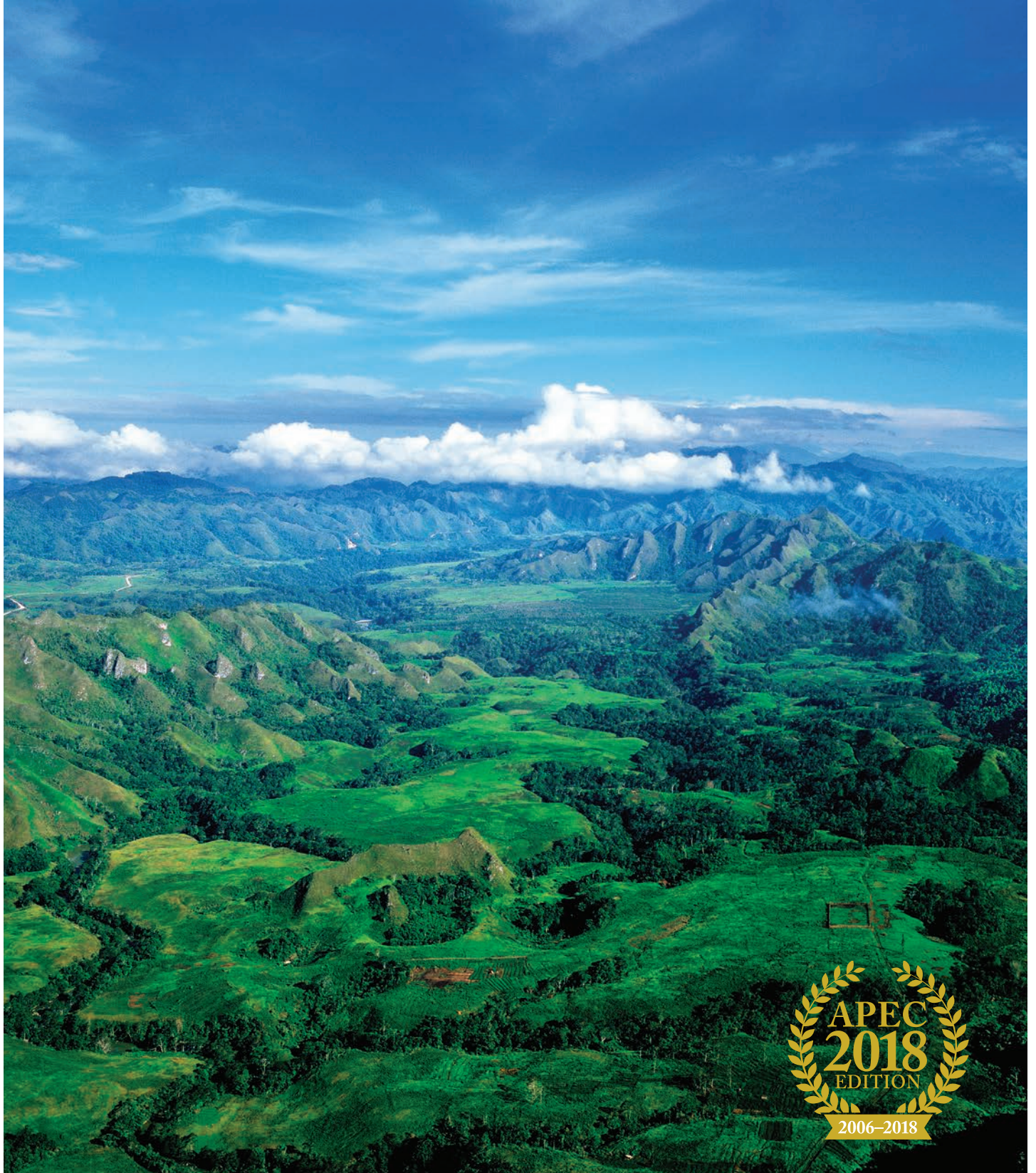


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Welcome

Welcome to the 13th annual edition of *Business Advantage Papua New Guinea*.

Business Advantage International has been reporting on PNG's economy since 2006: both in this annual guide and, since 2013, in our year-round online business magazine, businessadvantagepng.com.

After a decade of major economic growth in PNG, there have been some significant and irreversible economic and social progress in what many still consider a frontier market.

A middle class has emerged, the narrow base of the economy is being expanded and there is a new spirit of entrepreneurialism among the nation's graduates and young business leaders. With 76 per cent of the population under 36, it is youth that will shape the future of the country, even as the current generation of political leaders looks to cement its legacy.

PNG is not without its challenges but the message from the dozens of business leaders our team of experienced business journalists interviewed in compiling this publication is that if you take a long-term view, there is good business to be done in PNG, and there are many investment opportunities.

As our coverage of PNG has expanded, and our readership has grown, we have become aware of an

increasing need to bring our readers together in a physical setting to share their knowledge, insights and opportunities.

With this in mind, we ran our first PNG investment event in 2011 and have since run a further five, culminating in our most successful yet—the Business Advantage Papua New Guinea Investment Conference at the Shangri-la Hotel, Sydney in September 2017.

Our next PNG Investment Conference will be held at the Sofitel Brisbane, Australia, on 6 and 7 August 2018. Covering opportunities right across the economy, it will have a particular focus on infrastructure and innovation.

I hope this publication shows that there is plenty to discuss and that you'll join us in Brisbane for what promises to be our biggest and best reader event so far. For more information, visit www.pnginvestmentconference.com.

Andrew Wilkins

Publishing Director

Business Advantage International

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A slow, but

Papua New Guinea is getting its house in order as it anticipates a period of stronger economic growth, driven in part by significant new investment in mineral production and infrastructure. Andrew Wilkins talks with senior business leaders in the country to find out more.



steady resurgence

Key points:

- ▶ Superficially, PNG is looking like a low growth economy.
- ▶ The national government has responded by taking a fiscally cautious approach.
- ▶ However, should some of the proposed major resources projects be realised, the economy would accelerate quickly.
- ▶ Some big infrastructure upgrades are being planned.
- ▶ There is significant import replacement and some signs of emerging 'green shoots', especially in agriculture.

In the 2017 edition of *Business Advantage Papua New Guinea*, we described PNG as being in a downturn, especially when compared with the double-digit GDP growth of earlier in the decade, made possible by the massive US\$19 billion ExxonMobil-led PNG LNG project. That historic investment placed PNG in the world's top 10 gas-producing economies.

A year or so ago, the consensus among business leaders was that PNG was set for a period of lower growth, as it waited for the gas revenue to flow and for new, transformative resources projects to eventuate. There was confidence in the longer term, but in the short term profits decreased, excess jobs were shed, efficiencies were sought and sales projections were revised down.

Lower-than-anticipated global commodity prices (most notably for gas) has meant the national government has been waiting longer than expected for the financial benefits from the PNG LNG project, leaving it with some tough decisions to make about spending priorities. Meanwhile, a shortage of foreign exchange has been affecting both large and small businesses.

Emerging picture

So, what has changed in the ensuing year, and what are the prospects that the Pacific's largest economy will start to take off again in 2018?

On the surface, many of the features of a low growth economy still exist. GDP growth in 2017 fell short of the Asian Development Bank's modest three per cent GDP growth prediction (it came in, according to Treasury figures, at just 2.2 per cent).

Government finances remain constrained by low revenues.

The Port Moresby suburb of Konedobu has built up significantly over the past decade.

Picture: Milen Stiliyanov



Nambawan Plaza under construction in downtown Port Moresby

Picture: BAI

The National Budget predicts GDP growth of a modest 2.4 per cent for 2018 and the O'Neill–Abel Government began its five-year term in July 2017 with a sober and realistic outlook. As stated in its *National Budget Strategy Paper*, the government is now committed to ensuring that it 'lives within its means, yet still pursues higher economic growth rates in a sustainable and equitable way'.

Indeed, the first act of the new government was to announce a supplementary budget and a 100-day plan aimed at cutting expenditure and improving tax collections and compliance. GST and customs revenue is set to increase, while only a fixed number of priority capital projects will be supported. Compliant businesses have been particularly encouraged to see a threefold increase in the audit capacity of the Internal Revenue Commission in the 2018 National Budget. A US\$500 million loan facility negotiated with Credit Suisse also helped cushion government finances in the second half of 2017.

While it takes steps to bring debt back under the mandated 30 per cent of GDP ceiling, the government is looking to finance its debt in a different way by shifting from domestic to external financing. This means that a US bond issuance program is back on the agenda for 2018, in addition to concessionary loans. Moves are also under way to open up the country's capital markets to international investors (see page 20).

In the longer term, it is still the government's intention to introduce an 'onshore managed and offshore invested' Sovereign Wealth Fund, which would at once offer greater protection from foreign exchange shortages and help fund future infrastructure investment.

The government's measures have been broadly endorsed

internationally, with the International Monetary Fund noting that 'the measures envisaged in the 100-Day Plan will cut the 2017 fiscal deficit significantly, to a little over 3 per cent'.

The shortage of foreign exchange continues to mean there are delays in paying for imports, repatriating profits and moving capital offshore. In November 2017, foreign exchange reserves were less than half what they were in 2011/12: US\$1.7 billion, or the equivalent of five months' import cover. No-one is anticipating a quick fix to PNG's foreign exchange situation.

'For certain customers it's getting better, and for others it's been far more difficult,' notes Robin Fleming, Chief Executive Officer of PNG's largest bank, Bank South Pacific. 'The Central Bank did come in with US\$100 million during October [2017], which was able to clean out part of our backlog, but there still remains quite a high level of orders outstanding. The medium-to-longer term remains positive, but at the moment it's going to be more of the same.'

Nevertheless, PNG has entered 2018 with a clearer sense of when, and where, growth will start to pick up again. Some 'green shoots' are already appearing.

Major projects

Several major projects are being watched keenly because they look likely to provide new impetus to the economy for the rest of the decade, and beyond. Many of these are likely to deliver much-needed stimulus in regional areas beyond the capital, Port Moresby.

First among these is PNG's second LNG project, led by France's super major, Total SA. The Papua LNG project, based on the Elk/Antelope gas fields in Gulf Province,

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is currently in its 'pre-FEED' (front end engineering and design) stage. It is proceeding doggedly towards contractual negotiations, which are expected in 2018. While a final investment decision will probably not be made until at least 2019, there is a general mood of optimism about the project. Positives are the comparatively low development cost of the venture, the involvement of two large, experienced players in PNG's LNG sector (ExxonMobil and Oil Search) and a growing global market for LNG.

With the copper price rising, and the gold price stable, two potentially major copper-gold mining projects, Newcrest Mining/Harmony's Gold Wafi Golpu and PanAust's Frieda River, look set to provide major economic fillips to Morobe Province and the Sepik/Sandaun provinces respectively.

Frieda River looks set to be a development project as much as a mining project, with Chinese-owned PanAust looking to develop energy, port and road infrastructure to support not only the mine, but the province as a whole. This significant change of scope could be viewed in the context of the PNG government's November 2017 signing up to China's One Belt, One Road initiative, a move that was accompanied by announcements of about US\$4 billion in infrastructure investment.

It is perhaps worth noting that the government's budget projections over the next few years do not take into account



Agriculture is just one sector where investment is increasing. Picture: EMTEK Multimedia

potential revenue and growth occasioned by these major projects. Should they occur, PNG's growth would be significantly higher than the two-to-three per cent band on which the national budget strategy is based.

Finally, Port Moresby will be hosting the 2018 APEC Leaders Meeting in November

and the aim is to have several developments ready in time. They include PNG's first Hilton Hotel, part of the Star Mountain Plaza project in Waigani, the three-tower Nambawan Plaza commercial and residential development in 'Town', the APEC Haus/Paga Hill/Ela Beach redevelopment, and the ever-expanding Harbour City development at Konedobu.

Housing

There was certainly a lot of exposed red dirt in and around the national capital in late 2017. Major new housing developments are continuing to appear, driven by demand from an increasingly prosperous middle class and improved access to mortgage lending.

'As you're seeing the country continue to develop, housing is one area that people are also looking at to support their savings goals,' notes Paul Sayer, Chief Executive Officer of PNG's largest superannuation fund, Nambawan Super. 'Our membership certainly wants it.'

Meanwhile, the growth corridor to the northwest of Port

PNG'S FINANCE MARKETS

By David James

An examination of the key economic and financial indicators in the Papua New Guinea economy shows that 2017 was a patchy year. The domestic equity market, the KSI Home Index, performed poorly, according to Kina Securities. It was up only 2.7 per cent in the year to December 19, 2017. The KSI Index, which includes dual-listed stocks, did rather better, however, rising 16.9 per cent over the same period.

In terms of individual stocks, Bank South Pacific rose 5.6 per cent over the period, and Oil Search was up 2.9 per cent, according to Kina Securities. Newcrest Mining rose by 30.4 per cent. The share prices of City Pharmacy, Credit Corporation, Kina Securities and Highlands Pacific all fell.

Oil prices were slightly up in 2017, according to Kina Securities. West Texas Intermediate (light crude oil) rose

by 6.5 per cent, which was a much weaker rise than the 46.9 per cent jump that occurred in 2016. By contrast, LNG prices fell by over a fifth in 2017, according to infomine.com.

Gold rose by 9.2 per cent in 2017, according to Kina Securities. The copper price soared by 27 per cent, according to infomine.com, which greatly benefited Ok Tedi. Prices for palm oil, cocoa and coffee were all weaker, however.

PNG's currency, the kina, moved sideways against the US dollar in 2017. It eased only 1.4 per cent in the year to December 19, according to Kina Securities. Over the same period it fell by 7.1 per cent against the Australian dollar and by 3.8 per cent against the Japanese yen.

Fixed interest securities continued to provide strong yields. At the end of 2017 one year Treasury Bills were yielding 8.03 per cent.

PUBLIC + PRIVATE + PEOPLE = A FUTURE-READY PORT OF LAE

To support the flourishing Lae fisheries sector—a major growth driver of the Papua New Guinea (PNG) economy—as well as the Morobe Province's industrial base (especially its agro-processing and mining sectors): this is the vision for the Port of Lae. With the redevelopment, the port is geared to become a premier hub for Asia-Oceania trade. Key to the port program are the partnerships between the public and private sectors, and the private sector and host communities.

Port authority PNG Ports Corp., having successfully overseen the 2014 initial upgrade in Lae, is keen on ramping up operational efficiencies and port performance, towards Lae's increased competitiveness in the South Pacific, and to boost regional trade capabilities.

Private sector partner International Container Terminal Services, Inc. (ICTSI), through PNG unit South Pacific International Container Terminal (SPICT), is investing in major equipment upgrades and leading-edge information technology. Equally significant are its investments in the people being hired for the redeveloped port.

Partner Communities represented by AHI Investments Ltd. and Labu Holdings Ltd. are engaged across several areas in the program. They will benefit directly from port

employment, with global standard training and benefits packages, and career pathing and mentoring.

