



# MADE IN PNG

## SPECIAL FEATURE

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# MADE IN PNG

## SPECIAL REPORT



In this *Paradise* special report, we take a look at PNG's manufacturing sector. A small part of the country's economy is busy at work producing a range of products that showcase the best of PNG, including coffee, beer, chocolates, honey and other foods. In other areas, such as steel production and building supplies, the sector provides a variety of local jobs.



PNG at work ... (clockwise from top) Queen Emma chocolates; art beer cans by SP Brewery; rice by Trukai; fish set for dispatch at RD Tuna; building materials at Monier.



# On the rebound

*David James reports that things are looking up for PNG's manufacturing sector.*

**M**anufacturing in Papua New Guinea is comparatively small, but it is vital for the country. The sector only contributes about three per cent of Papua New Guinea's GDP, but according to the Government's 'Medium Term Development Plan' (MTDP) it employs about half of the people in the formal sector in the country.

A strong manufacturing sector is thus crucial for developing the economy and stimulating broad-based economic growth.

Most manufacturing in PNG is built off the country's strength in agriculture and resource-based industries. The largest manufacturing export commodities are palm oil, processed tuna, copra oil, processed timber and refined petroleum and LNG.

The MTDP notes that "the promotion of the manufacturing sector's contribution to economic output should have the highest impact on job creation".

The National Government has adopted a strategy of broadening PNG's industry base to reduce the impact of volatility in the resources sector. The aim is to move the economy from its dependence just on primary industries into higher value-added processing industries.

Chief executive of the Manufacturers Council of Papua New Guinea, Chey Scovell, believes that boosting PNG's manufacturing industry is essential to achieve greater diversification in the economy. "The more value added you can do, the better. If you are talking agriculture, for example, value adding is critical."

There have been moves to protect manufacturing in PNG better. According to a study by the Australian National University (ANU) '2018 PNG Economic Survey', the 2018 budget introduced legislation that increased about 250 tariffs; 600 decreases were abandoned. "On average, the tariff increases were moderate (about 7 per cent), but there were some substantial increases," the ANU report says.

Tariffs were increased on clothing, household and consumer items, and some processed food, such as ice cream.

Scovell says the changes to tariffs over the last two years have resulted in better protection for PNG manufacturers.



**Chey Scovell ... says changes to tariffs have resulted in better protection for manufacturers.**



## On the rebound



In for the long haul ... fishermen at work for RD Tuna.

“Those tariff reforms have resulted in significant investment, including re-capitalisation of existing manufacturers, like Coca Cola and Pacific Industries and Paradise Foods. There has also been a whole number of new entrants. American Cola, the soft drink brand, took up a chunk of the market.

“They are actually building two manufacturing plants, one in Port Moresby and one in Lae. Lae Biscuit Company is about to open up a huge noodle manufacturing line. We will have another big noodle manufacturer in PNG.”

Scovell says Goodman Fielder is also increasing its investments, including building a new flour mill.

Some companies are also experiencing natural growth in demand. For example, Vijay Kumar, general manager of Poly Allied Products, says the household market for his products is growing.

“The end-user is happy to use Poly Pipe instead of copper pipe for water supply. Mining sector demand is also going up.”

There are also examples of PNG manufacturing companies globalising their production. New

Britain Palm Oil, PNG’s biggest palm oil producer and largest private employer, has a refinery in Liverpool, England. Almost all of the company’s output goes to the European Union.

It is not just tariff policies that have been altered. There have also

Scovell says these changes have had a galvanising effect. “What happened in the past is that most of the fisheries located in PNG were a type of dual-structure business. They had a fishing company and a canning company and the subsidy was being applied to the fishing.”

“

Better prospects in the oil, gas and mining sectors will affect manufacturing. The prospect of some big projects starting, such as the Total-led Papua LNG project, have got a lot of people excited.

