. In 2015, it handled some 130,000 international and 56,000 domestic containers.

PNG Ports' Chief Executive Officer Stanley Alphonse says a new industrial park is planned and an international operator for the port has been sought.

'Operationally, a second berth of at least 240 metres LOA [length overall] is required for the terminal to be operated as efficiently as possible by an internationally experienced terminal operator,' Alphonse tells *Business Advantage PNG*.

'This will enable two vessels of anything up to 200 metre LOA to berth at the same time.

'The second berth is expected to be built adjacent to the recently built container terminal. It will add a further 240 metre quay line capacity to what has already been delivered'

'We are seeking interest

from terminal operators to run either or both the Lae Port and the Motukea terminal, when the port of Port Moresby terminal is relocated.'

## Huon Park

A key part of the Lae Port development is Huon Industrial Park, which will store wet (general fuels and chemicals) cargo, dry bulk materials, feed stocks and be the base for a mineral export facility.

The cost is estimated to be K258 million.

'PNG Ports has held some discussions with potential industrial tenants from mining, petroleum, power and fisheries, which we expect to fully commercialise in due course. Long-term concessions are currently being negotiated,' says Alphonse.

'Timing wise, implementation should take place over the next five-



PNG Ports' Stanley Alphonse



“ WE ARE SEEKING INTEREST FROM TERMINAL OPERATORS TO RUN EITHER OR BOTH THE LAE PORT AND THE MOTUKEA TERMINAL, WHEN THE PORT OF PORT MORESBY TERMINAL IS RELOCATED. ”

year period, with the first development commencing in 2016.’

When fully operational, Government estimates suggest the port will create new jobs and related opportunities for more than 5000 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.

**Relocation**

An 18-month project to relocate the port of Port Moresby to nearby Motukea Island has moved a step closer with the Bank South Pacific approving a K300 million loan to reclaim about 60 hectares of underwater lease and on top of that build about 500 metres of quay line (wharf extension) and mounted tracks at the storage facilities.

Relocating the port and

its operations is designed to relieve congestion in the central business district of Port Moresby (“Town”), which has reached operational capacity and has been hamstrung by traffic congestion and growth issues.

The port relocation is due for completion by 2018 to coincide with the November 2018 APEC meeting.

PNG Ports Corporation and Curtain Bros, which has owned and operated the Motukea Port since 2010, signed a sale agreement in 2014 for K725 million, but Curtain Bros will also expand its own ship repair facilities by building a very large dry dock, which will accommodate vessels of up to 100,000 DWT capacity, according to General Manager, Justin McGann.

‘We’ll have our dry dock for Panamax repairs, and we’ll have our shipyard where we want to build new ships,’ he said. ♦

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# Kina becomes Papua New

In July 2015, PNG-based financial services company Kina Securities achieved a major milestone for a PNG business by listing simultaneously on the ASX in Australia and on the Port Moresby Stock Exchange.

The move was made shortly after Kina reached an agreement to acquire the PNG assets of Malaysia's Maybank, in a deal worth US\$117.15 million—a transaction that effectively doubled Kina's asset value and also delivered Kina a full banking licence.

'A banking licence is really the missing part of the puzzle for Kina Group. We will have access to wholesale money at a lower cost and are able to pass those benefits on to our customers,' noted Kina Securities' Chief Executive Officer Syd Yates.

## Confidence in PNG

The subsequent success of Kina's initial public offering reflected confidence in Papua New Guinea by international investors and in Kina Securities, Yates told *Business Advantage PNG*.



The announcement of Kina Securities' listing on the ASX and POMSx in July 2015 was a first for a PNG financial institution. Kina Securities

'Investors have had an opportunity to look in-depth at PNG's growth prospects. We've had many years of growth and are highly ranked for that to continue over the next few years.

'We have a good yield, the PNG banking sector is well regulated and we've had a very good stable of

advisors assisting us.'

## International investors

Rob Douglas, Director of Equity Capital Markets at Morgans Financial Ltd, which oversaw and underwrote the float, says he was pleasantly surprised by the quality of PNG and international retail and institutional investors.



INVESTORS HAVE HAD AN OPPORTUNITY TO LOOK IN-DEPTH AT PNG'S GROWTH PROSPECTS. WE'VE HAD MANY YEARS OF GROWTH AND ARE HIGHLY RANKED FOR THAT TO CONTINUE OVER THE NEXT FEW YEARS.

