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2013 — The Year of Implementation

In what is being hailed a pivotal year in Papua New Guinea's impressive economic rise, the government is ensuring Japanese investors find win-win partnerships in the land of plenty.

The largest country and economy in the Pacific Islands region, Papua New Guinea — PNG for short — is home to many natural treasures, including gold, oil, gas, copper, silver, timber and abundant fish stocks.

Growth in 2012 reached 9.2 percent, according to the Asian Development Bank, on the back of continued strong macroeconomic management in recent years and a determined, pro-business government.

With a land area 1.2 times the size of Japan, and a coastline of more than 5,000 kilometers, PNG presents hordes of untapped business opportunities for the savvy investor.

Agriculture, mining, petroleum and gas, fisheries, forestry and manufacturing are the key industries beckoning investors, but there are also openings in building and construction, telecommunications, retail/wholesale, tourism and business services.

For Japan, close proximity to the islands — PNG's capital Port Moresby is just a 6.5 hour flight from Tokyo — a long-shared



Peter O'Neill
Prime Minister

tion and health, which includes the valuable support we receive from the Japan International Cooperation Agency (JICA) and other Japanese institutions.

"Fundamentally, we aim to build on what we already have: We have very strong business links with Japan and Japanese companies have made huge investments in PNG. The Japanese are in fact our second-largest investors, after Australia."

During the visit, Prime Minister O'Neill also announced PNG's ability to become a strate-

so we can build on the existing supply lines we have."

He added: "The Japanese have a very long history with Papua New Guinea and should build on those historical links. We would like to encourage the Japanese to come and build shrines for the soldiers who lost their lives during World War II.

"We welcome the opportunity for them to come and pay their respects to those who were not able to make it home. We invite the Japanese to come and explore the huge tourism opportunities in Papua New Guinea. We have some of the most beautiful and pristine beaches in the world.

"There is huge potential for the Japanese to come to PNG and engage on a people-to-people level, and we have initiated discussions to expand our air transport links to encourage more Japanese visitors."

A stable environment

Former businessman O'Neill, who came to power in August 2012, has pledged to crack down on corruption as part of his mandate, and the national

environment and building the infrastructure that will enable growth in our economy. We have introduced free education — [the country's literacy rate is just over 50 percent] — and have allocated the equivalent of 16.1 billion yen to fund a free health care program.

"We also have plans to roll out a comprehensive infrastructure program, central to which is the rehabilitation of the highlands highway. There is already a huge acceptance of these policies not only by our people, but by our business partners and the international community."

As the country has proven during the global financial crisis, when GDP actually grew, PNG's economy is a resilient one, thanks to mobilized savings. Over the past decade, more than 70 billion kina (3,220 billion yen) flowed into the state's coffers, while five consecutive budgets recorded surpluses of more than 276 billion yen.

"Unfortunately, there is little to show for all this wealth, but I believe we have begun to lay the foundation for growth," O'Neill says. "Our strategy now is to invest substantially in infrastructure. That will not only provide the opportunity for the economy to grow, but will also provide employment for our people. The government has taken very decisive action in investing in key infrastructure, such as roads, ports and airports."

Diversifying the economy

At the same time, it is diversifying investment to sectors like tourism, where there are a package of incentives and tax breaks planned.

"This is a key industry that has the potential to employ thousands of people," O'Neill continues. "Alongside this, we have a very small agricultural sector that we believe can grow into a significant industry if we take the lead in providing easy access to credit and better



Parliament House

support in terms of management and accounting.

"We are also currently securing investment in a number of projects in both the petroleum and mining sectors."

O'Neill also hopes to make a difference on a regional level. "We are taking a very proactive role in leading economic developments for the Pacific Islands through better security arrangements and deeper cooperation between people," he says.

"We believe the growth we are experiencing should also benefit our neighbors in terms of labor mobility. Countries like Fiji have the skilled population that we need, so we are lifting some of the labor restrictions here to enable them to come and work.

"We are also encouraging our own local investors to expand to these markets because the consumer bases share a similar behavior. In addition, PNG products are more easily accepted in markets like the Solomon Islands, Fiji and Vanuatu because of the similar ethnic

groupings. Our objective is to integrate all of these economies together so we can become a strong consumer base."

The response from the international community to the new administration has been overwhelmingly positive, O'Neill states.

"Business confidence from current and potential investors has never been higher, and higher confidence is driving investment. PNG is one of the only countries in the world that is retaining very high returns on investment for any investment in any industry.

"The opportunity is there for investors. We understand the challenges that people face in the transition from a village to an urban society, and all in all, by the time we have finished, I hope we leave behind a future of which our children can be proud."