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been changes to subsidies that have affected manufacturing. The ANU report says in 2017, the PNG Government announced that all fish caught in PNG waters would have to be processed in PNG, and that its existing policy of subsidised fishing in PNG waters, in return for some processing, would be replaced by a rebate for fish processed in PNG.

Scovell says before the legislative changes, some companies used the subsidy to provide cheap fish to their overseas operations, only processing a small proportion of the catch – as low as three to five per cent. One exception, he says, was RD Tuna, which used to process about 75–80 per cent of its catch in PNG in the peak season.

“Now, it is a rebate based on the volume that you produce – that you process (manufacture). Within six months we saw a doubling of the output on the process side and now we are seeing between two and three times (the pre-change subsidy level).

“They have gone from running one short shift a day to running two or three full shifts. Some of them have gone to almost 24-hour production. That has been a huge success, creating more labour and revenue.”

Erwin Ortiz, general manager of RD Tuna Canned, says one challenge for the company is exporting to international markets apart from Europe. “This has been a recurring concern that we are determined to overcome,” he says. “Target marketing and niche promotions can be implemented to be able to attain our aim of a wider local customer base.”

Infrastructure shortcomings remain a challenge. Melinda Ragudos, general manager cannery, for Frabelle PNG Limited, says the road between the company’s facility in Lae and the wharf is in bad condition.



**On the rebound**

"Utilities are an ongoing challenge in terms of both reliability and price."

But she says the company nevertheless remains committed to PNG. "We have raised our production levels this year and are planning to increase our capacity."

Scovell says better prospects in the oil and gas and mining sectors will affect manufacturing.

He says the prospect of some big projects starting, such as the Total-led Papua LNG project and the proposed copper-gold mine Wafi-Golpu, have "got a lot of people excited, particularly in the construction and housing sector as well as the FMCG (Fast Moving Consumer Goods) sector".

Scovell notes that, with the establishment of a ministerial

oversight committee for these projects, progress has been sped up. The hope is that work will start on some of the resources projects towards the end of the year.

"That is going to be huge; it is some of the early spend. I am also buoyed by the fact that the government is saying there must be a heavy weighting towards local content, particularly on the early spend."

He adds that he is "not hearing resistance" to using local providers, whereas with previous projects contracts were given to people outside the country.

Michael Kingston, chief executive of diversified manufacturer KK Kingston and an economist, believes PNG must be careful in the way it approaches resource booms.

He says resource-driven growth tends to coincide with an increase in the wealth gap between those who have and those who have not.

"In countries that develop using a different model – we can look to East Asia where manufacturing has been a driver and could equally be a driver in PNG – the approaches to development tend to be far more inclusive."

"In economies that have followed the path of import substitution industrialisation; followed by export oriented industrialisation; followed by domestic consumption driven growth, one usually sees a much more even distribution of rewards and economic benefits."

"My concern is that the boom that is going to happen with Wafi-Golpu and Total (the Papua LNG

project) may make our government once again see dollar signs associated with resource-driven growth, and forget manufacturing and agriculture – which are the biggest employers in the country."

"The changes they have made to fostering manufacturing are long overdue. I hope that they continue to stick with those policies."

Another boost to prospects in the manufacturing sector is the establishment of the Papua New Guinea Electrification Partnership (PEP) in the 2018 APEC meetings, which were hosted by PNG.

"One of the issues is you can build all the infrastructure, but how can you do it on a commercial basis? The PEP gives grants to build infrastructure even in areas where you don't have the business case to justify financing it." ■



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VITIS INDUSTRIES LIMITED started to produce new food product - Mosin Fresh Coffee Flowers Honey. This honey made in Mosin Hills estate at Wau, Morobe province, where we have 400 honey bees hives.

Honey bees help to pollinate coffee flowers on our coffee plantations and to increase coffee harvest. This honey has dark deep brown colour, dense body and strong flowers taste.

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Remember that natural honey is good for your health.