Kina Securities' Syd Yates

## BSP's Pacific expansion

In 2015, Bank South Pacific reach agreement to acquire Westpac's operations in Solomon Islands, Vanuatu, Tonga, Samoa and Cook Islands, with Westpac retaining its businesses in PNG and Fiji.

A year on, necessary approvals have been obtained in each country, and the process of integrating these new operations into BSP is well under way.

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

BSP also launched BSP Finance, an asset finance business aimed at offering finance deals of between K20,000 and K3 million. The move will enable the bank to compete in this space with



BSP staff in Samoa. BSP

not only ANZ and Westpac, but also Credit Corporation, which BSP tried unsuccessfully to acquire in late 2013.

# Guinea's fourth retail bank

There were 35 institutional investors from Hong Kong, Malaysia, New Zealand and Australia, he told *Business Advantage PNG*.

The newly-listed Kina Securities has started well. In its maiden profit result as a listed entity, it exceeded the profit forecasts included in its prospectus, achieving a pro-forma net profit of K47.5 million (US\$15.6 million) for the full year to 31 December 2015—4.9% higher than anticipated.

Furthermore, at the start of 2016, PNG's newest bank was reporting that 'new business lending has accelerated in the current year, deposit volumes continue to rise, funding costs are being reduced as expected, and non-interest income is increasing steadily.' ♦

## Financial inclusion drives growth

The aim of a full commercial banking licence is a testament to the National Development Bank's performance over the past three years, which includes becoming profitable, and increasing its customer base, deposits and loan portfolio value, according to Managing Director, Moses Liu.

In December 2015, the bank reported that its subsidiary, the People's Micro Bank (PMB), now had more than 50,000 customers, and deposits worth K50 million.

The National Development Bank will apply for a full commercial banking licence for the PMB by early 2017.

Liu says the backbone of the PMB's success has been a financial literacy program, established by the country's

central bank, the Bank of PNG, in partnership with the Asian Development Bank.

'The purpose was to provide a savings culture among our people, basically. Those people come from a subsistence, agricultural background with little planning for tomorrow—it was a hand-to-mouth society,' explains Liu.

While the PMB currently has a physical branch office in each province, it is now partnering with telco Digicel to move to branchless banking, using mobile phones.

Some 80% of the country's population has no access to financial inclusion and services.

Financial institutions across Papua New Guinea opened 464,514 new bank accounts from December 2013 to June 2014. Of these, 31% were for women.

The Bank of PNG is now working toward a goal of one million more clients across all banking partners.

This aim includes a target of 50 per cent of new accounts to be set up by women.



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# Papua New Guinea's long-awaited Pacific Industrial Zone launched



R D Tuna Cannery's Pete Celso

Eleven years after the Papua New Guinea Government's National Executive Council approved the scheme, the Pacific Industrial Zone (PIZ) in Madang Province has been launched, with local business leaders saying it will reduce freight costs, speed up transport and reduce congestion on the wharves of Lae in neighbouring Morobe Province.

Funded by the EXIM Bank of China (78%) on a concessional loan agreement, and PNG Government (22%), the zone is a joint venture between Kumul Consolidated Holdings and the Madang Provincial Government. It encompasses 100 hectares for the industrial zone and 115 hectares for residential and commercial use.

The total cost is US\$235 million, with phase one, construction, costing US\$95 million (K190 million) and due for completion in November, 2016. Construction is by China Shenyang International Corp.

## Revenue and jobs

Prime Minister Peter O'Neill says once completed it will earn the country between US\$2 billion and US\$4 billion (K6 billion and K12 billion) a year, earning Madang Province about US\$6 million (K20 million) a year.

'The project will bring with it 30,000 jobs,' he said.

O'Neill said it was the Government's aim to beat Thailand and the Philippines as the largest tuna processing and canning hub in the Asia-Pacific region.

## Policy promotes onshore processing

Fisheries Minister Mao Zeming has also foreshadowed a new policy in 2016, 'where all fish caught in PNG waters must be processed on shore'.

He predicted the zone would be home to nine canneries by 2018. Madang currently has one tuna cannery, owned by the Philippines' company R D Tuna Cannery, which sold the land for the zone to the PNG Government for K4 million.

R D Tuna Cannery's CEO, Pete Celso, has told *Business Advantage PNG* that the zone will allow businesses to centralise their logistics,



## FISHERIES



and fast-track shipping.