Underpinning the sustainable port development are community programs to be carried out by the ICTSI Foundation, AHI Hope Foundation, the national and local governments, and host communities.

Together, the PNG Government, ICTSI, and the Partner Communities are optimizing PNG's potential across borders—and working for development that is sustainable across generations.



Headquartered in Manila, Philippines, International Container Terminal Services, Inc. (ICTSI) is in the business of port development, management, and operations. Independent of shipping, logistics, or consignee-related interests, ICTSI works transparently with all port community stakeholders. Operating in both developed and emerging market economies—in Asia Pacific, the Americas, Europe, the Middle East, and Africa—ICTSI has received global acclaim for its port privatization partnerships with governments.



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Papua New Guinea in brief

Population:	7.776 million (2016, source: United Nations)
Capital:	Port Moresby
Surface area:	463,000 sq km
People:	Melanesian, Papuan, Negrito, Micronesian, Polynesian
Time zone:	GMT +10 hrs
Business language:	English
Political status:	parliamentary democracy
GDP:	US\$21.8 billion (2017, source: IMF)
GDP growth:	2.8% (2018 projected, source: Asian Development Bank)
Inflation:	5.8% (2017, source: IMF)
Currency:	PNG kina
Major industrial sectors:	mining, gas/energy, crude oil petroleum refining, palm oil, coffee, plywood and wood chip production, construction, fisheries, tourism, manufacturing
Exports:	liquefied natural gas, oil, gold, copper ore, logs, palm oil, coffee, cocoa, seafood, vanilla
Major export markets:	Australia, Japan, Philippines, China
Imports:	machinery and transport equipment, manufactured goods, food, fuels, chemicals
Major import markets:	Australia, Singapore, China
World Bank Ease of Doing Business Ranking 2018:	109 out of 190 economies

Moresby, which is based around the new port at Motukea Island and the PNG LNG plant, continues to expand, supported by improved arterial roads.

Infrastructure investment

China isn't the only nation stepping up to invest in badly-needed infrastructure in PNG. Neighbouring Australia funds a number of programs while the Asian Development Bank (ADB) has an investment pipeline of well over US\$1 billion for the rest of the decade for roads (including a transformative project for the major inland arterial, the Highlands Highway), aviation (including an upgrade of Jacksons International Airport), and renewable energy.

'The focus on development has been the resources sector, but vast opportunities remain to increase productivity in a number of sectors if the enabling environment, the macroeconomics and infrastructure capacity are right,' notes David Hill, Country Director in PNG for the ADB. He says it is where the ADB is looking to 'create an enabling environment.'

One area where PNG is already making significant progress is in the area of power generation. Private investment in the sector has been unlocked, with a 57 MW gas-fired power station currently under construction in Port Moresby and set to open in 2019. There are several power projects elsewhere, including Oil Search's 30 MW PNG Biomass project outside Lae.

Also encouraging, for a country that is just starting to experience widespread internet connectivity (on the back of the almost-complete National Transmission Network and rising smartphone ownership) is that the Australian and PNG governments announced a partnership at the end of 2017 to deliver a new undersea fibreoptic cable between the two countries (see page 39).

In addition, there is a rapid investment in LTE or 4G mobile services from the country's telcos. Market leader Digicel has announced a US\$50 million investment in its network, already the country's most extensive.

'We are heavily invested in this country and we will continue to be so. By any stretch of the imagination, in an environment like PNG, a US\$50–60 million investment in any one particular year is a commitment,' Oliver Coughlan, Digicel's Regional CEO for the Pacific, tells *Business Advantage PNG*.

'I do think the big change will be when you get cheap, affordable internet and low cost data,' observes Mark Baker, Chief Executive Officer for ANZ Bank in PNG. 'That's what I think will unleash a lot of potential in small business. People are really quite entrepreneurial here.'

Green shoots

While the CEOs surveyed in our annual PNG 100 CEO Survey (see page 18) still cite the shortage of foreign exchange as a major impediment, the duration of the difficulties has led to some positive developments. Unable to obtain enough foreign currency to pay for imports, retailers and manufacturers have started to seek out domestic supplies. They have been encouraged by a government that is keen to foster greater food security.

Fresh milk, once a pricey imported luxury, is now being produced at Innovative Agro-Industry's Ilimo Dairy Farm in Central Province at the rate of 12,000 litres a day. In Morobe Province, Trukai's plans to develop 2000 hectares of land for rice cultivation have begun. Until recently, almost all the rice sold in PNG was imported.

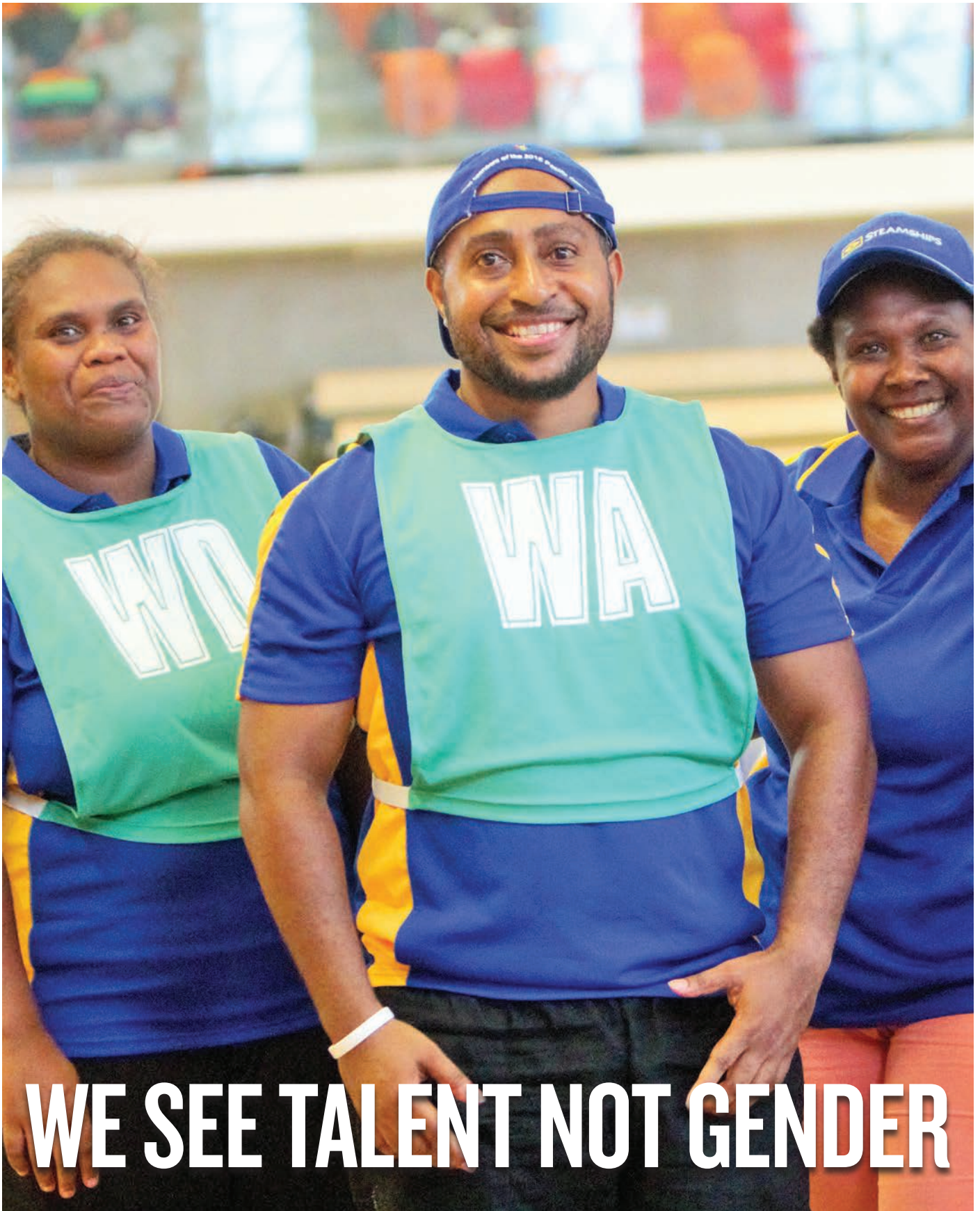
Motivated by similar imperatives, the country's largest brewer, Heineken-owned SP Brewery, is scheduled to start using starch derived from PNG-grown cassava by mid-2018, according to Chief Executive Officer Stan Joyce.

'You don't do these things overnight,' says Joyce. 'This has taken four years. I think it emphasises Heineken's view of PNG as a long-term place to invest.'

An inaugural agriculture summit in Port Moresby at the end of 2017 brought all the major players to the table to discuss how the sector could grow further. With up to 85 per cent of the nation's, mainly rural, population engaged in some form of agriculture, the sector has enormous potential.

While the emergence of new agribusiness will hopefully make up for a disappointing coffee crop in 2017—it was about 30 per cent down on 2016—there are good signs for palm oil, PNG's number one agricultural commodity.

'The first part of this year [2017], we've had a bumper crop,' reports Robert Nilkare, Country Manager for New Britain Palm Oil, the local subsidiary of Malaysia's Sime Darby and PNG's largest palm oil producer. ♦



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STEAMSHIPS



The APEC Summit, which is being hosted in Port Moresby for the first time in 2018, will provide many benefits.

By David James

Businesses in Papua New Guinea should have many opportunities from the APEC Leaders' Summit in Port Moresby in November 2018 says the Director-General of the APEC PNG 2018 Coordination Authority, Sir Charles Lepani. He adds that towns outside Port Moresby will also benefit.

According to Lepani, hotels, small business suppliers and the informal sector should all be positively affected. He says the APEC Authority needs to manage expectations, noting that it would not change the country overnight. But it should establish a foundation for stronger growth, bringing in much-needed foreign exchange, and raising PNG's international profile.

'We intend to go to tender, or look for, PNG women around the country who make bilums,' says Lepani. 'Each

province will make bilums, but not flags, as APEC does not use flags because they are political. We hope to get about 15,000 bilums made by women to give to every delegate.'

Lepani says delegates will make day trips to other parts of PNG, including Alotau and Goroka. Airlines will also benefit. Air Niugini is expected to earn about K40–50 million transporting delegates.

Engineering and building firms are also expected to have commercial opportunities. Lepani cites APEC



BUSINESS PEOPLE WHO WERE NOT AWARE OF PNG BEFORE WILL BE MORE AWARE. IT IS A LEGACY THAT LASTS WELL BEYOND THE MEETING.



Haus as 'the classic example'. Three Carnival cruise ships are being hired to provide accommodation. Wharf berth renovations will be undertaken for these liners and this will provide long-term infrastructural benefit.

The APEC Authority expects 15,000 delegates to attend the 2018 meetings. The proposed theme for the summit is 'Creating Inclusive Opportunities, Embracing the Digital Future'.

It's a theme, says Lepani, that reflects the twin aims of APEC: trade liberalisation and improving infrastructure. He says 'there is a call for urgent attention to social inclusion within the APEC economies.'

The summit, and the ministerial and working group meetings in the lead-in, will concentrate on four key areas: extractive industry policies, tourism, structural adjustment, and the ways in which digital technology can help medium and small businesses. Agriculture, financial inclusion and women in the economy will also be important topics for consideration.

Legacy

Chris Hawkins, Chief Executive

new opportunities



Officer of the APEC PNG Co-ordination Authority believes sceptics about Papua New Guinea's ability to host APEC will be proven wrong. 'It raises the profile of the nation and of the country,' he says.

Foreign direct investment will increase as a result of the APEC

meeting, according to Hawkins. 'Business people who were not aware of PNG before will be more aware. It is a legacy that lasts well beyond the meeting.'

Hawkins notes that some of the logistical challenges will be simpler in Port Moresby than in other, larger cities.

'We are not a big, sprawling metropolis. We don't have to have a large motorcade to deal with a large population. It is an uncomplicated road network.'

'We want to have a legacy so that when APEC is done a lot of what is left over is functional and useful.'

Hawkins claims there will be an effort to have only a minimal impact on business. 'The core meetings will be on the weekend and the security corridor won't overtake the city.' ♦

KEY OFFICIAL APEC MEETINGS ARE:

29 January-10 February 2018: Senior Officials Meeting.

23 April-5 May 2018: Senior Officials Meeting.

13-28 August 2018: Senior Officials Meeting.

12-18 November: Leaders' Summit.

15-17 November: CEO Summit.

Far left: APEC Haus, the location of the APEC Leaders Meeting, under construction
Left: Sir Charles Lepani, Director General of the PNG APEC 2018 Authority

Pictures: BAI

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PNG perspectives

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



Zanie Theron *Managing Partner, KPMG PNG*

‘We saw the first wave of the middle class developing with the first PNG LNG project. Ten years ago if you looked at the composition of the Port Moresby Yacht Club, there would not be that many Papua New Guineans. Now, there are many. People in our firm who are Papua New Guineans—their holidays at the moment are overseas. They all have passports, and a lot of them have Australian tourist visas.’



Joe Barberis *CEO, CPL Group*

‘There’s a lot of growth of retailing in PNG at many levels. We’re having new developments that are forever lifting the top end of the retail market. In that middle area you’ve got the mid-sized retailers—predominantly the Chinese/Bangladeshi retailers who are very good retailers, very smart retailers—and then you’ve got your markets and your street vendors. You’ve got so many different forms of competition. Some of it’s based on price, some of it’s based on convenience, some of it’s based on range and some of it’s based on quality. So it’s quite a complex environment. The intensity of the competition is challenging.’



Ilan Weiss *Chairman and Executive Director, Innovative Agro Industry*

‘You can try and engage a Papua New Guinean on any subject and they may be interested or not, just like anyone else. But you mention agriculture to a Papua New Guinean and their eyes light up. They are very open to innovation and you find good farmers everywhere.’



David Hill *Country Director for PNG, Asian Development Bank*

‘I’ve been in PNG for about 18 months and I have been really surprised. I do believe it’s a country with vast potential and opportunities.’

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What you need to know about foreign exchange in PNG

Some tips and observations regarding dealing with foreign currency in Papua New Guinea.

By Stephen Massa

Although there is no legal limit on the amount that can be transmitted out of Papua New Guinea, the availability of foreign currency is limited at the moment and, as a practical matter, it is difficult to transmit large sums of money out of PNG. Generally speaking, the larger the amount ordered, the longer the wait.



Here are several pointers about the formal guidelines.