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# ALL LOVE FOR LOCAL

Give the best to be the best. This is the principle that drives Dolly Tuna, Papua New Guinea's leading tuna brand, which operates on the idea that preparing and serving top quality tuna means leaving nothing to chance. From casting their nets down to exporting their cans, RD Tuna Canners Ltd., Dolly's flagship company, has spent over two decades adhering strictly to international standards to ensure that every household gets only the freshest fix of tuna.



RD Tuna Canners Ltd. has received certifications from the Marine Stewardship Council, the British Retail Consortium, the International Food Standard, the International Standard Organization of Food Safety Standard, and the National Fisheries Authority. In addition, it is also the biggest exporter of Papua New Guinea-made tuna products to Europe, the Middle East, and selected areas in Asia, allowing it to contribute to the country's dollar reserves.





Proudly made in PNG, the number one tuna brand, Dolly, has been around since 2005. Dolly Tuna is responsibly fished by RD's Group of fishing fleet, to keep both the consumers and their natural environment protected and preserved. It is properly loined, canned, and is now packaged for easier consumption, because RD Tuna puts a premium on their customers' best interest just as much as they value producing Papua New Guinea's best canned tuna.

With every can of Dolly Tuna, you not only get quality tuna and a handful of its health benefits such as improved blood circulation and reduced obesity risks; you also get the added satisfaction of knowing you have supported the biggest employer of Papua New Guinea nationals in the fishing sector. Prepared and sold by a growing team of around 3,000 RD Tuna and RD Fishing directly employed Papua New Guineans, Dolly, like other RD Tuna brands such as Dolores, Diana, and Diana White, truly loves local, and invites everyone else to do the same.



# CHOOSE THE BRAND THAT CHOOSES YOU.

CHOOSE 

“

Things are generally in a better place for the first quarter of 2019.

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## Brewer says things are looking up

Being a manufacturer in Papua New Guinea means managing cycles, according to Stan Joyce, managing director of SP Brewery, PNG's oldest brewer. He is expecting economic developments to start turning in the sector's favour.

"Things are generally in a better place for the first quarter of 2019 than they were for most of 2018, and 2017," he says. "The re-set in the market – the adjustment to the availability of foreign exchange, the adjustment to weaker consumer demand – has, in the main, started to wash itself out. Most people are now preparing for a better future."

In an effort to partially reduce its need for foreign exchange to purchase internationally, SP Brewery has started producing its own starch using cassava crops. It has also established a flour mill in Lae.

Joyce describes the move as small steps only, but he believes

it is sound long-term strategic positioning. "It gives us a better sustainable footprint. In the longer run, the things that we have seen happen in the last four or five years will happen again in four or five years' time. That cycle just occurs."

Joyce believes protection of manufacturing industries using tariffs can be positive, provided it is implemented on a case-by-case basis. "There is an argument that can be made for these things. If you have the right safeguards and the right incentives given, with the right obligations from all the stakeholders, it can be a good thing."

Joyce says his company has investors who take a long-term view of the economy and are

Stan Joyce ... expects economic developments to turn in favour of local manufacturing.



prepared to "put away some for a rainy day". He notes that SP Brewery has been in PNG since 1952.

"We continue to have a very positive view of what the poten-

tial is, and the future of the country. We look forward to working with those in government and those people who are interested in developing the sector." ■

– DAVID JAMES

## Cheers to local art

SP Brewery has launched a series of art beer cans. The Export Art Series cans have been

devised from a nationwide design competition that attracted 500 entries last year. Twenty-two winning designs, from

each province, were selected. SP Brewery marketing manager, Josh Wheeler, says the aim is to "celebrate the best of PNG

through our great culture, land, agriculture, people and, of course, our indigenous arts and designs". ■





Trukai is proud to deliver to you the finest locally grown long grain rice in PNG. Trukai Hamamas Rice is grown in Rangiampum, Umi, in the Markham Valley and milled and packaged in Lae, Morobe Province.

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# Tariff changes positive for PNG

Controlling costs and adapting to trends in the market are key to success, says Michael Kingston, chief executive of diversified manufacturer KK Kingston.