‘The area is also intended to complement the currently overcrowded Lae wharves, considering that Madang is much nearer to the Highlands, where most of the agricultural products are coming from.

‘The zone, by the way, is not purely intended

for canneries. This can cater to any value-adding/on-shore processing companies and other relevant industries that can make use of the modern wharf and other infrastructures that will be set up in the area. Examples of these are products that can further be value-added,

**Onshore processing of fish is a key goal of PNG Government policy.**  
R D Tuna Canners

like coconut, cocoa, coffee, seaweeds and other marine products, wood products, and so on.

‘The idea is to create more economies of scale, thus enabling shipping companies to pick up more cargoes in one location and hence ultimately reducing the cost of freight.’ ♦





The AES Supply Base, a 94 ha industrial park, port and residential estate at Ravuvu, 15km from Port Moresby's CBD.

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# Palm oil producers eye the future

R H Group's Sigite Mukus palm oil plantation in East New Britain.  
R H Group

Palm oil is now PNG's largest agricultural export. While lower prices and drought have affected production and income recently, the major investors in the sector are taking a positive, long-term view of the market.

'There is a correlation between the price of crude oil, which is still very low, and palm oil so while that's the case, we're not anticipating too much of an increase in the palm oil price,' observes Harry Brock, General Manager of PNG's major palm oil operation and the country's second-largest employer, New Britain Palm Oil (NBPOL).

In 2016, he says, the company is looking to reduce costs, particularly of fuel and fertiliser.

'We are being helped by the kina exchange rate coming down.'

## Drought not so severe

Over 2015-16, an eight-month drought caused by the regional El Niño weather pattern severely affected many agricultural crops and livelihoods in Papua New Guinea, especially in the nation's Highlands region.

'They talk about El Niño being the same as 1997 but, if you compare annual rainfall in 1997 with current rainfall, it was about 2.6 metres then. Last year, we actually had 4.2 metres of rain, which is higher than the long-term mean. So, while there was a dry period, the impact on the oil palms was not as great as it was in 1997,' observes Brock.

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# Cocoa producers bounce back

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

A joint venture, Productive Partners in Agriculture Projects (PPAP), has resulted in cocoa yields rising from 169 kg per hectare in 2011 to their current level of 376 kg per hectare with the aim of 600 kg per hectare by 2019. The scheme uses new and hardier seedlings. Almost all of PNG's cocoa production is shipped overseas, and with forecasts indicating a global cocoa shortfall of up to one million tonnes by 2020, there is significant potential for expansion.

A study carried out by Margaret Ilala of Organic Fair Trade under the Pacific Agribusiness Research & Development Initiative (PARDI) found that traditional cocoa-producing countries were struggling to meet demand and although 18% of cocoa bean supplies came from the Pacific countries such as PNG, only 10% was being sold to the premium market.

Since 2012, Paradise Foods has been processing local beans to produce its own Queen Emma brand, emanating from a single-source cocoa bean from plantations in New Britain, Bougainville, Sepik, Kokoda, Madang and Morobe.

International chocolatiers are beginning to recognise the quality of PNG cocoa. The Western Australian chocolatier, Bahen & Co, sources its cacao from Morobe Province. Meanwhile, in 2015, the Wellington Chocolate Factory crowdsourced K73,000 to bring the first shipment of Bougainville cocoa for processing in New Zealand. The WCF's Rochelle Harrison plans more shipments and to build a chocolate factory on Bougainville within the next five to ten years.

'One side effect of the El Niño effect is that supplies will drop. Indonesia, as the largest producer, has taken a reasonable hit from El Niño, so in 12 to 15 months time, we will see the effects through reduced output and therefore supply will go down. So, if demand remains the same, we expect some rise in the price.'

Brock says that during 2016, NBPOL continues to integrate its systems with Malaysia's Sime Darby, one of the world's biggest palm oil producers, which bought a majority stake in NBPOL last year.

## More processing

Another major player in PNG agribusiness, Malaysia's Rimbunan Hijau Group, is a more recent entrant into PNG's palm oil sector, with about 10,000 hectares of palm trees planted to date.

'The first palm oil processing facility with a capacity of 60 tonnes of fresh fruit bunches (FFB) per hour is under construction,' Chief Executive Officer James Lau tells *Business Advantage PNG*.

