



LAE BUSINESS GUIDE

SPECIAL FEATURE



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 **Business**Advantage
INTERNATIONAL

Economic sentiment on the rise

David James reports that there are positives in the Lae economy, despite some bumps in the highway.

Lae ... PNG's second-largest city is an important industrial hub.

Lae, in Morobe Province, is Papua New Guinea's second-largest city. It has a history as the industrial centre of the country. It has PNG's biggest port and is the terminus for PNG's longest and most important arterial road, the Highlands Highway.

The Asian Development Bank has announced plans for a 10-year project to upgrade the highway, which will especially benefit the region's many smallholder farmers.

The PNG National Government has committed funds to upgrade Lae's Nadzab airport and work has also started on expanding the road between the airport and Lae city.

John Byrne, president of the Lae Chamber of Commerce and Industry, says there are positives in the economy, however it has been

"static" recently, partly because of foreign exchange shortages.

"Lae has been caught up in the foreign exchange issue like most businesses have. A lot of importers

times. There has been more investment in the Markham Valley with Trukai doing the rice fields, cassava for SP Brewery and sorghum through Mainland Holdings.

“

One of the most important developments for Lae is the \$US9 billion (PGK30.5 billion) Wafi-Golpu copper-gold project.

”

have been hit very hard," he says. "You can see it in the supermarket shelves. They have to balance what they are bringing in and not bringing in. Products that you have seen previously are not there."

Byrne points to the positives. "Agribusiness has grown in recent

It is import replacement, as much as it is about the need to support the local economy and also the need to satisfy government requirements.

"We are a food bowl and if we can do it locally it makes sense. I don't believe there has been a

massive reduction in terms of the shipping coming in and out. The numbers are pretty static. As for the economy itself, most people are saying it has been consistent for the last 12 months or so."

One of the most important developments for Lae is the \$US9 billion (PGK30.5 billion) Wafi-Golpu copper-gold project. The government signed a memorandum of understanding with Newcrest Mining and Harmony Gold last December. There is an application for a judicial review of the agreement with the National Court, but exploration work under the project's exploration licence is continuing.

Michael Kingston, managing director of KK Kingston in Lae, is optimistic about the impact of Wafi-Golpu going ahead. ➤

PICTURE: MILEN STILYANOV





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Economic sentiment on the rise



Down to business ... the post office in Lae (above); making the sparks fly at Hornibrooks (right); part of the town's industrial sector (below); Michael Kingston (below right).

"There is a general air of improved sentiment around Lae, due to the expectation of activity from Wafi-Golpu and flow-on economic activity."

He points to other positive developments. "There are a number of new major developments under construction, including a large new production facility being built by Goodman Fielder, and the ongoing rebuilding of Angau Hospital. Most players that I speak to in the construction and industrial sectors are positive and reporting improved business performance," Kingston says.

He believes that the problems associated with foreign exchange liquidity have "eased", making international trade easier.

"The fast-moving consumer goods (FMCG) market remains tight, with most wholesalers and

retailers reporting reduced sales volumes versus 2018. And there is increased competition.

"Most players in this market segment would say that business conditions are very tough, but this is not surprising to me as



traditionally there is some stickiness in flow-on effects from increased activity in the industrial and construction sectors through to the general consumer sectors."

Lae is situated next to the Markham Valley, whose fertile soils give it the potential to be an agribusiness exporter. But the infrastructure needs to be developed for this to occur.

Byrne says the Lae—Bulolo—Wau Highway is an important conduit for business and mining, but is badly in need of upgrading.

He says it is vital to many small-scale coffee, cocoa and produce growers who are impeded from exporting their produce or coming down to market. All the offshoots off the Markham Highway also require work, he says.

"If we get those roads built I see more smallholders getting better business principals and planning, which benefits the economy as a whole."

The International Finance Corporation, a sister organisation of the World Bank, is working on a plan to develop a business model that will suit local producers in the Markham Valley.

Lack of infrastructure can be turned into a business opportunity. That has



been the approach taken by the Lae-based Papua New Guinea Forest Products, which, needing to develop its own power, has become both a forest products company and a power producer. (See our story, Page 114.)

High crime rates have been a challenge in the past in Lae, but Kingston believes there have been improvements.

"Law and order is probably the best it has been in years, which I think is a combination of improved employment and tougher policing. There is a very marked reduction in violent crime. Lae feels like a much safer place than it was a few years ago." ■



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Economic sentiment on the rise



Fresh horizons

NKW Fresh, a division of the landowner-owned conglomerate NKW Holdings, is providing fresh produce across PNG and is aiming to export in the region.

David Stewart, divisional manager for Fresh Produce in NKW, says that the company has a moral duty to develop some economic opportunities for surrounding communities post-mine life for the Hidden Valley Mining Project in Wau.

NKW's fresh produce business was established in 2014. It was created to complement NKW's catering services, and as part of a diversification strategy.

NKW Holdings provides services to the mine project. Its operations include construction, consulting, catering, transportation and project management.

The company employs over 1000 staff and has a net worth in excess of PGK200 million.

NKW's Fresh division sources produce from local smallholder vegetable farming households, which is then supplied to its

“Many farmers are now earning in excess of PGK50,000 a year.”

catering service and other markets, including supermarkets and catering companies.

NKW Fresh buys 60 metric tonnes of fresh produce each month and deals directly with smallholders, rather than traders, in order to include local farmers.

“We now have the only effective cold chain (refrigeration) for fresh produce in PNG,” says Stewart.

“We run two eight tonne refrigerated trucks up and down the Wau road in Hidden Valley coming back into Lae.”

Developing sufficient scale remains a persistent challenge, according to Stewart.