He says that changes to tariffs have encouraged overseas manufacturers to invest in PNG.

"A lot of companies are looking at manufacturing locally, whereas previously the trend was the opposite – people were getting out of local manufacturing and offshoring.

"Some of the tariffs have had an impact. Until recently, we were probably the last domestic bottler of cooking oil left. Now there are four, maybe five, who are bottling locally."

KK Kingston is diversified. It wholesales products directly to customers and also produces Fast Moving Consumer Goods (FMCGs), which are sent to retailers.

He says currently the FMCG sector is experiencing the fastest growth.

Kingston says the likely start up of new resource projects, such as the proposed gold-copper mine Wafi-Golpu and Papua LNG, will positively affect his business.

But he has learned some lessons from the last boom and is keen to avoid previous mistakes, when he allowed the "cost base to grow too quickly and we over invested in assets and capacity that we didn't really need and we took

on too much debt in anticipation of sustained growth that didn't eventuate".

This time, he is aiming to keep his overheads constant, or even reduced. "I am focusing keenly on producing products at a lower cost per unit than previously by trying to do more with less." He is avoiding additional investment, reducing debt and looking to eke out more efficiencies and more productivity from the labour force, and "the assets we currently operate". ■

– DAVID JAMES

Michael Kingston ... says adapting to trends is the key to success.



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“

The porter is my favourite beer. It is strong, with a dense body, sweet, with a rich hops flavour, some hint of vanilla and a dark rich colour.

”

## PNG boutique beers winning international awards

Since venturing into the boutique brewery market three years ago, Vitis Industries has expanded its range of beers and won medals at two international competitions. General manager, Sergey Mosin, says five new beers will go on sale this year.

Vitis' brewery is only the second (legal) brewery in PNG.

From selling just two beers three years ago, Vitis is now selling 12.

“Our sales are good and constantly growing. Our current production is not big and all produced beers are sold. We have our own two bottle shops in Port Moresby and one bottle shop in Wau,” says Mosin.

The range is also sold in some supermarkets.

Mosin says his brewery uses batch-brewing, a method often used these days by boutique breweries, which produce a traditional style of beer.

“It takes about 60 days to complete the bottling process,” he says.

“This method guarantees high quality and outstanding taste. As a result our beers won medals in the Berlin International Beer Competition in 2019 and the Melbourne Beer Competition in 2019.”

The most popular beers are Classic Lager, Imperial Porter and Wheat Ale.

Last year he added Imperial Porter, Wheat Ale, Pilsner Ale, Honey Lager, Pineapple Lager and this year he expects to produce Margarita Lager, Cherry Lager, Orange Lager, Blonde Ale and Coffee Stout.

The most powerful, he says, is Imperial Porter, a strong traditional style with 9.5 per cent alcohol.

“It follows the old tradition of Irish and Baltic stouts and porters made from Australian malts.”

“The porter is my favourite beer and reminds me of my young days in the USSR. It is strong, with a dense body, sweet, with

a rich hops flavour, some hint of vanilla and a dark rich colour.”

Brew master is Phil Magic, who has worked in various breweries in Australia and New Zealand.

“The main idea behind the manufacturing of our range of spirits and liquors is to utilise locally grown agriculture crops and convert them into valuable and long-lasting products,” explains Mosin.

As well as packaged drinks, Vitis owns a 1200-hectare agriculture estate with coffee plantations, vanilla plantations and honey bees at Wau in Morobe Province, which produces 100 per cent Arabica coffee, vanilla essence and natural honey.

“We produce green coffee beans for export, as well as roasted coffee beans, drip coffee, instant liquid coffee and coffee capsules for Nespresso coffee makers,” says Mosin.

Overall, the company employs about 1000 people. Five hundred are employed at its Nine Mile factory in Port Moresby, including in the brewery section. Another 250 permanent staff work at the Wau estate, where 300 seasonal staff are also employed. ■

— KEVIN McQUILLAN





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