1. An entity is deemed to be a PNG 'resident' for the purposes of PNG's foreign exchange controls if it carries on commercial activity in PNG. This includes PNG branches of foreign incorporated entities.
2. Even where BPNG approval is obtained for PNG residents to contract in a foreign currency, PNG's foreign exchange controls clearly state that settlement must be in kina in PNG.
3. Prior authorisation of the Central Bank is needed before an offshore account, as well as an onshore foreign currency account, can be opened. The Central Bank, if it gives its approval, will generally limit the use of those accounts to the extent necessary to comply with the contracts submitted to it.
4. The Central Bank is limiting the ability of PNG companies to open offshore accounts or onshore foreign currency accounts. Without an offshore account or an onshore foreign currency account, all payments received by the borrower in a foreign currency will be converted by the receiving PNG bank into kina for depositing into the kina account held with the receiving PNG bank.
5. When a company has approval for an offshore account, it will need to provide monthly foreign currency reporting of actual cash inflows and outflows through the offshore account.

6. An exporter must repatriate all of its export proceeds onshore and convert it into kina only with an authorised dealer. The repatriation must be done within three months from the shipment date of the export. Any offset against offshore liabilities is not permitted.
7. The penalties for breaches are potentially significant. Any person who is a party to a transaction that breaches the Forex Control Regulation is liable to a penalty of:
 - a. a fine of K100,000 or 25 per cent of the total value of the funds; or
 - b. imprisonment of up to five years; or
 - c. a court-ordered forfeiture of the foreign currency or goods involved, or resulting from the prohibited transaction.

These penalties are for each breach. ♦

Stephen Massa is the Managing Partner of Dentons' Port Moresby office.

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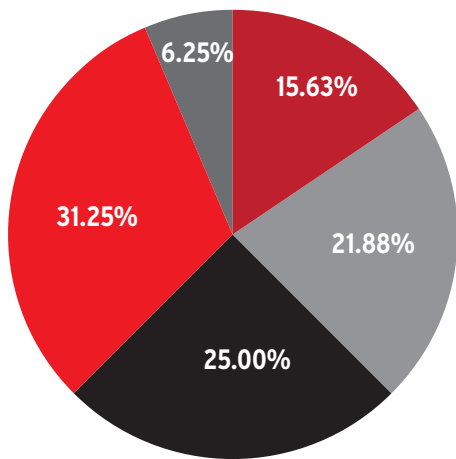
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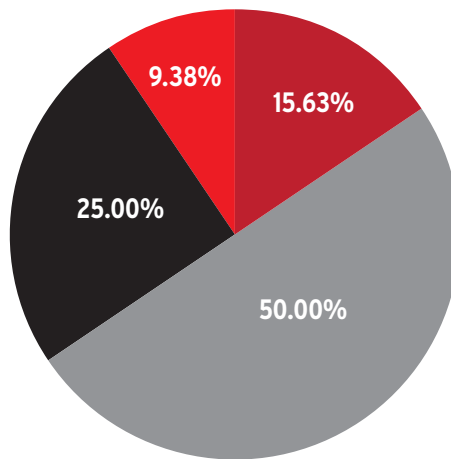
The 2018 PNG 100

Looking back on your business's performance in 2017, did your profits



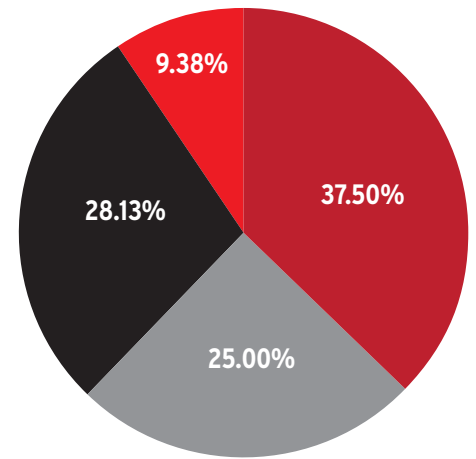
- Greatly exceed expectations?
- Slightly exceed expectations?
- Meet expectations?
- Fall slightly short of expectations?
- Substantially fall short of expectations?

In 2018, do you anticipate that your profits will



- Substantially exceed 2017?
- Somewhat exceed 2017?
- Be about the same as 2017?
- Be slightly less than 2017?
- Be substantially less than 2017?

How much investment (e.g. in plant, equipment, land or other assets) are you planning in 2018?



- A substantial increase on 2017
- A slight increase on 2017
- About the same as 2017
- Slightly less than 2017
- Substantially less than 2017

This is the seventh 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 reveal the levels of business confidence by asking CEOs about their anticipated profit levels and expectations for investment and recruitment in the year ahead. The CEOs also identify the key issues that they face in their business.

Profits patchy

Twelve months ago, when we asked the CEOs what their profit expectations were for 2017, they were mostly optimistic. More than two-thirds were bullish. Half thought profits would 'somewhat exceed the levels of 2016 and 15 per cent expected that they would be up 'substantially'.

A year on and those expectations have partly been met, although the result is patchy. Fifteen per cent said profits were up substantially—an exact match to what was expected. But only 21.8 per cent reported that profits were up 'slightly', which is less than half the level expected.

A quarter said profits were in line with expectations, while 31.2 per cent described profits slightly below expectations. Yet although there was some disappointment, there were only a few big losers: just 6.2 per cent said

they recorded profits substantially below expectations, which was a better result than the previous year when 17.5 per cent fell into this category.

What will 2018 bring?

Despite the mixed economic conditions, business leaders remain generally optimistic. About two thirds (65.6 per cent) believe that profits will rise this year, although this is down from the 77.5 per cent figure in the previous year.

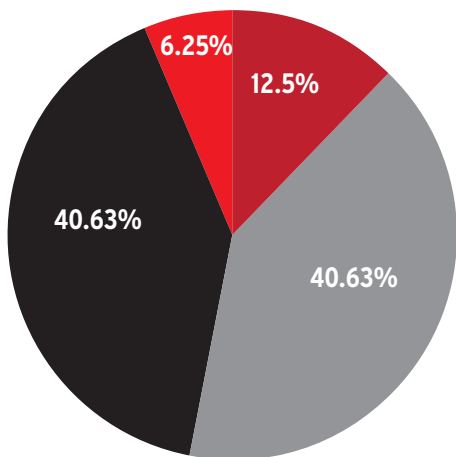
The number of CEOs who expect profits to be substantially up (15.6 per cent) is similar to last year. A quarter believe that profits will be the same. No CEO expects substantially lower profits.

Investment and employment intentions

Investment and employment intentions provide an indication of business

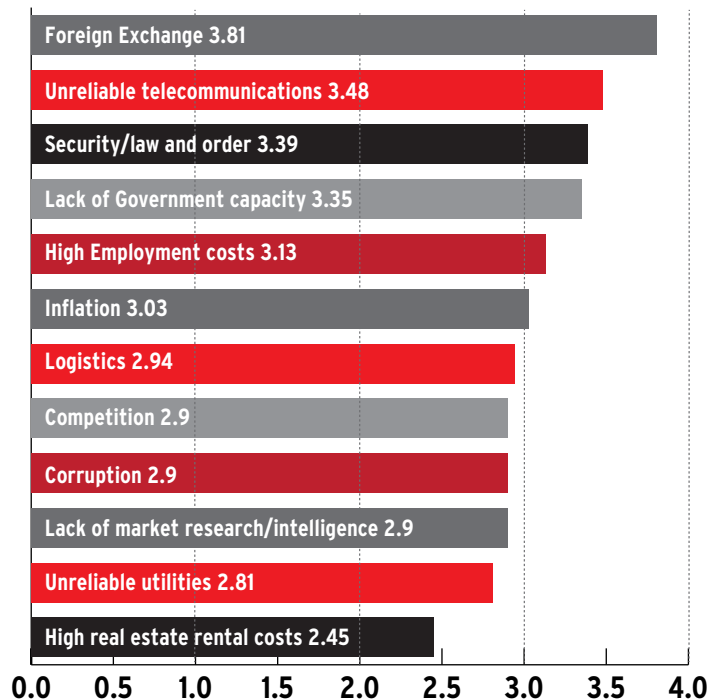
CEO Survey

What level of recruitment are you planning in 2018?



- A substantial increase in staff
- A slight increase in staff
- Enough to maintain 2017 staffing levels
- A slight reduction in staff
- A substantial reduction in staff

What are the impediments facing your business right now?



confidence. The patterns of intended investment suggest that business optimism is higher than it appears: 37.5 per cent of respondents say they expect to make a 'substantial' increase in investment this year and a quarter say they will make a slight increase in investment, which is down from 31 per cent in 2017.

Only 9.4 per cent expect to make substantially less investment, compared with 14.3 per cent in the previous year. This continues a medium term trend of most respondents expecting to increase or maintain investment levels, despite the difficult economic conditions.

Recruitment expectations are neutral. No respondents expect a substantial reduction in staff numbers, the same as last year. The majority, 81 per cent, expect staffing to be either the same or slightly up, while 12.5 per cent expect a

sharp rise (up from 9.5 per cent in the previous year).

Issues facing PNG business

Once again, access to foreign exchange is considered the most significant issue. It is nominated by 71 per cent of respondents as a first order issue, up from 59.5 per cent in the previous year. It is considered 'mission critical' by 41.9 per cent of respondents and 'very important' by 29 per cent.

Other issues considered 'mission critical' are: lack of government capacity (22.6 per cent, up from 21.4 per cent), shortage of expertise and skills (22.6 per cent, the same as the previous year), unreliable telecommunications (16.1 per cent, down from 28.6 per cent in the previous year), and security and law and order (9.7 per cent, down from 24.4 per cent). ♦



MORE THAN TWO THIRDS BELIEVE THAT PROFITS WILL RISE THIS YEAR [2018]



The 2018 PNG 100 CEO Survey was conducted by Business Advantage International in late 2017. The survey included senior executives from a representative sample of Papua New Guinea's largest companies, across all sectors of the economy.

Opening up Papua New Guinea's capital markets



A financial initiative has the potential to transform the financial markets in PNG.

By Andrew Wilkins

Could Papua New Guinea Government bonds and Treasury bills soon be purchased anywhere in the world with the click of a button? A new working group aims to look at ways to modernise the way the country raises money through its capital markets.

The cross-industry working group has been established with the goal of opening up Papua New Guinea's capital markets, including devising a new trading platform for government bonds.

It is being supported by the PNG–Australia Governance Partnership.

The group includes representatives from the Bank of Papua New Guinea, the Securities Commission and the country's two major super funds, as well as fund managers such as PacWealth Capital and Kina Securities,

Eric Kramer, Chief Executive Officer of PacWealth Capital.
Picture: BAI

“CURRENTLY, CENTRAL BANK BILLS, INSCRIBED STOCK AND TREASURY BILLS ARE BOUGHT AND SOLD AT AUCTION IN PNG USING A MANUAL PROCESS INVOLVING WRITTEN BIDS.”

and potential international donors such as the Asian Development Bank, the International Finance Corporation and the Japan International Cooperation Agency.

The working group will consider the best way to move PNG's capital markets on to a modern, Bloomberg-style trading platform.

Manual process

Currently, central bank bills, inscribed stock and Treasury bills are bought and sold at auction in PNG using a manual process involving written bids from a small pool of pre-registered participants.

Moving to a trading platform would potentially not only reduce the costs of trading, but could open up trade in government securities to overseas investors who currently do not have easy access to PNG's capital markets.

It is not a new idea. A trading platform has been discussed for many years, but working group member

Eric Kramer, Chief Executive Officer of PacWealth Capital, believes this time there is momentum behind the move.

‘This is being in part driven by frustration at the high servicing costs of government debt.

‘We need to step into the 21st century and put the system on a platform that would reach an investor in Delaware who might be interested in buying bonds or bills.

‘I can't think of a single stakeholder who wouldn't benefit from getting the infrastructure in place.’

International investors

‘One of the challenges is to have external people come and invest in PNG,’ explains Paul Sayer, Chief Executive Officer of PNG's largest super fund, Nambawan Super. ‘If those other fund managers come in, then it provides another party for us to actually trade and deal with.

‘When you [talk to investors] in an Australian super fund they say: “You know, we've got government bonds in countries all around the world”. But then they say: “PNG doesn't come up”. They might buy Oil Search shares or other mining stocks on the stock exchange, but that's probably about it.’

The working group will be examining four key requirements: possible trading platforms, the regulatory framework, approvals from Treasury and a communication strategy to get stakeholders on board and attract international investors to PNG. ♦

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Investment summit explores Papua New Guinea's digital future

Business leaders, entrepreneurs, international investors and PNG politicians came together at the Business Advantage Papua New Guinea Investment Conference in Sydney in September, 2017. The special focus was on the impact of new technology and growing opportunities related to China.

By David James and Kevin McQuillan

The Business Advantage conference showcased the nation's potential as an investment destination and canvassed different views from the business community about the opportunities and challenges. A clear picture of the country's—and the Pacific region's—great untapped potential emerged.

The conference, which was held at Sydney's Shangri-la Hotel, featured a wide range of presentations, panel discussions and high level networking.

It opened with an insightful perspective from futurist Mark Pesce, who explored the effect that digital technology—such as mobile phones, blockchain, drones and robotics—could have on PNG's long-term economic future.

These technologies can be used, commented Pesce, to leapfrog the industrial era and move effectively into the post-industrial world. There is also a potential convergence of banking and telecommunications, based around the use of mobile phones.

Growth sectors

The commentary then moved to the finance sector, with a perspective on the most profitable sectors for investment provided by some of PNG's most high profile fund managers and analysts: Kennedy Wemin (CEO, Melanesian Trustee Services Limited), David Lennox (Resource Analyst, Fat Prophets), Dr Stephen Nash (former Chief Investment Officer, Nambawan Super) and Eric Kramer, (CEO, PacWealth, investment manager for Nasfund). They agreed that there is a plenitude of sound investments available in the country, but the risks must be well managed.

The Governor of the Bank of Papua New Guinea, Loi Bakani, outlined what he saw as the priorities for economic development. He said diversification of the economy is critical to maintaining economic growth.

A particular area of concern, Bakani said, is the high level of food imports. 'This is an area of great potential for investment given the land mass and suitable land conditions we have.'

The Minister for National

INVESTMENT CONFERENCE GOES TO BRISBANE IN 2018

Further to the very positive response to the 2017 Business Advantage Papua New Guinea Investment Conference, the dates and location of the 2018 conference have been announced.

The 2018 conference will take place at the Ballroom Le Grand, Sofitel Brisbane Central, Brisbane, Queensland, Australia on Monday 6 and Tuesday 7 August 2018.

Once again, the focus of the program will be business and investment opportunities across all sectors of PNG's



economy, and across the country. Day 2 of the conference will have a special focus on Infrastructure.

Further details: www.pnginvestmentconference.com



Left: Lydia Tasi, Manager of Innovative Agro Industry's Nine Mile Farm. Credit: BAI
Above: Loi Bakani, Governor of the Bank of Papua New Guinea. Credit: BAI

Planning and Monitoring, Richard Maru—representing PNG's Prime Minister, Peter O'Neill—said that the government was keen to attract investment, especially in the agriculture sector. He reaffirmed its commitment to reducing the cost of doing business and pointed to continued major investment in infrastructure.