For Gabriel J.K. Dusava, CBE, PNG's ambassador to Japan, the country's relationship to Japan can be characterized by an intensity in business develop-

ment, cooperation and human resource development through JICA. "This will complement the Investment Promotion and Protection Agreement, signed in 2009, and give assurance for greater and more ready Japanese Investment in PNG," he says. "It will ensure that Japanese investors do not get taxed again in PNG for an aspect of their business that is already taxed in Japan."

The \$23 billion PNG LNG project, in which Japan, through JX Nippon Oil and Marubeni has a 5 percent equity share, has had an immensely positive impact, both on bilateral relations and on PNG's national economy, which is expected to grow annually by 6 percent in the medium-term.

"PNG is extremely well placed to continue to be a strategic supplier of Japan's energy needs and the PNG LNG project has a second and third train, during which several other projects, especially the ELK and Antelope Wells (called the Gulf LNG project) with InterOil will come

onstream in the near future," Dusava says.

A unique economy

As Treasury Minister Don Polye says: "PNG is a very small economy. Our GDP this year is 34 billion kina, equivalent to \$16.5 billion, but we have a land area of more than 640,000 square kilometers that is blessed with resources. We have petroleum and gas, and more is being discovered by the day. We also have virgin forests; we are one of the last frontiers preserving the lungs of this planet, and furthermore, PNG has one of the broadest biodiversities in the world.

"PNG is a mixed society trying to move from a traditional culture to a more modern one. We are on track to being one of the most successful ethnically and culturally homogenous modern societies in the region.

"We have our own set of unique socioeconomic factors and cultural history, therefore our economic progress will take its own path."

"Fundamentally, we aim to build on what we already have: We have very strong business links with Japan and Japanese companies have made huge investments."

Peter O'Neill, Prime Minister

history and strong bilateral relations make it an even more attractive prospect and the government is keen to get Japan involved in what PNG's Prime Minister Peter O'Neill terms "a critical stage in PNG's development as a nation."

Following an official three-day visit to Japan in March, Prime Minister O'Neill told Global Insight: "We felt a warm welcome by the Japanese government, which was evident in their level of engagement with us.

"Our strategy is to develop trade and investment and encourage further cooperation in educa-

tion and health, which includes the valuable support we receive from the Japan International Cooperation Agency (JICA) and other Japanese institutions.

"We appreciate the pressures Japan faces, and the existing contracts we have drawn up with them reflect this. Approximately 50 percent of our total liquefied natural gas (LNG) will go to Japan. This caters for close to 20 percent of the electricity grid capacity for Tokyo.

"As we have become a very secure supplier of Japan's energy requirements, we now have an opportunity to expand on that. Japanese energy companies are working closely with our own

budget for this year is the largest in the country's history.

"Our aim is to provide a stable political environment where our people can enjoy a better standard of living due to good government policies that deliver," he says. "We aim to offer stability in public services through continuity in the leadership of this country. We have had strong economic growth over the past 11 or 12 years; now we have to convert those gains for the benefit of our 7.1 million people. We are currently investing in different areas, such as health, education, the maintenance of a secure

Building a nation of healthy entrepreneurs

Don Polye, PNG's Treasury Minister tells Global Insight about measures being taken to empower the people of Papua New Guinea.

"The most important resource we have here is our people; they are extremely intelligent and innovative and they live in one of the most pristine environments in the world."

And, the Treasury Minister adds, this year's budget is going a long way to raise the standards of living for local people, while improving their skills for business.

"To empower our people we are focusing on several key things; first, we are investing in education. We need basic education and our people need to know how to read and write.

"We are therefore making education compulsory for all children so they learn languages, mathematics, health and science. We are also making our people ready for the job market by training them with

skills. We want to support higher education, to upgrade the standard of universities here in Papua New Guinea, and ICT is a key focus of this. We are introducing broadband to improve communication flow and the application of learning.

"The second aspect is supporting entrepreneurs. Our country will not grow without enterprising people. Others cannot develop the nation for us, they can only partner with us and we must take the lead.

"The financial industry is a very important driver of SMEs and I have brought our financial institutions together to create the Center for Excellence in Financial Innovation (CEFI). This will ensure the provision of financial services to every Papua New Guinean in the

country without a huge amount of effort.

"At present a large proportion of our population have to travel seven or eight hours to reach banking facilities.

"The CEFI will support and strengthen the provision of financial services to rural Papua New Guinea so that all Papua New Guineans can have access to mobile banking. The government is also using the National Development Bank to provide soft loans for women and young people so they can start businesses.