'We anticipate construction to be completed by mid-2016 and we plan to build two more processing facilities with same capacity by the end of 2018. By then, 30,000 hectares of oil palms should be planted.' ♦

# Rice: a new staple for PNG?

The successful testing of hybrid rice varieties will make it possible to grow rice in large volumes in PNG.

For years, local producers believed soil conditions in PNG were not conducive to large-scale rice production. However, testing by the Philippines' SL Agritech Corp. in Gabadi, outside Port Moresby, has proved hybrid varieties can be successfully grown.

In 2012, rice imports of about 200,000 tonnes cost the country US\$208 million, according to the World Bank, supplementing an estimated 15,000 tonnes grown locally.

Predicting a world rice shortage, and a tripling of imports by 2050, the PNG Government has announced new national rice policy, focusing on local rice farming, reducing imports and enhancing food security. The aim is to be self-sufficient in rice by 2030.

Incentives are available to investors committing over K200

million to develop large, commercial-scale, mechanised irrigated rice farms. An import quota system of 170,000 tonnes is in place for 2015/2016 and the Government will introduce an export quota system.

With population growth at about 2.1%, increased rice consumption represents a significant opportunity in PNG.

The country's dominant rice player, Trukai Industries, is developing a 6000 hectare rice plantation in Central Province.

Trukai's Chief Executive Officer Greg Worthington-Eyre says that, by 2018, 1500 hectares will be producing rice, with the long-term aim of producing 18,000 tonnes per year.

'Trukai has a commanding market share and, although the market has been growing at about 5% to 5.5% per annum over the last few years, we are seeing current growth at about 3.8% and we see that contracting to closer to 3%,' Worthington-Eyre tells *Business Advantage PNG*.

'In PNG, rice becomes more a part of the daily meal, as people can afford it. Hence the market is growing ahead of population.'

# PNG forestry confronts China weakness

The Chief Executive of the Papua New Guinea Forest Industries Association, Bob Tate, claims that PNG's forestry sector is coming under increasing pressure, particularly a drop in demand from China. Investment continues nevertheless.

In an interview with *Business Advantage PNG*, Tate expressed concern about the PNG forestry industry's outlook, particularly in the context of the slowdown in the Chinese economy. China remains the industry's biggest export destination.

'Further bad news from China could see a very rapid weakening of export timber prices,' says Tate. He adds that Chinese buyers are also becoming very product selective. 'So instead of you (being able to) sell everything to China they are becoming much more quality selective about what they will buy,' he says.

'This, in turn, is increasing the amount of stock being rejected, which is creating significant cost pressures for any producers unable to sell what they have. For a country that relies so heavily on timber exports, the current conditions do not augur well.'

While Tate expresses concerns about external threats to the sector, figures from the Bank of PNG suggest a more nuanced picture. In the nine months to September 2015, the kina value of export sales was down 5% on the previous corresponding period. However, the 2015 export values were still some of the strongest of the past five years.



While value-adding is on the increase, the round logs still make up the bulk of PNG's forestry exports. Cloudy Bay Forestry

## Tough conditions to persist

James Lau, Managing Director of Malaysia's Rimbunan Hijau Group, the largest single player in PNG's forestry sector, recently told *Business Advantage PNG* that the forestry sector faced significant difficulties in 2015.

'Round log export prices declined because of oversupply and poor market conditions, especially in China— PNG's main market,' Lau says.

'Despite these difficulties, we have maintained operations and employee numbers in this sector, but we foresee tough conditions to continue at least into the second half of 2016. Timber processing has continued normally and we hope to expand this sector in the future.'

## Special Agriculture Business Leases

The PNG Government recently announced it was cancelling all Special Agriculture Business Leases

DESPITE THESE DIFFICULTIES, WE HAVE MAINTAINED OPERATIONS AND EMPLOYEE NUMBERS IN THIS SECTOR

(SABL) arrangements across the country, to reverse what it described as 'a shocking trend of mismanagement and corruption.'

A significant proportion of forestry activity, 30% of log exports per annum, takes place on land subject to SABLs.

SABLs will be returned to PNG landowners and replaced by Incorporated Land Groups, which will hold the land titles and manage sub-leases to developers. The Government said the move was designed to protect landowners from timber companies that conducted logging operations and took the proceeds offshore. ♦

## A forested nation

Around 36 million hectares, (80%) of PNG's total land area, is covered by forests. About 15 million hectares has high-quality tropical hardwoods that are considered suitable for forestry development.