Maru said that the economy was too reliant on the resources sector and needed to develop other sectors, such as agriculture and tourism. 'We have to increase exports, decrease imports and get more value from our resources.'

Case studies

There were several case studies of successful PNG companies, including SP Brewery in manufacturing (with CEO Stan Joyce) and Highlands Pacific in mining (with CEO Craig Lennon). Ilan Weiss, Chairman and Executive Director of Innovative Agro Industry (IAI) said the reason to get involved in the sector was the people themselves.

'Papua New Guineans have been

doing agriculture for far longer than Europeans. It's something dear to their hearts.'

Dr Myles Neri, Group Medical Director of International SOS, said the next health care challenge for Papua New Guinea authorities is the afflictions of modern society, including heart disease, cancer and stroke. 'These are the diseases of prosperity,' he said, adding that the establishment of the extractive industries in PNG has meant that health infrastructure is being developed 'not just for employees, but for the local community'.

International SOS is establishing a public-private partnership with Pacific International Hospital, government and landowner groups, to develop specialist services.

Anitua's Chief Financial Officer Anthony Neck gave a presentation and delegates also heard about the next wave of young PNG entrepreneurs from Roberta Morlin, a Kumul Gamechangers graduate. She observed that it is possible to build a business

with little or no capital. 'It's always what you're passionate about growing,' she commented.

Regional investment

China expert David Thomas detailed the opportunities that emerge from China's expansion, which is leading to a 10 per cent increase in outbound investment. He advised that PNG leaders look at smaller, emerging Chinese cities, rather than the megacities, such as Shanghai, Beijing and Guangzhou.

Finally, the focus shifted to the Pacific Islands, with some original and rarely heard insights. There were a series of country presentations and a round table on the investment terrain in Fiji, Vanuatu, Timor-Leste and the Solomon Islands.

What emerged is that there are many linkages between PNG and the other island economies, suggesting that a regional approach can pay handsome dividends. ♦

The Asian Development Bank's plan to rebuild the Highlands Highway could change the entire economy.

A plan that will

By David James

The Asian Development Bank (ADB) has begun its decade-long US\$1 billion investment in the Highlands Highway. It has the potential to radically alter logistics in the Papua New Guinea economy.

David Hill, the bank's PNG Country Director, says the intention is to rehabilitate 430 kilometres of the highway between Mount Hagen and Lae. It will be funded by a multi-tranche financing facility.

'The first tranche is for US\$360 million,' says Hill. 'Procurement is now allowed and we have some significant packages.'

'We want to do large civil works and consultancy packages to attract competitors. There are economies of scale—in terms of doing things bigger. Because procurement takes a long time.'

'We follow some rigorous procurement procedures so it is much easier to do bigger packages and roll it out. Hopefully, we will get better quality contractors and consultants.'

Hill says the executing agency is the PNG Department of Works. The government of Australia is a co-financer of the first tranche.

'This is our flagship project for the next 10 years in the



The Highlands Highway, just outside Tari.

Picture: BAI

transport sector.'

The bank is also planning significant investment in the health, civil aviation and renewable energy sectors.

Financing

Hill says the ADB has an advantage in being able to make long term multi-year financing investment programs.

'The financing is there. It provides some predictability and yet flexibility. Once the program starts, if things are not going well, we can adjust the design so that it is more

effective and we make sure the money is well spent.'

Hill says the ADB is focusing on the transport sector, the energy sector and, more recently, public sector management and the health sector.

'In the next three years, we have over US\$1 billion available for financing. We are really scaling up the amount of financing we are making available to Papua New Guinea.'

'In transport, we have built about 600 kilometres of roads. We have a very successful

FLOW-ON EFFECTS

Water is an important part of PNG's infrastructure. Mary Karo, Chairperson of utility Eda Ranu, says the World Health Organisation ranks water quality in Port Moresby highly. 'We are number five in the ranking, according to WHO figures.'

'People are happy drinking



water directly from the tap.'

Eda Ranu also has its own Quality Testing Laboratory which has been commended by the Pacific Water & Waste Management Association, including Sydney Water. 'About 52-54 per cent of our water is used by settlements or villages.'

transform the economy



THIS IS OUR FLAGSHIP PROJECT FOR THE NEXT 10 YEARS IN THE TRANSPORT SECTOR.

David Hill

lack of refining of agriculture products. But the initial problem is connectivity: getting the products to a processing plant or a market.'

Hill says that PNG exports most of its products in raw form. The challenge is to move up the value chain.

'As government revenue is reinvested into infrastructure projects and domestic spending power expands, the business case for downstream investment will improve.

'Should on-going economic reforms improve conditions and the ease and predictability of doing business, PNG could emerge as a regional destination for processing of mid-stream and finished products.' ♦

civil aviation development investment program where we have been upgrading the terminals, the runways and the safety features of the airports in the country.

Hill says the ADB is assisting in redeveloping Jacksons Airport and upgrades of regional airports. It also has a microfinance project, mainly in the Western and Sepik provinces.

Private interest

The investment interest is not just coming from aid institutions. Kennedy Wemin, Chief Executive of Melanesian Trustee Services, says his fund conducted a review of the strategic asset allocation at the beginning of 2017 and added infrastructure as a new asset class. 'The infrastructure space is exciting. We need to get good governance and all the paths that link into that as well, so we're working on that with a few providers at the

moment.

'But to get transactions going—it takes a while. We have an investment community that wants things done immediately, and we say we have to do them properly, so it does take time.'

'We'll look at the infrastructure and nation building aspects of this, and we're very focused on that as well. We think we have a role to play in terms of leading infrastructure development. We want to see more of it.'

Value chain


Infrastructure investment has wider strategic implications. Hill says 85 per cent of the population in PNG is involved in agriculture. 'The stumbling block standing in the way of a robust agriculture industry is the means to increase efficiencies throughout the value chain to make production and distribution more competitive.'

'Part of the problem is a

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Repsol's and Horizon's LNG operations in Western Province.

Picture: Repsol



The gas boom continues

Papua New Guinea has established its international reputation in gas, and there is more in the offing.

By David James

The success of the PNG LNG project has established Papua New Guinea as a legitimate destination for foreign direct investment. Fabian Pok, Minister for Petroleum, believes 'it is a perfect time to do another LNG project at low cost.'

Pok argues that there is considerable urgency. 'We don't have the luxury of time. The Total Papua LNG project is the next big thing for the country.'

Pok says there will also be a 'big focus' on new discoveries, adding that the government does not want companies 'sitting on finds.'

Andrew Barry, Managing Director of ExxonMobil PNG, has claimed the existing PNG LNG project is running above expectations. 'We are on track to produce a total of 8.2 million tonnes of LNG this year, which is about 20 per cent beyond what we first thought the plant could achieve when the facilities were designed.'

Barry said drilling at the Muruk field led to a new discovery near the Hides field. A K1 billion investment will be made next year 'to tie the Angore field into the production system at Hides,' he said. 'It is clear PNG LNG has a reputation of reliability and quality.'

Peter Botten, Managing Director of Oil Search, believes

A TOTAL CHALLENGE

Papua New Guinea's most prospective LNG development is the Papua LNG project, which is led by the French company Total.

Philippe Blanchard, Managing Director, Total E&P PNG, says

the project will be a 'new type of operation for the company', which has been 'working offshore for a long period of time.'

Blanchard says different integration options are being

considered to make the project as cost effective as possible. 'We need to find the right elements between what is existing and what we want to build. Our gas is different from the gas in PNG LNG.'

that 2018 'is the most critical' in all the years he has been working in the country. 'The LNG market has never been more dynamic. We are also seeing some of the best exploration opportunities I have seen in PNG. PNG LNG is a stellar world class project but there are legacy issues.'

Pipelines

The big projects, PNG LNG and the proposed Papua LNG project, are not the only prospects. Horizon Oil is awaiting government and regulatory approval for the mid-sized Western LNG project in PNG. Chief Executive Brent Emmett says the company is considering using Kumul Petroleum's alternative pipeline proposal, but wants assurances the pipeline will be viable before committing.

Horizon and its Spanish partner, Repsol, hold about 70 per cent of the gas resources which make up the Western LNG project, which involves the aggregation of four fields: Stanley, Elevela/Ketu, Ubuntu and the Puk Puk/Douglas fields.

'The project will generate over a billion dollars a year in revenues, for at least 20 years,' says Emmett. 'Proven resources show the project will last 15 years.'

The bulk of the reserves—between 2 and 2.5 tcf (trillion cubic feet) of gas, with 60–70 million barrels of condensate—lie in three licences: Stanley, Elevela/Ketu and Ubuntu.

'These are expected to last about 15 years. As they go into decline, the Puk Puk/Douglas field would come on stream, giving the project a total life of 20 years.'

Horizon proposes to build a 500-kilometre pipeline to a liquefaction facility located near Daru Island in Western

Province, which would process 1.5 million tonnes of LNG a year.

Meanwhile, Kumul Petroleum is investigating the possibility of building its own Western Pipeline, which involves bringing gas from smaller (or 'stranded') fields. Starting from Elevela, it would go about 400 kilometres to Kopi, and then another 400 kilometres to Caution Bay in Port Moresby.

Demand

Market research by analysts Wood McKenzie indicates there will be increasing demand for LNG from Indonesia, Malaysia, Vietnam and other countries around the South China Sea.

'These markets are forecast to grow at about 12 per cent per annum,' says Emmett. 'And, of course, the China and India markets are forecast to grow at six per cent—probably quite a lot higher than that.'

'By 2035, those markets, according to forecasts, will be approximately the size of the markets today in Japan and Korea—two of today's LNG giants.'

The management of large-scale gas projects can pose a challenge to the national government and the non-resources part of the economy. Richard Maru, Minister for National Planning and Monitoring, says the success of the PNG LNG project may have resulted in

a shortage of foreign exchange.

'We need to re-look at the incentive package that we offer to large-scale resource projects,' he says. 'Do we have to give them accelerated depreciation to the point where in the first three years they are basically taking all the money out?' ♦



Brent Emmett, Chief Executive Officer of Horizon Oil Picture: BAI



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The ambitious vision of Papua New Guinea's premier company

Giant energy player Oil Search has aggressive ambitions.

By David James

Oil Search is Papua New Guinea's biggest company. It operates all of the country's producing oil fields, holds an extensive appraisal and exploration portfolio and has a 29 per cent interest in the PNG LNG project.

Yet Managing Director Peter Botten says in ten years he hopes the company's production will have tripled. 'I would hope that Oil Search, in its own right, will be producing maybe six million tonnes of LNG [a year].'

Botten says Oil Search is a 'barometer around the world for PNG's investment climate.' When international investors assess the company, they look at a variety of factors.

'Firstly you have to think about what the sector is looking like, so if you don't think the oil price is going to go anywhere, that is one element of investor sentiment.'

'Investors look for quality companies at the bottom end of the cost curve with a track record of delivery and that always puts Oil Search into a pretty good spot.'

Botten says the company fundamentals are strong. 'We have got a pretty good cash flow generation out of our existing production base and our production base is relatively profitable—it would be more profitable at US\$100 (a barrel). But at the end of the day we have a very strong balance sheet.'

Liquidity

Botten says because the trading liquidity on POMSoX is not high, the company is dual-listed on the Australian Securities Exchange (ASX).

'If you want the major world super funds to be part of your investment you need to be on an international exchange. We have a very credible list of major long-term funds that support us and have done so for many years; some of the biggest funds in the world.'

'But you are only as good as the last project you put on the board, so there is a very strong focus on, and emphasis with, our shareholders to understand when the next phase of LNG development will take place.'

'That is something on which you have to work extremely



INVESTORS LOOK FOR QUALITY COMPANIES AT THE BOTTOM END OF THE COST CURVE.

Peter Botten

hard. Many of the things that we influence, if not control, are going pretty well, but the real challenge for us over the next 12 months or so is to bring the country along and make sure the government is prepared to go through the exercise of understanding what is needed—what can and can't be done in the next phase.'

Stability

Botten says the government and developers need to work together to make sure there is a stable operating environment 'by managing land owners and ensuring they feel comfortable and they get the benefits they deserve.'

'The question is the cohesion within the country and the process to deliver world class projects on that sort of scale. Many developing countries don't reach anything like their true potential. I believe PNG will be different.' ♦

Kumul Petroleum's live gas process training facility - the first of its kind in the Pacific region.

Picture: Kumul Petroleum

Training up gas employees

Kumul Petroleum's Academy will make a big difference to skill levels.

By Kevin McQuillan

A simulated gas processing plant has arrived in Port Moresby for use at the Kumul Petroleum Academy, an institution tasked with creating the next generation of oil and gas technicians in Papua New Guinea.

The Kumul Petroleum Academy is funded by Kumul Petroleum Holdings Limited (KPHL) and the South Pacific Employment Institute (SPEI).

Last year, KPHL gave K4.5 million to the academy when the first batch of students began their 18-month course.

The aim, according to SPEI Director and KPHL Chief Executive, Wapu Sonk, is to build local capacity by training young Papua New Guineans within the country.

They will then be capable of going straight into oil and gas operations.

Certified workforce

The academy is located at Idubada near Port Moresby. It also provides for the needs of industries like mining, palm oil and shipping.

According to Sonk, the establishment of the Kumul Petroleum Academy will allow PNG to produce and supply an internationally certified and accredited workforce.

The Live Gas Process Training Facility, or simulator, is the first of its kind in the Pacific region. It replicates a full-size gas processing plant, with live process systems, a centralised control room, emergency protection systems. It has an electrical distribution centre, which provides real-life training scenarios, and an assessment facility.

The facility was built and operated by SPEI joint venture shareholder, Site Group International. The company already operates a similar process plant in Myanmar and large immersive training facilities in the Philippines, Indonesia and Australia.


'We won't have oil and gas going through the simulator, but we will have hot oil going through the system, so students can go through the processing stages, reading gauges, instrumentation, electronics, and running a control room,' says Sonk.

Opportunities


Sixteen of the 32 students were sent to the academy by ExxonMobil, which audited the syllabus, training program and the simulator operations, Sonk says.

SPEI Chairman Isaac Lupari says the academy is focused on developing opportunities for Papua New Guinean youth. The existing workforce will participate in roles that would normally be out of reach and would require overseas training, at great expense and investment.

'This training will now be provided in-country, which will put Papua New Guinea ahead of most of our Asia Pacific regional counterparts,' he says. ♦




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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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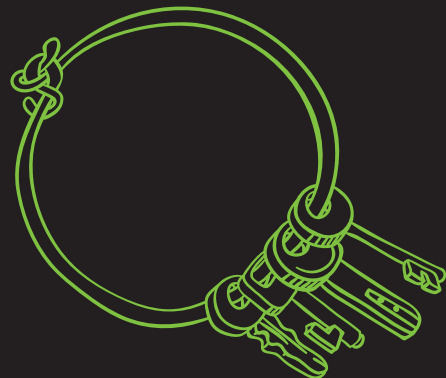
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Mining set for big

The prospects for one of Papua New Guinea's biggest export industries are looking bullish.