"Empowerment is also taking place through decentralization of the national government. We have put a lot of money into the regional and local government system. Funding has been increased at local levels. This



Don Pomb Polye
Minister for Treasury

will help people take ownership over their communities. We are also focusing on health — the economy needs a healthy population to function and grow."

Equal opportunities

Gender equality is an important part of empowering our people. We have come a long way and at this point in time I am proud to say we have more women

involved in parliament than ever before.

"A country will never flourish without a balanced partnership between men and women. I recently launched a Women in Business program to enable women to start businesses and establish a bank for women alone."

"Our budget has been structured to empower our people, we have based it on well-thought-out policies and based it on a multi-budget framework over a period of at least five years so it gives a better level of predictability to leaders, politicians, entrepreneurs, corporate organizations and our people.

"This year's budget is only 13 billion kina (\$6.3 billion) so it is quite small but we can achieve a lot with that. I have a prudent medium-term fiscal strategy that prohibits our debt levels from rising above 25 percent of GDP.

"For this fiscal year I deliberately raised our debt level to about 32 percent of GDP and aim to have this reduced to 25 percent by 2017 through the anticipated rise in revenues.

"Our budget is based on a multi-budget framework over a period of five years so it gives a better level of predictability."

Don Pomb Polye
Minister for Treasury

"However if we see a downturn, I will make the appropriate cuts to ensure that this target is reached regardless.

"My goal is to see GDP grow from 34 billion kina to 58 billion kina (\$16.5 billion-\$28 billion) by 2017. If everything envisaged

in the budget is implemented accordingly then I expect to see this result realized over the medium term.

"We have the encouragement of the World Bank, the International Monetary Fund and the Asian Development Bank. I attend all their respective forums and keep in touch with JICA and AusAid, among others, and this reassures me that we are doing the right things."

A different perspective

In 2014, the government will also endeavor to implement a shift in focus.

"We have witnessed growth in the transport and communications sectors; however, we now need to focus on areas that have not developed quite as rapidly and concentrate our efforts on expanding these sectors," Polye says. "Agriculture is a key focus in this regard. In 2014, we will

be organizing landowners and calling for bidders from the international community to come and develop agricultural projects in rice, coffee, cocoa, palm oil and other large agricultural production."

To conclude, the Treasury Minister says:

"I would like to tell Japanese investors that the government will be putting money in the agricultural sector and we need to develop this sector to secure the next 10 to 20 years of growth.

"We are also establishing a sovereign wealth fund to provide a cushion for future economic crises. The proceeds will be invested offshore, managed onshore and spent onshore on targeted programs.

"The proceeds from the PNG LNG project, and all other projects for that matter, will be kept and managed responsibly through this investment vehicle."

Public enterprises oil wheels of growth

Papua New Guinea's state-owned enterprises are the backbone of the country, offering the characteristics required to develop industry and growth. But FDI is needed to help them realize their full potential.

The provision of public infrastructure and government services to its citizens is one of the prime mandates of governments all over the world.

Infrastructure in the form of roads, electricity, telecommunications, water and sanitation, sea and airports is a fundamental prerequisite for economic growth and development.

In addition, social and community infrastructure, including education and health facilities, public housing and buildings, cultural facilities and environmental infrastructure are essential in modern societies. All across the world in advanced economies and developing countries studies have consistently shown the close relationship between infrastructure and economic output.

Despite Papua New Guinea's relatively strong economic growth in recent years, its infrastructure — in both qualitative and quantitative terms — is quite poor and services are lacking. Investment has not been adequate enough to provide a sound basis for the country's development.

Infrastructure investment needs to rise to create the growth and opportunities required to lift the incomes and lifestyles of the majority of the people.

With so much potential and a committed, business-friendly government at the helm, Papua New Guinea is geared up for strong Japanese investment in the form of joint ventures and public-private partnerships (PPPs) in its state-owned enter-



Ben Micah, Minister for Public Investment and State Enterprises



Wasantha Kumarasiri, Managing Director, IPBC

prises (SOEs) to help it develop.

Ben Micah, Minister for Public Investment and State Enterprises, explains how Japan is already collaborating on important works.

"First and foremost, the Port Moresby sewage project is being done with JICA funding and Japanese companies are carrying out the technical design aspects," he says. "This is a small but important step forward. Through the National Petroleum Corporation, a wholly owned subsidiary of IPBC, the government holds its shares of the PNG LNG project, and through that, we partner with Osaka Gas. They are our largest partner in the sector."

"I am now looking at encouraging more Japanese companies to join state-owned enterprises. We are embarking on major projects in telecoms, port development, the power sector and the expansion of our water and sanitation facilities to remote communities. Japan has the technology and we want to engage with them for

that, and for construction."