PNG's current forestry products are: raw log exports, sawn timber, veneer sheets, domestic log sales, plantation logs, plywood, processed timber exports and woodchips.



# TOURISM PNG's 'sleeping giant'

PNG's tourism stocks are looking up as the country's capital city gets more hotel rooms, its airports are upgraded, and a new tourism minister takes the helm, reports **Robert Upe**.

If ever Port Moresby had good reason to charge ahead with tourism infrastructure, it is the APEC Summit scheduled for the nation's capital in 2018.

The summit will attract thousands of visitors, including powerful leaders from 21 APEC countries. Among them will be presidents and prime ministers from the US, Russia, China, Japan, Australia and Indonesia.

PNG's Prime Minister, Peter O'Neill, has said the summit represents a 'coming of age' for PNG on the international stage.

## Hotel capacity

It also represents a coming of age for Port Moresby, in terms of hotel capacity.

It has long been the view that the city has a shortage of rooms, a view endorsed by the PNG APEC 2018 Coordination Authority, which quickly identified the shortage of rooms as a key challenge.

High room costs, particularly during the PNG

LNG project construction boom, have also been viewed as a problem.

Well, there is good news.

There has been a flurry of hotel investment and development in Port Moresby since the announcement that APEC is coming to town.

Forthcoming openings include RH Group's 433-room Stanley Hotel and PNG's first Hilton Hotel, both in Waigani district. The year 2015 saw the opening of the Holiday Inn Express budget hotel, while other hotels in the capital, such as the Gateway and Airways, have expanded or renovated.

On the outskirts of Port Moresby, the Loloata Dive Resort is undergoing a total rebuild and, when finished, will provide the first serious resort experience close to the capital.

Then there's the giant Paga Hill Estate, a harbourside development that will not only provide Port Moresby with



**Above:** Port Moresby International Airport has recently undergone a major revamp, with retail outlets and cafés, as well as Air Niugini's all-new executive lounge.

**Left:** The Kenu and Kundu Festival in Milne Bay Province is one of a number of cultural tourism events held each year in PNG.  
David Kirkland

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increased street appeal, but also a modern precinct with a promised six-star luxury hotel, apartments, restaurants, a marina, and an international cruise-liner terminal (see page 16 for more).

### Cruise boom

Cruising continues to be a high point in the country's tourism sector, with more and more ships pointing their bows to PNG.

The cruise boom to PNG really picked up in 2013, when the giant shipping company P&O made its inaugural visit with *Pacific Dawn*.

Other shipping companies—Princess, the America-Holland Line and Silversea among them—have followed in the wake of *Pacific Dawn*, while P&O has increased its PNG visits from five in 2015 to 13 in 2016.

But whether arriving by sea, or air, things are improving for the 200,000 visitors who come the country each year. (The outgoing CEO of the PNG Tourism Promotion, Peter Vincent, says total arrivals are expected to reach 350,000 by 2017.)

### Airport upgrades

Port Moresby's Jacksons International Airport has also undergone a transformation



**Above:** PNG's new tourism minister, Justin Tkatchenko. **Top:** the new 433-room Stanley Hotel is expected to be open by mid-July 2016.

“ THE IMPRESSIVE RE-DEVELOPMENT OF JACKSONS AIRPORT ... WILL CONTRIBUTE SIGNIFICANTLY TO OUR GOAL OF MAKING PORT MORESBY THE REGIONAL GATEWAY. ”

with the arrivals and departures areas receiving major upgrades.

The airport, additionally, has a new retail section with luxury brands, duty free and locally made handicrafts available.

The developments bode well for the national airline, Air Niugini, which has the goal of Port Moresby becoming a regional hub for the South Pacific.

The Chairman of the airline, Sir Fredrick Reiher, says the National Government has taken a visionary approach in the redevelopment and upgrading of Jacksons International Airport.

‘The impressive redevelopment of Jacksons Airport is making passenger movement much more customer-friendly and will contribute significantly to our goal of making Port Moresby the regional gateway from our Pacific neighbours with Asia and the world. The upgrading of domestic airports will also benefit our operations and enable us to expand services as demand grows.’

### High costs of tourism

Sir Frederick has also urged the tourism industry to keep costs down. ‘One of the factors that has inhibited tourism growth since independence has been the relatively high cost of most

tourism experiences,’ he says.