By Sarah Byrne and David James

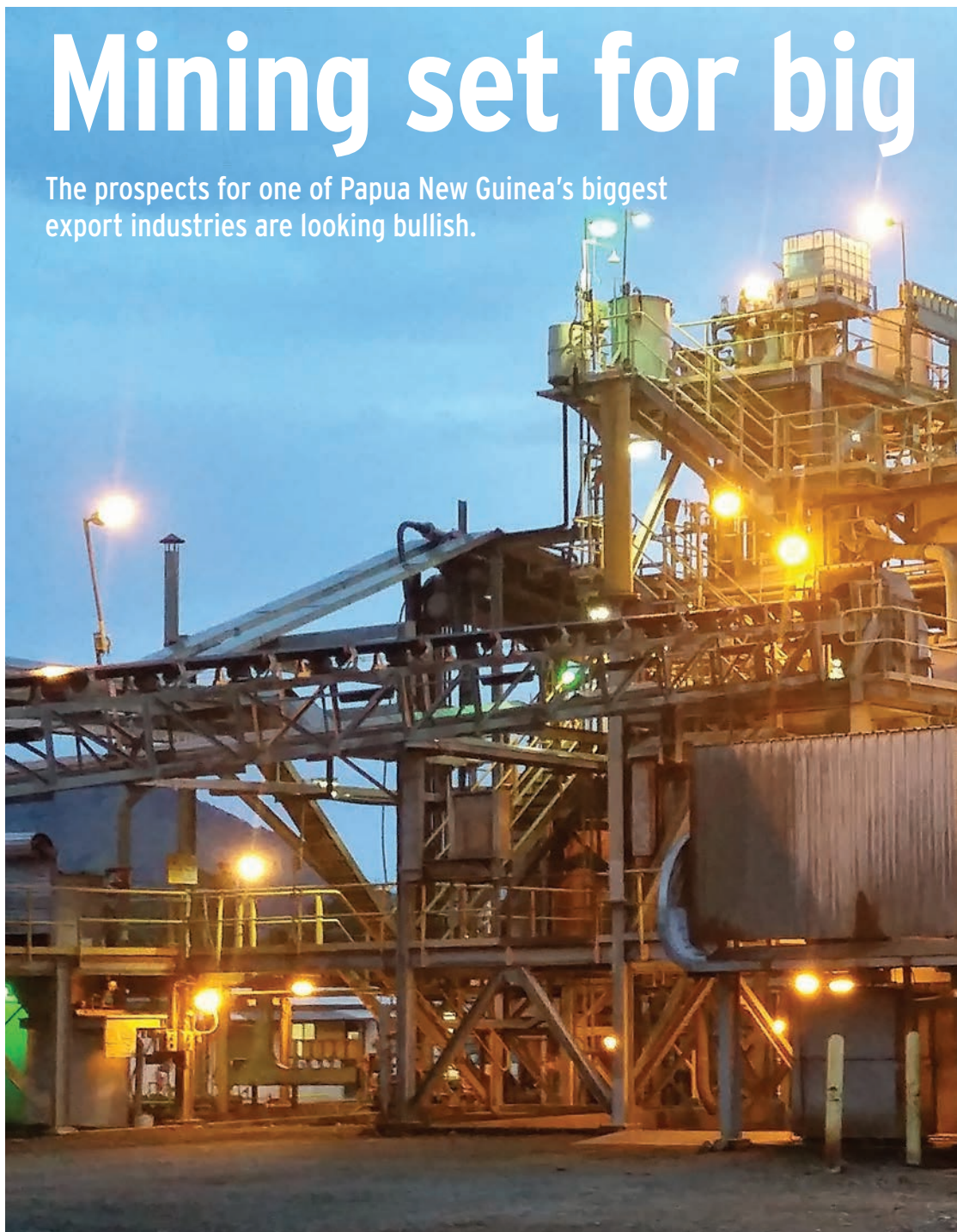
The mining sector generates half of Papua New Guinea's export revenue, according to Johnston Tuke, the Minister for Mining. He believes the sector is 'slowly picking itself up' after some difficult years, describing it as 'the bright star that continues to underpin the economy, as it has done since independence.'

The signs are looking increasingly positive for both established and prospective miners. Peter Graham, Chief Executive Officer of Ok Tedi, PNG's biggest mine, said the company has 're-established profitability' after suffering from the effects of drought. He said in 2018 the aim is to improve operational performance and 'strengthen the capability' of the company's people by refining management systems.

The company's three-year strategic plan is designed to double the value of the business on a discounted 'base case' basis. 'We are aiming to improve performance to become more integrated from pit to port,' he says.

Higher copper prices are strongly benefiting Ok Tedi, according to Stephen Howes, Director of the Development Policy Centre at the Australian National University. However, Olivier Vadillo, Head of Metals Research Asia Pacific at Wood Mackenzie, says the market would need to see higher copper prices for a 'sustained period of time' for the benefits to flow through to other PNG miners.

Another success story is the Kainantu gold mine in the Eastern Highlands province, which is exporting



UNDERSEA MINER LOOKS TO FINANCE

By Sarah Byrne

President and CEO of Nautilus Minerals, Michael Johnston, has been working with providers and stakeholders to secure financing of the delivery of its Solwara 1 mining project.

Johnston says with the main pieces of the kit already built, it is unlikely that they would be left to rust. 'There remains a lot of interest. With the three bits of kit built, it's going to happen.'

In 2017, Nautilus Minerals completed construction of its seafloor production tools, which are now ready for wet testing.

Designed and assembled by Soil Machine Dynamics in Newcastle-upon-Tyne, the seafloor production tools are the project's main pieces of equipment. They will be used to cut and extract high-grade copper and gold from the seafloor.

comeback



Kainantu Mine operations.

Picture: K92

ST BARBARA LOOKS FURTHER AFIELD

By Sarah Byrne

Bob Vassie, the Managing Director of St Barbara, which operates the Simberi mine, says the company is planning to spend about A\$7 million (K16.9 million) on exploration in Papua New Guinea.

Oxide ore at the Simberi site, which has returned to profitability, will be mined out in the next few years. It has prompted the company to make a decision on whether to invest in developing the plant to process sulphide ore.

'With the mine operating profitably, we can fund that exploration effort and fast track the priority areas.'

'If we can find additional, nearby sources of oxide or sulphide ore, it could potentially be processed at Simberi and this would add to the economics of the project,' Vassie explains.

The company is looking at two locations: Tatau Island, which is located about five kilometres south of Simberi, and Big Tabar Island. Until recently, Tatau Island was underexplored because of access issues, which have since been resolved through agreements with the local landowners' association.

Tatau Island is also prospective for copper/gold porphyry deposits. St Barbara hopes to determine whether there are minable deposits on the island, which may mean having more oxide ore for the existing Simberi operation, or sulphide ores for a future sulphide project.

We are proud to be a globally competitive, low cost copper producer.



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gold concentrate again after eight years in mothballs. The Canadian company K92 has spent in excess of C\$10 million (K24 million) on refurbishment and rehabilitation to bring the operation back into production.

John Lewins, Chief Operating Officer of K92 Mining says, after a 'big year' in 2017, the company is looking to expand the mine's core resources. He estimates that the mines can produce annually 82,500 ounces of gold, 290,000 ounces of silver, and 6,100 tonnes of copper, providing cash flow of US\$558 million (K1.8 billion).

Big prospects

The two prospective mines that are attracting greatest interest are both potential copper-gold operations: PanAust's Frieda River project in Sandaun and Sepik provinces, and the Wafi-Golpu project in Morobe province, a joint venture between subsidiaries of Newcrest Mining and Harmony Gold.

The Frieda River project, which is in an unusually

remote location, has been strategically rethought according to the Managing Director of PanAust, Fred Hess. He describes it as 'no longer just a mining project' but a 'development project' and a stand-alone hydro-electricity project. He notes the company is getting 'very close' to going ahead.

The initial proposal was to use barges on the Frieda River but Hess said the company is now looking at building 'an access route to the mine site'. It would halve the distance to the port and change the economics of the mine.

'If the road were in place, it has the potential to take 12 to 24 months off the entire development schedule,' Hess said the new strategy could effectively double the length of the mine life to 35 years.'

A proposed embankment would potentially store tailings and waste droppings and provide water for hydro generation. 'We have changed from looking at building infrastructure solely for use in the mine to expanding the infrastructure to have shared use,' said Hess.

'What became apparent is that it was possible to set up commercial alternatives to developing the infrastructure—in which case we didn't have to bear the full capital cost ourselves upfront. Someone else could build them and we could pay for their use.'

The development may also be of interest for China's One Belt One Road initiative. PanAust, which has an 80 per cent interest in the Frieda River project, is owned by a subsidiary of Guangdong Assets Management (GRAM) a Chinese State-owned company. Hess said the company is actively promoting the project with the governments of both PNG and China.

Bryan Bailie, Executive Project Developer of the Wafi-Golpu joint venture, says the company is 'reworking' its mine design and reassessing the 'power to port options.'

He warned the initial development stages will be capital intensive and will have 'long lead times'. 'We must have access to reliable power,' he said. 'Developing our own power is considered to be a low risk option.' ♦

(MINING IS)
THE BRIGHT
STAR THAT
CONTINUES TO
UNDERPIN THE
ECONOMY, AS IT
HAS DONE SINCE
INDEPENDENCE.

Johnston Tuke

CONFIDENT JUNIOR EXPLORERS

By Sarah Byrne

Junior miners are continuing to explore Papua New Guinea. One is Gold Mountain, which is moving forward at Crown Ridge at Wabag in Enga Province. Recent trenching resulted in six trenches that produced positive results. Five of these centered in a cluster, where every pan collected free gold.

Director of Exploration, Matthew Morgan, believes that these systems have the capacity to produce world-class gold and copper projects. 'As some of the free gold is very shallow, at around two metres depth—which is almost under the grass in some zones—there may

be the potential for a low cost, low strip ratio free gold resource that could be quickly bought forward into production generating significant cash flow for the company,' says Morgan.

Frontier Resources Managing Director Peter McNeil says drilling is strongly warranted at both of its exploration licenses. In September, Frontier commenced drilling at Swit Kai, at its Bulago prospect in Southern Highlands Province.

'The amount of drilling that we undertake will only be limited by the amount of capital that we have,' says McNeil. He is confident in the company's current projects in

PNG and is keen to explore further. Frontier Resources aims to complete additional drill assessment at Bulago porphyry copper-gold prospects and to cover working capital and costs.

Johnson Tuke, the Minister for Mining, believes there is increasing diversification of the mineral sector in PNG. He points to magnesium, chromite and limestone as areas of interest.

The next decade could be a 'golden' one for the mining sector, argues Roger Gunson, Executive Manager, Regulatory Operations, at the Mineral Resources Authority. 'Cobalt is hot and lithium is going through the roof,' he says.



IN THE INVESTMENT COMMUNITY AT THE MOMENT, COBALT IS A VERY HOT COMMODITY.

Craig Lennon

The clean energy minerals boom

The shift to electric vehicles is a boon for Papua New Guinea miner Highlands Pacific

By Kevin McQuillan

As demand for electric cars gathers pace, Papua New Guinea's Ramu nickel mine is perfectly placed to be a big provider of the nickel and cobalt that are essential ingredients for hi-tech batteries. Craig Lennon, Managing Director of Highlands Pacific says the battery market is having a huge impact on demand for both nickel and cobalt.

'In the investment community at the moment, cobalt is a very hot commodity. A lot of people are out there exploring for it.'

Lennon says in the past a major source of demand growth was the lithium-cobalt-oxide battery used in laptops and portable devices. But the greatest prospective demand will be for batteries that have nickel-cobalt-manganese and nickel-cobalt-aluminium. These are used in electric vehicles.

'The electric vehicle revolution is happening and it's happening faster than people were expecting. All the automotive players now are working on electric vehicle technology and governments are mandating reduced emissions.

'What we have with Ramu here is that we're not exploring for it. We're actually producing it.'

The Ramu mine has 124 million tonnes of nickel and cobalt—a significant resource', says Lennon. He adds that the mine, which has a projected life of up to 35 years, is 'going to be around and benefitting PNG for decades'.

'We are ramping up our production steadily,' he said. 'After a production downturn in 2016—after a fatality at the project shut down the mine for three months—the company is now at its nameplate capacity, producing 33,000 tonnes of nickel and 3,300 tonnes of cobalt in 2017. Most of the output goes to China.

'While we're increasing production, we are also reducing costs. The nickel industry has been quite depressed in recent years. We're producing nickel for about US\$5,500 a tonne. The market price is around US\$12,000 a tonne and cobalt is around US\$60,000 a tonne, so it means there is a good margin being made.

Lennon believes demand will grow. 'We should see better nickel prices.' He said Ramu Mining uses two production methods. 'As well as the conventional digging with excavators, hydro sluicing is in 30 per cent of the process.'

He claims the method, developed by Highlands Pacific, is 40 per cent cheaper than the conventional approach.

The Ramu mine and processing plant is a joint venture between China's MCC Ramu Nico Ltd (85 per cent), Highlands (8.56 per cent), and the PNG Government and landowners (6.44 per cent). ♦

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Giant mine project may have future if obstacles can be overcome

The possible rebuilding of the Panguna copper mine, Papua New Guinea's biggest, is the subject of intense debate.

By Kevin McQuillan

Moves to re-build the huge Panguna copper mine on Bougainville Island have temporarily been put on hold, but there are predictions from Bougainville Copper Ltd (BCL) that the mine might re-open within 10 years.

At a Warden's Hearing in late 2017, scheduled to determine whether BCL should have its right to operate the mine extended for a further five years, there was some strong opposition to BCL's involvement.

As a result, the President of the Bougainville government, John Momis, declared an indefinite moratorium on exploration and mining at Panguna.

He said 'the basic requirement for obtaining the landowners consent under the Bougainville Mining Act 2015 could not be met,' adding there was a 'narrow divide between those supporting the mine to be opened by BCL and those that oppose'.

The involvement of Bougainvilleans in BCL is critical to the successful rebuilding of the mine.

The situation is delicate. BCL claims to have the support of eight of the nine landowner groups in Bougainville with an interest in the project. The eight, led by Lawrence Daveona, have land rights covering access roads and the port site, among other areas—though crucially

not the mine site itself, which is held by the Special Mining Lease Osikaiyang Landowner Association (SMLOLA), led by Philip Miriori.

Miriori opposes the involvement of BCL in the rebuilding and operation of the Panguna mine. He has been supported by a small, Perth-based company, RTG Mining.