“I often have to say to farmers: ‘I don’t want to buy six watermelons at five kina each’. We are not looking at the subsistence level; we need to bring the farmers into the commercial level.

“I want to buy a ute-load of watermelons and give the farmer PGK100,000 a year.”

Stewart adds that many farmers are now earning in excess of PGK50,000 a year.

“Three to four years ago, it would have been less than PGK5000 a year,” he says.

Stewart believes it is necessary to improve the supply chain if the division is to develop new markets.

“We can’t just keep putting on farmers. At some stage what we need to be doing – and we have been trying to do this in the last

six months – is developing those farmers’ personal capital.

“They need to start putting money aside for mechanising, and asking: ‘How do I make sure I get that amount again?’

“It is that personal capital that creates the disciplines that will produce a sustainable supply arrangement into our markets.

“And it is starting to happen. We have got farmers starting to buy machinery, we have got farmers who are not spending their money but putting it aside for the bank.”

The aim, says Stewart, is to export fresh produce from PNG into the South Pacific, Australia, Singapore, even into China.

“That idea is very high on our radar – if it doesn’t remain high, then we don’t have goals. If we don’t have the goals, then we won’t put the right systems in place and we won’t keep pushing.” ■



Fresh horizons

An eye on rice

Trukai Industries is pushing ahead with rice growing in the Morobe region.

Greg Worthington-Eyre, chief executive of Trukai Industries, says there are significant opportunities for rice growing in the Morobe region. "We have done a lot of soil testing looking for a location," he says. "We have narrowed it down to a few places and have determined

that 14 per cent of the land mass is suitable for rice development."

Most of the suitable land for rice, which requires a clay-based soil structure, already has had oil palm on it, for many decades in some cases, he says.



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Fresh horizons

"We nailed it down to Morobe Province at a place called Ube, towards Goroka. We found a village prepared to work with us to establish the first commercial rice production."

Geographical proximity to markets remains an issue.

"You couldn't just do it (rice growing) anywhere because once you grow it, what do you do with it?"

In 2016, says Worthington-Eyre, Trukai launched Ube as the first commercial site for rice development in PNG, planting 280 hectares. In the first harvest, in 2018, the yield was not as good as hoped. "We had problems with pest management – a little beast called brown hopper."

Worthington-Eyre says the company has substantially improved its

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Yields on the recent crop, he says, were up between 3.2 and 3.4 times that of last year.

Port handling charges in PNG have risen sharply, he says.

"When people talk about moving product around the country, and even to import or export, you have got to get through some of the highest charges in the world for port management facilities – which I think dilutes value and dilutes the opportunity."

"It is fantastic if you have \$US5 million dollars in your container but if it is less than \$US100,000 you have to question whether it is worth pursuing."

Developing good relationships with the landowners represents

another challenge. Worthington-Eyre says one of the major constraints the company faces is dealing with land titles.

"When you have villages that have been owned under customary title and then all of a sudden something happens with that land, then all and sundry come out of the woodwork looking for a slice of the cherry."

"That often forces land disputes and everything then gets locked up in the court system."

Worthington-Eyre says the company comes in and pays for everything: seed, infrastructure, herbicides, pesticides, land preparation and harvesting. ■

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In for the long haul

Logistics company iPi is investing from its reserves to improve its future capabilities.

The iPi group is a diversified provider of logistics solutions that started operations in Papua New Guinea in the early 1980s. It was initially associated with

the Porgera gold mine, but chief executive Scott O'Reilly says it then diversified its operations through synergies, providing more services to its existing clients and geographic diversification.



"We have managed over the years to prove our worth around the country and beyond," he says. O'Reilly says the company has faced significantly tighter trading conditions since the end of the

build phase of the PNG LNG gas project in 2014-15. "The ongoing tightness with foreign exchange causes daily issues, and this flows through to client business as well. "The net effect is a market driven



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**Diversified ... iPi at work;
chief executive Scott
O'Reilly (in orange jacket).**

strongly on price sensitivity. This is not always the ideal condition when innovation, efficiency, proactivity and extreme attention to quality are a focus for us.

"It is obvious that to invest back into business efficiencies requires the finance to do so, and in a very price-sensitive market that can be a challenge.

"We are taking a longer-term view by continuing to invest from our reserves so as to better our capabilities."

O'Reilly says in a diversified business, operational challenges can vary. "It is different depending upon whether it relates to trucking, to warehousing, to catering, to property management or to hotel operation."

We have managed over the years to prove our worth around the country and beyond.

The difficulties obtaining foreign exchange have become "a real cost to doing business" he acknowledges. But he believes the company has enough capital reserves to withstand the stresses. "We see the (foreign exchange problems) as a competitive barrier to entry for those who might challenge us."

O'Reilly says he is looking for growth to come from improvements to internal efficiency, synergistic expansion and further diversification. "We will look to do

what we presently do, but better; we will look to offer more services to existing clientele, and we will look to diversify, either through tender or purchases of businesses.

"I am a believer in growing from a core rather than opportunistic growth and so any moves will fit within a model of building from a stable, well resourced core rather than pursuing an operational direction that is previously unknown to us."

O'Reilly is proud of what the company has achieved, especially

its partnering with the Porgera mine in building an airstrip, the fly-in-fly-out accommodation village, and supplying all the bricks for the underground tunnelling. The company has offered financial support to rugby, church groups, schools and for medical needs.

"We have created bursaries that provide ongoing educational support," O'Reilly says. "We've placed females into once male-dominated areas and we've supported women in business.

"We've provided dividends, year in and out, to give a future for many thousands of our people – through trading periods that were buoyant, and through trading periods that are extremely difficult." ■



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