For its part, Air Niugini is in the midst of a re-fleeting program that will deliver new and more efficient aircraft.

‘As we modernise and upgrade, our capacity to help grow tourism will improve significantly,’ he says.

### New minister

PNG's new Minister for Tourism, Arts and Culture, Justin Tkatchenko, started his job in January 2016. He has stressed the importance of promoting the country's art and culture to the world and says he will create more exposure for national cultural events.

He has said PNG can be the No.1 tourism spot in the Pacific and announced a K50 million tourism budget immediately after his appointment.

‘My appointment is a huge challenge as tourism is our sleeping giant that only needs the right leadership and direction to take it forward,’ Tkatchenko told PNG media.

### Cultural events

PNG's rich and colourful calendar of cultural events includes the Goroka Show, the Mount Hagen Show, the Crocodile Festival and the National Kenu [Canoe] and Kundu Festival.

Kokoda remains a major tourist attraction, along with activities such as diving, surfing, bird watching and game fishing.

In another positive tourism development, a relaxation of tourist visa rules for Australians is on the cards for late 2016.

It's likely that visas will be available on arrival when Air Niugini starts direct services into special tourist zones such as Gurney-Alotau. ♦

Robert Upe is the editor of *Paradise*, the in-flight magazine of Air Niugini.

# DIRECTORY

## WHO'S WHO IN PNG

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

Mt Wilhelm, at the intersection of Simbu, Western Highlands and Madang provinces.  
PNG Tourism Promotion Authority

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#### **Lae Biscuit Company**

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#### **New Britain Palm Oil**

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#### **Paradise Foods Limited**

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#### **National Development Bank**

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www.bpwpng.org

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**PNG Forest Products**

www.pngfp.com

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**Barrick Gold**

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www.barrick.com

**ExxonMobil PNG Ltd (PNG LNG Project)**

www.pnglng.com

**InterOil**

www.interoil.com

**Kumul Petroleum**

(formerly PNG National Petroleum Company)  
http://kumlpetroleum.com/

**Mineral Resources Authority**

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**Morobe Mining Joint Venture**

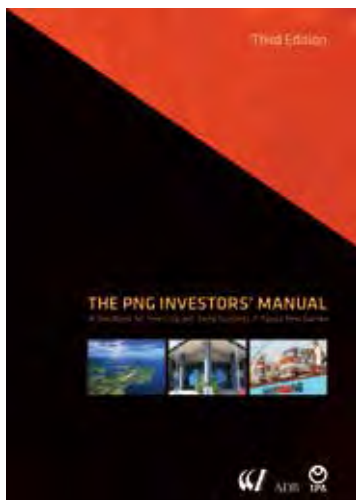
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**PNG Investor's Manual by Port Moresby Chamber of Commerce**

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. A fourth edition is planned.

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.



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**Ok Tedi Mining Ltd**  
www.oktedi.com

**PNG Chamber of Mines and Petroleum**  
+675 321 2988  
www.pngchamberminpet.com.pg

**Repsol (formerly Talisman Energy)**  
www.talisman-energy.com

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

**TOURISM/TRANSPORT**

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

**NAC**  
www.nac.com.pg

**PNG Air (formerly Airlines PNG)**  
www.pngair.com.pg

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

**UTILITIES/TELECOMMUNICATIONS**

**bmobile**  
www.bmobile.com.pg

**Digicel**  
www.digicel.png.com

**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

**DIVERSIFIED INDUSTRIAL GROUPS**

**City Pharmacy Ltd**  
www.cpl.com.pg

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

**Steamships Trading Company Limited**  
www.steamships.com.pg

**Useful online resources for Papua New Guinea**

**www.businessadvantagepng.com**

Business Advantage International's online business magazine for PNG and the region. Produces a free weekly PNG email update.

**www.ipa.gov.pg**

PNG's Investment Promotion Authority.

**www.pomcci.com**

The Port Moresby 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 on mining and petroleum—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*.

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# Hotels in Port Moresby and Lae

## Port Moresby

### 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](http://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](http://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](http://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](http://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 nightclub, the Gold Club. Tel +675 323 2333.

## 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 [laeinterhotel.com.pg](http://laeinterhotel.com.pg).

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](http://laecityhotel.com).

Finally, the **Melanesian Hotel**, part of the Coral Sea Hotels group, which also provides business-standard hotels in several other urban centres. See [coralseahotels.com.pg](http://coralseahotels.com.pg).

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