It has led to a dispute over whether

YOU'VE ALWAYS GOT TO COME BACK TO THE QUALITY OF THE RESOURCE; WHICH WILL ALWAYS MAKE IT ATTRACTIVE

Daveona or Miriori should lead the local landowner groups. At the beginning of 2017, 367 authorised customary heads of the 510 blocks of land within the special mining lease area of the mine reportedly said that they do not recognise Philip Miriori as the chairman of SMLOLA.

Momis, when declaring the moratorium, said it would be 'untenable' for any developer other than BCL to operate the mine under the current circumstances.

BCL made a concerted effort throughout 2017 to persuade local

landowners to support the mine's re-opening. In August, it held its first board meeting at Buka in 27 years. Retiring chairman, Rob Burns, said it was 'a new dawn' for BCL as an independently managed PNG company following Rio Tinto's complete exit in the middle of 2016.

Its new Board appointments included the people of Bougainville as well as mining specialists.

The latest appointments include Sir Moi Avei, Chairman of Kumul Petroleum, former Prime Minister, Sir Rabbie Namaliu, Dame Carol Kidu, OK Tedi Mining's Managing Director Peter Graham and mining specialist Mel Togolo, who takes over from Burns as Chairman in February, 2018.

'We've been talking to the Autonomous Bougainville Government (ABG) and are keen to get Bougainville representation—so first and foremost that was our number one priority,' said Burns.

'Peter Graham's knowledge of project development and project management is second to none in PNG.'

The abandoned copper and gold mine contains one of the world's largest known copper deposits. Company Secretary Mark Hitchcock said the construction phase of a renewed Panguna copper mine would cost an estimated US\$4–6 billion.

A realistic timeline for the Panguna project, he said, would see the mine operational around 2025–26. BCL estimated in 2012 that the income from the mine would be around US\$75 billion over its lifetime. ♦

PANGUNA'S POTENTIAL

Mining industry analysts describe the Panguna mine as a 'high-risk, high-return' investment. Greg Evans, KPMG's Perth-based Global Leader, Mining Mergers and Acquisitions, believes there will be considerable interest.

'The copper price is heading in the right direction, the supply metrics are working in the favour of copper broadly. I would expect that BCL are being approached reasonably regularly by a number of metals traders.'

Evans points to growing demand for copper, noting that batteries in electric vehicles are likely to use 927,000 tonnes of copper a year by 2030, according to forecasts by Bloomberg New Energy Finance. That alone equates with five per cent of current production.

Evans believes a global miner, 'like Glencore or similar', is likely to become involved.

Ambitious energy targets

Papua New Guinea has a strategy to replace expensive diesel fuel with cheaper and cleaner alternatives.

By David James

The Asian Development Bank is in the concept stage for a proposed US\$600 million power sector project focusing on hydro-power, wind, bio-mass, thermal and solar, especially in isolated grids where demand is strong.

The ADB will establish a renewable energy financing company (REFC) to elicit private sector involvement. The aim will be to expand transmission networks to connect large loads to existing grids, interconnect provincial centres and link high-density

rural populations.

Papua New Guinea's national energy strategy is aimed at increasing household access to 70 per cent by 2030, which would be more than a five-fold increase on current levels. There is a heavy emphasis on the use of renewable sources, especially hydro power, solar power and biomass. LNG is also being used, including supply from the PNG LNG project. The intention is to replace diesel fuel as much as possible.

In addition to the work of Oil Search and Exxon Mobil other resources companies are

“ THERE IS A HEAVY EMPHASIS ON THE USE OF RENEWABLE SOURCES.”

looking at investing in power provision. Brent Emmett, Chief Executive Officer of Horizon Oil, says the company's gas project in Western Province is aimed at providing energy. 'In Western Province, apart from a small amount of intermittent hydro-power, the bulk of power generation is fired by imported diesel,' he says.

'Penetration of electricity for community and local industrial users is non-existent. I believe our project can make good inroads to turn that around.'

Fred Hess, Managing Director of PanAust, says the proposed copper-gold mine at Frieda River, in the Sandaun and East Sepik provinces, is being looked at as a stand-alone power project.

'We think we can come up now with a solution that involves power not just for the mine site, but power that can be exported.' ♦



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Puma sees opportunity in complexity

The energy trader is making a big play in Papua New Guinea.

By David James

Since 2014, Puma Energy has been Papua New Guinea's major refiner and retailer of petroleum products. Puma's parent, Trafigura, is an energy trader. This shapes its country strategy, according to Puma's General Manager in PNG, Jim Collings.

'The Puma business model tends to focus on locations where we can support that commodity trading and also take a step towards working within the supply chain.'

'Where the PNG business came into play was as a resource-rich country looking to manage both its internal energy needs and international export growth.'

'It fits our model of being in a developing state, whereby we know we can go in and add value with our expertise in logistics and supply chain management.'

In 2014, Puma Energy purchased the midstream and downstream assets of InterOil, including the Napa Napa oil refinery near Port Moresby and a chain of petrol stations. InterOil had previously picked up the PNG assets of Shell and BP.

'It was a relatively small, strongly diesel-led, refinery: 34,000 barrels a day. That suits the market here because it is a diesel market. We have the ability to supply the majority of the products for the country.'

'From our refinery here, we distribute into 22 different terminals and depots around the country—on the mainland and scattered islands. Also, we have a range of inland logistics.'

'We truck product up from Lae through to Goroka and

into Mt Hagen and the Highlands. That particular logistics exercise takes up to 24 hours to travel the round trip of somewhere in the order of 350 kilometres each way.'

'In other locations, like Tabubil, you deal with constant rainfall—up to 10 metres per annum—whereas Rabaul on New Britain Island is volcano and earthquake territory.'

Collings says PNG ranks in the 'top five more complicated territories' in which the company operates. But it is also in the top five countries in terms of scale.

'It is an expensive place to play and in the fuel industry margins are very slim. It is a tough but a positive investment for us. We continue to invest; we have invested over and above our initial investment in purchasing the business.'

Collings says commodity prices are important. In particular the Ok Tedi, Harmony and Lihir mines 'drive volume uptake'. Agriculture is also important, with production levels in palm oil and coffee critical.

'The third area is power generation. The PNG Power network is going through its own development and there is a large amount of product we produce which is going into power generation in one way or another.'

'The investment over the coming years in the network for power supply will continue to improve and that will improve reliability. That unleashes a whole level of productivity, which is good for us as well.' ♦



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Jim Collings

Puma Energy's Napa Refinery.

Picture: BAI



A telecom game changer

A government agreement to run high-speed cable from Port Moresby to Sydney has the potential to launch the nation into the post-industrial economy.

By David James

The governments of Australia and Papua New Guinea have announced they will be working together to lay a new undersea high speed telecommunications cable from Sydney to Port Moresby. The move, announced by the Prime Minister of Australia, Malcolm Turnbull, and the Prime Minister of Papua New Guinea, Peter O'Neill, is expected to contribute to closer economic integration between the two neighbouring countries.

Australia is offering to deliver and majority-fund the undersea cable, with a financial co-contribution from PNG. The Australian government is in discussions with an experienced Australian telecommunications infrastructure specialist.

An underseas cable to replace the existing ageing APNG-2 cable at Port Moresby's Ela Beach has been badly needed for some time, both to deal with PNG's growing internet traffic and to provide redundancy for PNG's only other international gateway, PPC-1, which is sited in Madang.

Welcome development

Jonathan Pryke, Director of the Lowy Institute's Pacific Islands Program, estimates that the cost is likely to be about US\$100 million (K321 million) for a 3000-kilometre cable between Port Moresby and Sydney.



Mahesh Patel,
Chairman of
Kumul Telikom.

Picture: BAI

LOWER PRICES

Mahesh Patel, former Chairman of the newly formed Kumul Telikom—which brings all state-owned telcos: PNG Dataco, Telikom and bmobile Vodafone under a single board—says the aim is to reduce telecommunications wholesale prices by two-thirds.

'It has been a bee in my bonnet since I have been Chairman,' Patel says. 'We should have done it in 2013, but that is water under the bridge now. We had the capability and capacity financially.'

'The most logical route always has been—it is the advice we have had from Telstra—to go directly to Sydney. Sydney is very well connected, and we can get it done very quickly.'

'As soon as the undersea cable is in, we will have the capacity to drop the price to the standards that they get in Australia.'

'All we need to do is see what is happening in the rest of the world. You are talking about e-commerce, mobile apps, e-education, e-health—a whole bunch of these can be moved on to the platforms.'

'Four years ago, we had poor quality internet and people were paying 200 kina

He says the move is a 'very welcome development' that will be a big positive for business in PNG.

'The private sector must be very happy to finally see this actually get done. There has been discussion about this cable for so long.'

'There have been various funding options on the table. The World Bank at one stage put up a loan opportunity and China was sniffing around as well.'

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‘It was getting to the point where the private sector was talking about chipping in themselves to put it together because it was so desperately needed. But hopefully this will expedite it faster than any of the other options.’

Goodwill

Pryke says that the PNG government has not had ‘the fiscal breathing room’ to put in the cable itself.

‘I would expect this funding to be in addition to the substantial aid program that we already give to the Pacific and Solomon islands. Because

Futurist and innovator Mark Pesce.

Picture: BAI

that funding has already been allocated.’

Pryke says the move ‘should build a huge amount of goodwill with the private sector’. He adds that ‘both governments, in PNG and Solomon Islands, desperately want the technology.’

Strategic implications

The plan has geo-strategic implications for the relationship between PNG and Australia. Pryke says the deal will establish Australia as PNG’s ‘partner of choice.’

‘If you are the PNG government and you are

fiscally stretched, you will take the free money. I think it is a win-win all round.’

Pryke says it is not just the cable that is needed, the domestic infrastructure also needs to be improved. ‘It will just provide a starting point, but the bandwidth to the capital city will be something they have not seen before.’

‘The [APNG-2] cable in Port Moresby has about 5 per cent of the capacity of a modern cable. And the demand is certainly there.’

‘Most businesses in PNG have to rely on satellite and on 3G networks, which are more reliable than the landline network. But the cost is just so prohibitive.’

‘There are many challenges in doing business in PNG but this really seems like a low hanging fruit. It’s great that Australia has come in and done something about it.’

The cable would only be connected to Port Moresby. ‘The inter-island submarine cable will then connect to all the other ports [in PNG].’

According to telecommunications sources, it should take a minimum of 18 months for a new cable to be operational once the project is given the green light.

Futurist Mark Pesce believes that building up PNG’s mobile phone infrastructure will have a transformative effect on the country. He says digital technology will transform logistics in PNG over the coming decades.

‘By prioritising the infrastructure that supports sharing, and placing value on the kinds of sharing that improve the capacities and resilience of the nation, you can create a cycle of positive reinforcement that gets people and businesses doing the right thing because it does right by them.’ ♦



Developing a regional hub



WE ARE SEEING A LARGE INCREASE IN THE NUMBER OF PASSENGERS CONNECTING BETWEEN THE PACIFIC ISLANDS AND ASIA.

Sir Frederick Reiher

Papua New Guinea's national carrier is making a far-sighted play.

By David James

Air Niugini intends to help establish Jacksons International Airport as a regional hub, according to the company's Chairman, Sir Frederick Reiher. The choice of new routes to China has been made with that strategy in mind.

'That assessment looked at the unique opportunity to have Port Moresby as a "hub" for travellers to and from China from the Pacific Islands, particularly Melanesia and Micronesia, and North Queensland. We are seeing a large increase in the number of passengers connecting between the Pacific Islands and Asia.'

'While our hub project targets major airports, as I have mentioned, it will also play a very useful role in providing links for the distant island nations of Melanesia and, increasingly, Micronesia.'

Passengers

Reiher says while the development of Port Moresby as a hub remains a 'work in progress', he believes the signs are positive. 'We are seeing a large increase in the number of passengers connecting between the Pacific Islands and Asia, and between Queensland and Asia and the Pacific Islands.'

Reiher says for the strategy to be effective, the 'whole

industry' will have to work together: airlines, ground transport, accommodation providers, resorts, government and community leaders, and other stakeholders such as travel agents.

'Papua New Guinea can develop a unique tourism industry, one that will really boost our SME business sectors and employment.

'As the hub develops, and obstacles such as visa requirements and infrastructure, are overcome, I am confident it will be a significant partner in the development of our tourism and travel sectors.'

Reiher says having a modern national airport will help the airline meet growing demand for regional and international services, 'as well as strengthening our main domestic routes.'

He adds that Air Niugini is undertaking the 'largest fleet replacement and upgrading program in our history.'

First stages

David Thomas, Chief Executive of Think Global Consulting, says China's overseas direct investment is only in its first stages.

'Going out has only just begun. With the One Belt One Road initiative, China intends to build in the part of the world that has to some extent missed out on globalisation,' he says.

'They will be taking trade routes from the South Pacific all the way to Europe and even to the UK.' ♦



A ports revolution

The company appointed to manage ports at Motukea and Lae is aiming high.

By David James

International Container Terminal Services (ICTSI) has been awarded 25-year concessions to manage new facilities on Motukea Island, and in the Lae Tidal Basin. Ted Muttiah, Director, Asia Pacific, for ICTSI South Pacific, says the company will operate the international arm of each of these terminals. ‘So all international container and general purpose vessels cargo into and out of Motukea and Lae respectively will go through ICTSI South Pacific terminals: South Pacific International Container Terminals (SPICT) and Motukea International Terminals (MIT) respectively,’ he says.

Muttiah says ICTSI is located in 18 countries and operates 30 terminals. He believes the company’s ‘DNA’ is suited to operating in countries like PNG.

‘We do exceptionally well in the emerging markets—difficult terrain that perhaps most of the other established players are reluctant to go into.’

Muttiah acknowledges that there are some challenges. ‘We have to relocate some of the crane equipment—mobile harbour cranes from some of the existing facilities to the new facilities.’

Ship to shore

Muttiah says he is looking for a significant jump in efficiency. ‘Today, vessel crane productivity in PNG is

achieving about 10 to 12 moves per hour, per crane. The global standard is about 34 moves per hour, per crane. ICTSI also has achieved those numbers.

‘So the aim is to lift quayside productivity as a key element to improving operational costs within the supply chain for port users.

‘I would certainly acknowledge the work that has been done by existing stevedores in serving the port’s needs of the day: bringing the port operations to a certain level where it is sufficient to go out to market. The challenge now is to take port efficiency to the next level.

‘We’re not necessarily in competition with existing players because the environment that they operated in would be different to the environment we are going to operate in.

‘For example, they have been using ships’ gear. We intend to bring ship-to-shore cranes, which is the Rolls Royce of stevedoring.’