Earlier this year, Prime Minister Peter O'Neill confirmed that the government will restructure the country's interests in oil, gas and mining resources into two separate mining and petroleum companies, with all other SOEs absorbed into a third holding company.

The Independent Public Business Corporation or IPBC — the body that currently holds most of the nation's assets in trust — is working hard to improve the commercial performance of the SOEs to underpin economic development in the midst of the restructure.

Wasantha Kumarasiri, IPBC's managing director, states: "SOEs are the backbone of the country and control the key ingredients needed to develop industry and commerce."

"We have recently redefined our vision, mission, core values, objectives and priorities, and very soon we will realign the SOE's visions and missions in conjunc-

tion with this.

"All the entities will have a 5, 10 and 15-20 year plan as they are capital intensive, high-cost environments. For the SOEs to deliver, they will need millions of kina and long-term borrowing, so we need to have the plans set up and within each industry, there must be a policy direction."

"A coordinated program for the entire organization will be implemented, which will include PPPs, full or partial privatizations and the benchmarking of our SOEs against similar countries and more developed ones. Baseline studies will be carried out, because if you don't know where you are today, you will not know where you are going tomorrow."

The SOEs that currently fall under the IPBC umbrella are: Air Niugini, Eda Ranu, Motor Vehicles Insurance Ltd., PNG Ports Corporation Ltd., PNG Power Ltd., PNG Post, PNG Waterboard and Telikom PNG.

Early bird advantage

The IPBC welcomes inquiries regarding private investment in these SOEs. Investors will,

"PNG is the land of opportunity [...] There are Japanese investors who have been here for years, and they want to be here for many more years to come."

Wasantha Kumarasiri, Managing Director, IPBC

Kumarasiri states, have the advantage of entering an emerging market that is expanding at a rapid rate and this is a huge incentive.

"The restructuring will also make us more businesslike and that will be an advantage as well. As a general rule, all SOEs can be privatized by 10 percent to 15 percent so that when those

shares are marketed on the stock market, it will incentivize the boards and management to perform to the standards expected by shareholders.

"This will increase the pressure on the managers to perform better and make the organization more profitable. At the same time, we will have a good yardstick by which to measure the organizations' values and see if we need to invest more or less in each one."

Meanwhile, the IPBC is steering a number of projects toward completion. It recently inherited the Port Moresby sewage project and will have implemented all actions by 2017. The Lae Port expansion will become a key asset for the economy.

"We expect to amend the design of the port to meet a certain depth so it can receive larger ships," the IPBC chief says. "This means that Lae, as well as Port Moresby, can act as a regional shipping hub in the Pacific Ocean. Investors can play a part here by partnering with IPBC."

Toward industrialization

Also on the cards is the Purari



The Count Raggi's bird of paradise is the national bird of Papua New Guinea.

PNG," Kumarasiri says. "Some companies, for example, send their mining output abroad to be processed, but with lower costs, this could be reversed. PNG can be transformed to an industrial-

patience, the second is to never give up, and finally I learned to focus on creating a transparent organization with good corporate governance that will deliver the desired outcomes for the benefit of all PNG citizens.

Investors view PNG as a strong, economic possibility. At the same time, it has also been viewed as a challenging place to do business.

"My advice to investors is not to rely on someone else's experience but to experience it yourself. Some of the negative experiences of others may be due to their individual way of operating."

"For example, the corporate culture will dictate whether you go in arrogantly, passively or cooperatively."

"My experience of PNG is that if you adopt a participatory approach with open communication, 98 percent of the time

you will achieve your desired outcome in a much shorter time period.

"My message to Japan's corporate leaders is this: PNG is the land of opportunity. The world is changing and corporations are changing in terms of how they behave; not only financially, but in terms of community service and environment."

"Looking at these challenges, PNG provides an opportunity where they can start with a clean sheet. The business environment is not yet spoiled. There are Japanese investors who have been here for many years, and who want to be here for many more years to come."

"That shows the confidence corporations have in PNG: the country is working to build the economic structure needed for change."



A New Beginning...

Empowering our people for inclusive, sustainable growth



Every child deserves the best start in life. With the right food and care, a comfortable home and easy access to health and education, a child will have every chance of living a happy and productive life. At the Treasury Department of Papua New Guinea, we look after the economic health of the country and, through that, the health of its people. By budgeting well and keeping public debt down, we empower our citizens so they expect inclusive and sustainable growth. To do this, we are stimulating the long-term growth of the country, a country that stands firmly on the three pillars of education, health care and infrastructure. Foreign direct investment coupled with careful economic management will help kick-start a new generation of skilled, responsible and entrepreneurial Papua New Guineans who can play an active role in their own lives. The future starts here.