Expectations

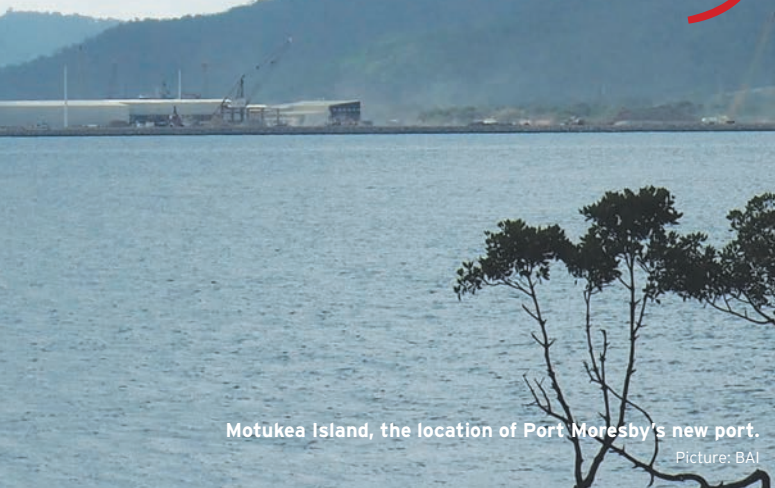
Muttiah says his first requirement is to start up the operations and then consolidate them. ‘Expectations are high. We need to have a consistent operation, predictable and sustainable. So that shipping lines, as our customers, know that when their ships come in they can come straight on the dock and have a predictable turnaround time.’

Muttiah says he will aim at continuous improvement. The increased scale will lead to higher productivity, and afford the ability to handle more ships because



THE CHALLENGE NOW IS TO TAKE PORT EFFICIENCY TO THE NEXT LEVEL.

Ted Muttiah



Motukea Island, the location of Port Moresby's new port. Picture: BAI

turnaround time will be reduced significantly.

He notes there is a mandated tariff. 'We have to work within the parameters of those governance regulations—the bid is the bid and we've got to make it work. So I think operationally the first six months will be challenging. The business plan itself is pretty much set; it's just getting the best use of it now.'

Skills

Muttiah says getting the right skills represents a challenge. 'We have the mobile harbour cranes—they're literally brand new but nobody had been operating them for the last seven years. In our concession we are required to use them.'

'We don't really have the talent on the ground to do that—perhaps they were trained six, seven years ago in anticipation of using the cranes.'

'We need to train them up. You can't be achieving these productivity scales from day one if you're also doing training on-the-job.'

'So we will bring some really capable talent from within our organisation—maybe the Philippines, maybe from the broader group.'

'The idea is that while they're getting the job done for our customers, we would take local talent to our flagship operation in Manila to do the training—where we also have mobile harbour cranes and we also have the simulators, so a lot of work can be done.'

'Efficiency is not a one-time transaction actually; it is the product of a lot of landside discipline that allows us to be

quay-side efficient. We need to have the yard operation, the trucking, road delivery, receivers, all working in a disciplined manner that supports the quay-side operation.

'Simply driving the crane as fast as you can does not deliver the outcome. The core components of the supply chain need to improve.'

Investment

Muttiah says relations with the wider community are important. 'Ultimately, what the community leaders want is the same as what we want for the communities. 'Clichéd as it might be, we are two sides of the same coin. We are here for 25 years, whereas previously there was no fixed long-term for the stevedores.'

'They were going from a year-to-year proposition. Investments with a longer payback period are made difficult in such an environment.'



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Fast changing finance

Papua New Guinea's financial sector is being propelled into the post-industrial era.

By David James

Financial services are developing in a variety of ways in Papua New Guinea. Although the sector is comparatively immature it is fast catching up.

One of the biggest finance sector players is Melanesian Trustee Services Limited (MTSL), which is the trustee and interim manager of PNG's Pacific Balanced Fund.

Chief Executive of MTSL, Kennedy Wemin, says the fund's portfolio ranges from small holdings, through to 100 per cent ownership. 'We take board positions in all investee companies where equity ownership exceeds 20 per cent.

'We have an active approach to nominate directors who can contribute and attribute value to the investee. We have also used these board position vacancies to give professional development opportunities to young, up-and-coming individuals in PNG.'

Wemin says the fund does not manage the businesses, however. 'The fund relies on the dividends from these investments—that's 99 per cent of our income.

'Paper valuations are one thing, but unit holders actually want real rewards. At the end of the day, it's about extracting real value.'

Wemin says difficult economic conditions create opportunities. 'You need sound investment strategies to survive the difficult times; without them, you will be exposed.

'Having said that, tough times also provide some exciting opportunities if you know what to look for. Creating your own niche opportunity and running with it is another exciting prospect.

'In recognition of that, we have registered a property business, an agricultural business, and a power/IT/technology business. Those are at the initial start-up stage. The property business has taken off.'

Digital technology

Papua New Guinea has lagged many of the industrial era developments in finance, but digital technology offers the opportunity to jump straight into the post industrial era.

Mastercard is working with its banking partners to introduce smart card chip technology and contactless payments. Craig Kirkland, Director of Pacific Islands for Mastercard, believes the chip technology will minimise risk.

'The new technology is referred to as EMV, and it has been extremely successfully globally in driving down card counterfeiting, in particular,' Kirkland says. 'The introduction of "touch and go" is an exciting development for PNG.

'It will give cardholders the convenience of simply



RADICAL CHANGE

The banking and financial services sector in PNG is likely to be transformed by digital technology. Syd Yates, recently retired Chief Executive of Kina Securities, which is listed on the Australian Securities Exchange, says the PNG finance and banking sector will change radically.

'The way we've been doing banking in the world will change dramatically over the next five years. I think the traditional bank branch will transform into something different. Our customers need to be able to connect with us any time, anyhow and anywhere.'

“TOUGH TIMES ALSO PROVIDE SOME OPPORTUNITIES IF YOU KNOW WHAT TO LOOK FOR.”

Kennedy Wemin



Left: Kennedy Wemin, Chief Executive Officer of Melanesian Trustee Services Ltd.

Picture: BAI

Above: David Kelso, Managing Director of Moni Plus.

Picture: Moniplus

‘I’m not sure how many ATMs will be around, for example. EFTPOS machines probably won’t have great growth. Mobile technology will probably be where it already sits, and we need to think about digital online.

‘You need to put the control back to the customer, to let them choose what they want to do. We should be a vehicle for letting that happen and to help them do what they want, when they want it.’

tapping their cards for transactions under K50 at merchants that offer contactless as a safe and convenient way to pay.’ For transactions greater than K50 customers would tap their card and input their PIN.

As well as working for domestic, everyday purchases, the new technology will also benefit PNG cardholders when they are travelling overseas. Likewise, the adoption of contactless payments will benefit tourists coming into PNG.

‘These advancements are world class,’ claims Kirkland.

There are daunting geographical challenges when rolling out financial services in PNG. It is costly and difficult to establish branches and technology such as ATMs in remote locations. But digital technology on mobile phones can offer a way of overcoming that.

Futurist Mark Pesce says smart phones can transform financial services in PNG. Emerging forms of digital money such as distributed ledgers, or blockchains, or cryptocurrencies can turn money into something that is fully digital and secure.

‘There are no worries about counterfeiting or cooked books. Plus, it provides a complete audit trail of all transactions. Individuals and businesses will be free to trade as never before. There will be no question about access to the banking system. It will all be about access to capital.’

Business loans

Business lending is conducted in a different way in Papua New Guinea to the practices applied in more developed economies. Most of the land is customary-owned, so it is more difficult to get collateral for loans.

But for companies prepared to develop an appropriate business model, the rewards can be there. Credit Corporation, which is PNG’s largest finance corporation, has K1.2 billion in assets, with interests ranging from large-scale property development to investment. The company’s strategy is diversification in order to provide a natural buffer against cyclical business downturns.

Another finance sector player is Moni Plus, which has had a strong record of growth, more than doubling its profits since 2013. ‘The key is our focus on customer service, a superior operating system and expansive MIS (management information system),’ says Managing Director David Kelso.

‘We have got a processing system where we can do up to 400 loan applications in a very busy day. All those applications are processed, approved and settled.

‘Everyone offers 24-hour [loan] approval, but that doesn’t mean a thing unless you get 24-hour settlement. We do that, and we do it proudly.’ ♦

Fisheries company looks to catch new markets

Cannery operator Frabelle is charting an ambitious course.

By Kevin McQuillan

An expanded wharf, increased tuna output, boat replacements and a new blast freezer are part of fisheries company Frabelle's development plans. Reducing costs is also important according to Melinda Ragudos, the General Manager for Cannery Operations.

Ragudos says there will be an expanded wharf at the Port of Lae, which will allow three boats to unload at a time—a 50 per cent increase on the wharf capacity.

Early in 2017, Frabelle opened a new tuna processing line, allowing the company to increase production to 100 metric tonnes of tuna per day, up from 70 metric tonnes. Its total staff now is just under 2000, working two shifts.

Frabelle is one of four canneries in Lae. The others are Majestic, International Finance Corporation (IFC) and Nambawan.

Majestic Seafoods, a joint venture with Thai Union of Thailand, Century Canning of Philippines and Frabelle PNG, began four years ago with a new

tuna processing plant in Malahang, Lae. It continues to flourish, says Ragudos.

Both Frabelle PNG Ltd and Majestic Seafood Cannery export canned tuna and frozen cooked tuna loins to the European Union, with which PNG has a market access agreement. Frabelle PNG also sells into the local PNG market under the Isabella brand.

Major improvements

Frabelle has made major improvements to its fish sorting conveyor systems and biomass boiler. It expanded its receiving and production, installing new packing systems and a fish oil extractor, and putting in a freezer that has doubled the output of frozen cooked loins. It also has a new 500-tonne cold room.

In addition to the pre-cooked production line, Frabelle produces raw-packed canned tuna exclusively for the French market. The plan is to launch a new line of raw tuna for the European Market. Improvements scheduled

include the use of aluminium foil packs instead of cans.

The company will also look to source packaging materials from within PNG, says Ragudos.

Onshore processing

A report from the National Fisheries Authority estimated that less than 25 per cent of fish caught in PNG waters is processed in PNG. The PNG Government has announced it will end discounting on the sale of vessel days and licenses for vessels associated with PNG processors in 2018. The new system will see rebates only given to companies for fish that is processed in PNG. It is hoped this will generate an additional 16,000 jobs in Lae, Wewak, and Madang, and would add value to the processing industry.

Ragudos says the industry has considerable potential upside. 'We believe that in time PNG will become a major tuna hub, but the industry needs massive investments from major world players and continuing local small-scale investments in support industries.' ♦

LESS THAN 25 PER CENT OF FISH CAUGHT IN PNG WATERS IS PROCESSED IN PNG.



The secrets of effective manufacturing

The sector has its challenges, but the rewards can be great.

By David James

The prospects for growth in demand for manufacturing products in Papua New Guinea are good. The country has a young population—50 per cent are under the age of 18—and a burgeoning middle class.

But distinctive skills are required to make manufacturing work in PNG. Stan Joyce, Managing Director of S P Brewery says the secrets to a successful business operation in Papua New Guinea are to form partnerships, stay

ahead of the game and be the best in your field. He also emphasises the need to take a long-term view.

‘If you’re planning a manufacturing business in PNG, you have to accept that the nice little 2–2.5 per cent growth that the economists and all those wonderful people in suits on the other side of the world want to have happen, won’t always be the case in PNG.

‘Sometimes I go to meetings and tell the bosses about a 10 per cent growth

in sales and they’re wondering how you did it. When you’ve got to explain a 15 per cent drop they want to know what you’re not doing. But you need to have that long-term view.’

Joyce believes consumer needs are changing. PNG people today are far more educated, experienced and travelled.

‘The need to offer experiences to different consumers is very, very important. I want to have something I can produce to an international



Top: Laga Industries, a subsidiary of the conglomerate Steamships.

Picture: Steamships.

Above: Stan Joyce, Managing Director of S P Brewery.

Picture: BAI

standard and I would say to anyone coming in the first time, don't try to take shortcuts.'

Joyce believes forming partnerships in PNG is 'very, very important'. That means engaging with landowners and civil society.

'Land ownership structure is one of the country's strengths. There are not too many places in the world where so many indigenous people can point to a piece of land and say: "That's where I come from". That's the starting point to look at land ownership. In PNG, we always have, and must, speak to the landowners.'

Global players

There are many global companies running manufacturing operations in PNG. One is Akzo-Nobel, a leading global paint manufacturer based in Holland. It has operations in more than 80 countries and employs over 50,000 people. The company's PNG operations are part of its East Asia operation (SESAME), headquartered in Singapore.

“ THE SECRETS TO A SUCCESSFUL BUSINESS OPERATION IN PAPUA NEW GUINEA ARE TO FORM PARTNERSHIPS, STAY AHEAD OF THE GAME AND BE THE BEST IN YOUR FIELD. ”

Another global company is Kraft Heinz, which in 1998 bought out the Hugo Canning Company, which makes corned beef products.

Steamships Trading Company, a conglomerate, operates the consumer foods business Laga Industries, which produces Gala ice cream and the Highland Meadows oil cooking range. Steamships Managing Director Peter Langslow says the company is looking

to introduce 'more new products', adding that there is 'great potential in the consumer goods market in PNG.'

Some Australian manufacturers operate in PNG. One is Rhodes, which produces pre-fabricated buildings focused on the PNG market. Managing Director Emanuel Papas believes the barriers to entry in PNG are high, which means that once a company is established it is in a position of advantage.

'It takes a while to set up, it takes a while to get your feet on the ground and the right local people in place. It is quite difficult to do business sometimes.

'Logistically, there are some very remote areas in PNG, which makes it tough to deliver on your contracts. You certainly have to keep working at that.'

Chey Scovell, Chief Executive of the Manufacturers Council of PNG, says the foreign exchange shortage is helping local manufacturers. 'A lot of the fast-moving consumer goods (FMCGs) are where the local manufacturers are really going gangbusters—and smallgoods manufacturers as well.' ♦

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Food for the future

Papua New Guinea's oldest and most important industry is transforming as the country seeks food security.

By Kevin McQuillan and David James

Papua New Guinea has fertile land and an excellent climate for farming, so it is no surprise that it is also an important aspect of the nation's comparative advantage. The agricultural sector contributes nearly 25 per cent of PNG's income, and provides income earning opportunities to more than 75 per cent of its population.

PNG produces high quality cocoa, coffee and palm oil, and there are significant opportunities elsewhere, even in mass-market crops like rice.

Steve Woodhouse, Regional Manager NGI at Farmset and host of EMTV's Farming PNG program, says PNG's farmers are high quality.

'They are innovative, having developed from hunter gatherers, to marginalists—people who grow a crop, use it and then market the excess—to full-blown farmers.'

Woodhouse says connecting with overseas markets is a challenge. 'Does a coffee grower in a small village in Mt Hagen understand what a German housewife in a

supermarket is looking for when she buys a packet of coffee in Hamburg?'

'Having said that, however, the farmers here can adapt and improve, often learning by what their neighbour does, in the Highlands especially. If it makes them a better return, the farmers will adopt new technologies.'

Woodhouse says the palm oil industry 'has set benchmarks' with its approach to sustainable and environmental standards that he says are globally recognised. 'The country was a front-runner, in terms of RSPO, a certification system that accredits sustainable palm oil production.'

He says coffee and cocoa are currently being promoted by a public–private finance arrangement by the World Bank and the Government of PNG.

Roads

Woodhouse believes the biggest issue facing PNG farmers is the state of roads and bridges, which affects the access to markets. The horticultural production of fresh food for the domestic market is in excess of K1 billion each year but losses in the supply chain from farmer to buyer can be as high as 48 per cent.

Home-grown research is also 'seriously under-financed'

COCOA PLAN

Cocoa Board CEO Boto Gaupu says the board wants to increase PNG's share of the world cocoa market by 'creating a different, farmer-shareholder business model which will move farmers from small-scale subsistence farming to running a small, profitable business, as well as profiting from the entire value chain.' He says the aim over the next five years is to have at least 20,000 farmers as shareholders.

The idea grew out of talks with farmers in the East New Britain Province. 'The farmers agreed that developing a business and concentrating on providing consistent quality products will enable them to build confidence in the market and gain an ability to negotiate improved pricing and eventually participate deeper in the value chain. The farmers will also begin to understand the link between good agriculture practices and production yield.'

and often not responsive to the true needs of village farmers. 'A number of Asian countries direct as much as 20 per cent of income generated from export commodities back into research and development. In PNG, this is nearer two per cent.'

Woodhouse says policies should conform to the cultural norms of the local area, noting that the most relevant issues vary from location to location.

'In terms of existing projects, the New Britain Palm Oil plantation/smallholder concept of a nucleus estate seems to be appropriate and should be used as an example of the way ahead.'



PNG'S FARMERS ARE HIGH QUALITY.



'With the local horticultural industry it is a little more difficult. But, where assistance is provided by the private sector with marketing, progress seems to be made. PNG farmers are adaptable and, if examples are set, they can learn very quickly.'

Trukai Industries is currently the dominant player in PNG's rice market with a 75 per cent market share. There are uncertainties about the progression of a new proposed rice policy. Despite this, Trukai Industries has decided to go ahead with the expansion of its rice growing business in PNG, according to Chief Executive Officer Greg Worthington-Eyre. ♦



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Papua New Guinea offers tourists opportunities they cannot experience elsewhere.

A hidden jewel for

By Robert Upe

Papua New Guinea has it all: from surfing remote reef breaks, to staying in jungle lodges, to watching hundreds of dolphins leap out of the water, to dancing at cultural festivals to eating freshly caught fish cooked in a fire pit.

The country's most famous attraction is the Kokoda Trail, which is a gruelling, hilly and muddy 96-kilometre journey. Trekkers follow in the footsteps of the World War II Allied soldiers (mostly Australians) who fought the approaching Japanese. More than 30 trekking companies, based in PNG and Australia, offer fully supported tours with transfers, guides and porters.

PNG was the site of fierce fighting during World War II and divers and snorkellers can explore sunken war wrecks at numerous locations.

Water

The water-based options are spectacular. Tourists can snorkel with manta rays at Gona Bara Bara Island at Milne Bay. For surfers, there is Nusa Island Retreat, a small resort with overwater-thatched cottages on an island just off Kavieng, in the country's far north-east.

There is also snorkelling over shallow-water war wrecks, and great food, including fresh-caught reef fish.

There are some superb dive options. Kimbe Bay on New Britain Island, is one of PNG's top dive resorts, and Oro Province is hot for reef and wreck diving. Or you can take your pick from kayaking, fishing, cultural tours, bird watching or immersing yourself in nature and rainforests where you can see orchids and the world's largest butterfly, the Queen Alexandra Bird Wing.

The fishing options are many. PNG's famed black bass is one of the biggest fighting fish going around. Black bass can reach 'monster' proportions, sometimes up to 30 kilograms.

They're mainly caught in rivers, or estuarine water, and the chase for them

will take you to some of PNG's most remote areas, including Lake Murray in the Western Province.

In Blanche Bay, Kokopo, spinner dolphins are regulars. They are the acrobats of the dolphin family, rising out of the water and spinning on their axis. Sometimes, there are more than 100 to be seen.

Salamaua is a gorgeous and little-known isthmus, perfect for snorkelling, diving and fishing. It is about an hour by boat from Lae and was once the capital of Morobe Province and a base for Australians during World War II.

Land

For the adventurous on land, there is volcano climbing. It is possible to scramble to the top of Mount Tavurvur, near Rabaul, and peer into the smoking crater. After crossing the barren moonscape surrounding the mountain, the steep slopes will provide a challenge.

It is daunting. There is no track, just loose rock and fissures letting out hot steam. But it is possible to make it to the top in about 30–45 minutes from the base. Go with a guide, take plenty of water, and set off early to beat the heat. Most hotels in the region will arrange guides.

Less confronting are the Crystal Rapids, which are cascades, at Sogeri, about 30 minutes' drive from Port Moresby. They provide welcome respite from the Moresby heat. Or you can try PNG's most accessible and spectacular waterfall: the Makara Falls, in the heart of Huli Wigman country in Hela Province.

Another option is to venture into jungle along the Sepik River to isolated villages along PNG's longest river and its tributaries. There are no roads, so all travel is by water. The *Sepik Spirit* is one boat that offers comfortable tours.

For nature watchers there is the famous bird of paradise, PNG's national bird. It has long been a favourite for bird watchers, explorers and naturalists, among them English



THE WATER-BASED
OPTIONS ARE
SPECTACULAR.

broadcaster David Attenborough who has had a lifelong obsession with them because of their spectacular plumage and exotic courtship rituals.

Mud Men look fearsome and ghostly, and they're meant to be. The masks, mud-smearing bodies and long bamboo finger spikes worn by Asaro Mud Men were originally adorned to scare enemies. They are from a village near Goroka and are one of PNG's icons. Outside their Highlands territory, they can be seen at various cultural shows.

Festivals

There are many festivals to enjoy. One is the Crocodile Festival, held annually

adventurers



Dividing in PNG.
Picture: Franco Banfi

at Ambunti. It brings Sepik River communities together to celebrate the cultural significance of the crocodile.

The Kenu and Kundu Festivals include canoe racing, kundu drums, dancing groups, art, craft and drama performances. The Hiri Moale Festival in Port Moresby coincides with PNG's independence anniversary.

The Mount Hagen Cultural Show is one of the largest tribal gatherings in the country, with more than 100 tribes displaying their cultural traditions through song, dance and costumes.

The Baining Fire Dance is a spectacular dance at the Rabaul Mask Festival. Masked young men perform it around a big bonfire as an initiation into adulthood. ♦

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



A FINE PLACE TO STAY

Airways Hotel is a secure oasis of luxury very close to Port Moresby's Jacksons International Airport. There are big and luxurious rooms befitting a five-star property, a day spa, and fine eating options.

The General Manager of Airways Hotel, Sushil Gordon, says increased competition will be a boost for the whole hotel sector. 'We are looking at our business very differently and seeing what we can do better.' Gordon says the challenge will be to build on the momentum of APEC. 'Hopefully, we will develop the natural resources and tourism and the natural beauty that we have.'



Vertical integration pays dividends

One major forestry company has an integrated strategy.

By Kevin McQuillan

Papua New Guinea is a difficult environment in which to operate so forestry and timber company PNG Forest Products endeavours to control all aspects of its operations, according to Chief Executive Tony Honey.

‘Management thinkers call it “vertical integration”, which simply means that we control most, if not every, stage of the process,’ he says. ‘The trend in many Western countries is to sub-contract stages of development, but that doesn’t guarantee quality—and quality is the secret to running a successful business. PNGFP’s core business remains adding value to forestry and timber products.’

New products under way from the company include: local housing, and modular engineered wood product bridges and decking, which are for either export or domestic use.

Honey says the NiuBridge System

is a comprehensive Engineered Wood Product bridge building system that is a cost-effective solution for refurbishment of existing structures, as well as new bridge construction.

Housing

The company is looking to generate more momentum, claims Honey. ‘There are two or three housing programs which we’re involved in; however, our main focus is on the Gerehu project,

situated alongside the newly opened Gerehu-to-9 Mile highway. This development has the opportunity to provide up to 1700 houses at affordable prices for the people of Port Moresby.

‘It’s now an important part of our business. Traditionally, the majority of our business has been with the mining sector and agriculture—more commercial work rather than residential style buildings. We’ve moved into residential through necessity.’

PNGFP’s exports of plywood to Australia have been better this year than in 2016, says Honey. PNGFP employs 1300 people. Its timber is sourced from sustainable pine plantations in the Bulolo and Wau area, which are managed by the PNG Forest Authority. Harvesting is carried out by PNGFP.

The plantations were established in the 1950s and cover an area of approximately 10,000 hectares. The company intends to establish its own plantation in the next few years to increase the area by a further 5000 hectares. ♦



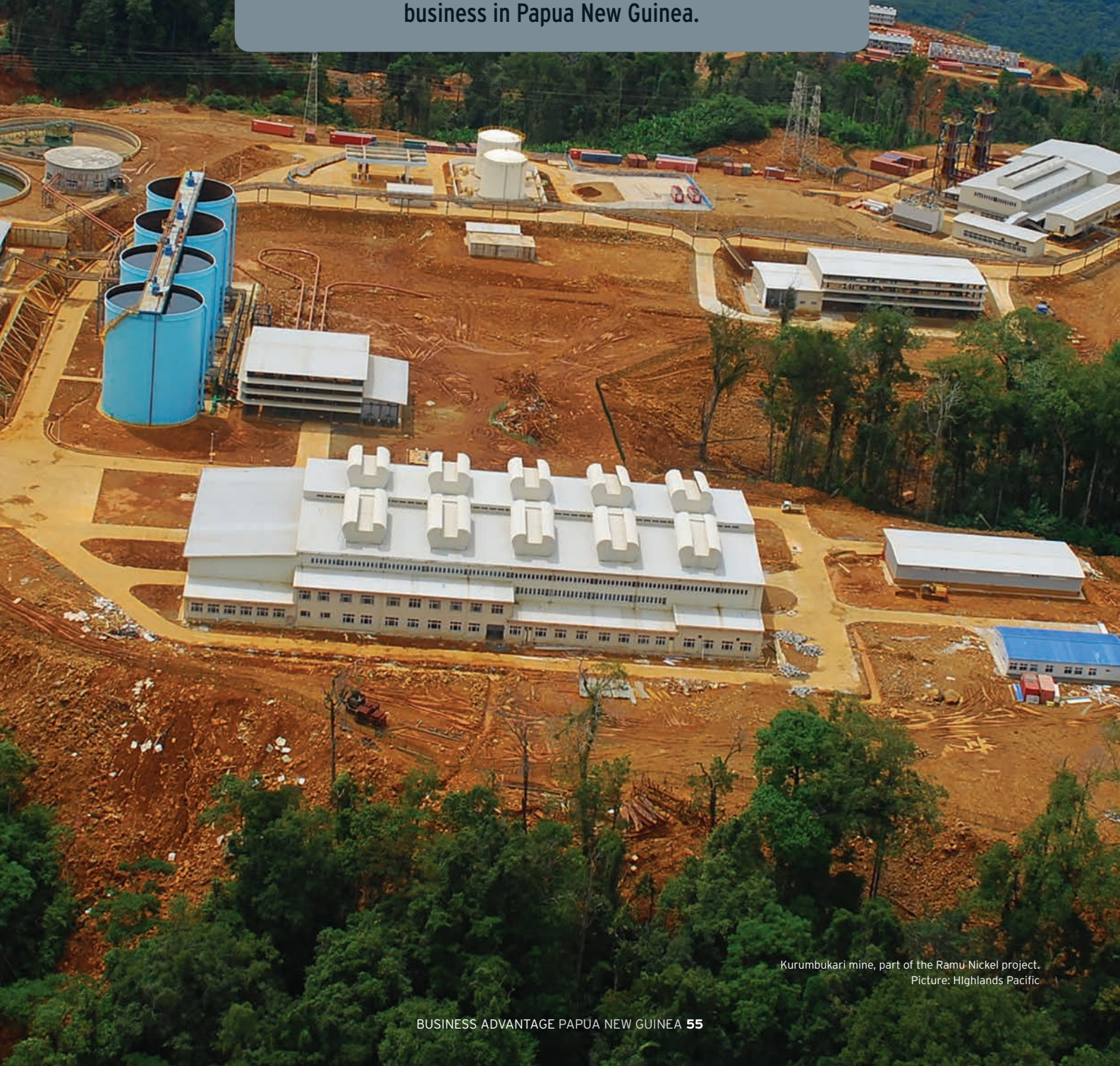
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TO GENERATE MORE
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DIRECTORY WHO'S WHO IN PNG

This directory provides some key contacts for doing business in Papua New Guinea.



Kurumbukari mine, part of the Ramu Nickel project.
Picture: Highlands Pacific

Bulk cutter at Nautilus Minerals.

Picture: Nautilus Minerals



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

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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). The World Bank produces the *Papua New Guinea Update* twice yearly. ANZ Research also produces the *Pacific Monthly*.



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+675 321 7711
www.newcrest.com.au

Oil Search Limited
www.oilsearch.com

Ok Tedi Mining Ltd
www.oktedi.com

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
http://www.tpa.papuanewguinea.travel/

INFRASTRUCTURE/TELECOMMUNICATIONS

Bmobile-Vodafone PNG
www.bmobile.com.pg

Digicel PNG
www.digicelpng.com

International Container Terminal Services Inc (ICTSI)
www.ictsi.com

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

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

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

DIVERSIFIED INDUSTRIAL GROUPS

City Pharmacy Ltd (CPL)
www.cpl.com.pg

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

Steamships Trading Company Limited
www.steamships.com.pg

BUSINESS & GOVERNMENT ORGANISATIONS

Asian Development Bank
+675 321 0400
www.adb.org

Australian Trade Commission (Austrade)
+675 325 9150
www.austrade.gov.au

Australia-Papua New Guinea Business Council
www.apngbc.org.au

Business Council of PNG
+675 320 0700
www.bcpng.org.pg

Business & Professional Women's Club of Port Moresby
www.bpwpng.org

Kumul Consolidated Holdings
www.kch.com.pg

Institute of National Affairs
(Industry-funded think-tank)
+675 321 1045
www.inapng.com

International Finance Corporation (IFC)
+675 321 7111
www.ifc.org

Investment Promotion Authority
+675 308 4444
www.ipa.gov.pg

Lae Chamber of Commerce & Industry
+675 472 2340
www.lcci.org.pg

Manufacturers Council of PNG
+675 321 7143

Papua New Guinea Chamber of Commerce and Industry
+675 321 3057
www.pngcci.org.pg

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

Port Moresby Chamber of Commerce & Industry
www.pomcci.com

World Bank
+675 321 7111
www.worldbank.org/en/country/png



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