Treasury Spearheading inclusive, innovative and integrated growth



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LNG Project thrusts PNG into big league

As it gears up to become a major producer of liquefied natural gas, Papua New Guinea will answer the long-term energy needs of Asian powerhouses.

Although exploration for oil in PNG began as far back as the early 20th century, the first commercial discovery was made in 1986. In 2012, oil production was 26,000 barrels per day and in decline, but with huge natural gas reserves now available, the country will soon be charting a major rise in the energy coffers.

As demand for liquefied natural gas soars, LNG has been identified as a major long-term prospect for the country.

The \$23 billion PNG LNG project with ExxonMobil — the single largest investment in the country to date — will see this country enter the realms of LNG-producing nations, and when production begins next year, more than half of the initial output will be sold to Japan.

“By 2014, we will be able to make our first shipment and be the 11th country in the world to become an LNG producer,” says William Duma, Minister for Petroleum and Energy.

“We have secured long-term agreements with our Japanese customers, and since we became independent in 1975, have never reneged on agreements with our development partners.

“If you look at our oil supplies, for example, we have never missed a single shipment since we became a producer in the early 1990s. Our track record of never missing a shipment in two decades is a good indicator of our ability to fulfill our side of the agreement.

“Oil and gas is a crucial sector that will underpin the future economic health of this country. We have seen many other coun-



William Duma,
Minister for Petroleum and Energy

tries take advantage of higher gas prices and have realized that if we are able to develop our resources within a quicker time frame, and are able to secure agreements with long-term customers, particularly within the Asian region, we stand to benefit immensely from the sale of our resources.”

The Asian region is a very important market for oil and gas, the minister explains.

“Asia is where everything is happening; India, China and Japan are three big players and South Korea also imports a lot of gas. PNG is a small country and will do everything to ensure that it develops a very close political and economic relationship with most of the countries in the region.

“We know that the shale gas industry in the U.S. is ramping up and the U.S. is talking about becoming a net exporter of LNG, so we want to be one step ahead.

“We have several projects in the pipeline, and we want to develop them quickly and secure long-term gas supply

agreements with our customers in Asia.”

The minister is keen to counter any concerns about land ownership issues that have proved challenging in the past.

“This can easily be managed if adequate information is given to the landowner,” he says. “In my experience, when things are explained to them properly in a manner they understand, there are no problems and they are very reasonable.

“Dealing with landowners is the government’s responsibility however. Once the government has secured an agreement with the landowners, then it deals with the investors. We do not encourage direct negotiations between landowners and investors.

“We are a country that prides itself on its relationships, particularly with Japanese people. They are very thorough and meticulous and once they make a decision, they don’t look back.”

Strong Incentives

Compared to other countries in the region, PNG has a favorable fiscal regime. It uses a concessionary system that allows investors to come in and explore, and if they are lucky enough to make discoveries that are commercially viable, the government has the option of acquiring up to 22.5 percent and becoming a partner in the project that adds security.

“By doing this, we give confidence to investors,” Duma says. “In fiscal terms, we have given 10-year tax breaks in some instances where we see that a particular resource will not

be commercially viable unless we do so. So although there is a definite lack of infrastructure in most places, there is still a high level of exploration activity taking place.

“In Indonesia, you have a production sharing regime; in other countries you have the national oil company given 100 percent exploration rights, but here we allow investors to enter greenfield sites and explore, and if they are lucky, it is theirs. We only buy in at 22.5 percent on a same-cost basis.”

Although there are five petroleum basins in the country, most of the activity is taking place in the Papuan Fall line basin, which lies toward the west of this country and the New Guinea Islands basin.

“As we pick up momentum, we are currently finalizing the much talked about InterOil Project who are currently in negotiations with ExxonMobil and once that project takes over we have the other possible third LNG project



The Rabaul volcano was the base for Japanese troops in WW2 and is overlooked by a large Japanese war memorial.

over more exploration as the more you look the greater chance you have of finding more resources.”

Of course, Papua New Guinea is not new to the Japanese; Japanese companies have been involved in the logging sector for

them to invest more. They have the expertise, they have access to finance and we have major resources that they need so we complement each other.

“We have had expressions of interest from two major chemi-

decades and we want to continue that relationship.”

PNG LNG project

With construction almost complete, the flagship PNG LNG project is forecast to deliver its first cargo next year. The facilities will have a capacity of 6.9 million tons a year, with more than 700 kilometers of pipeline to connect them. The project is expected to produce more than 250 billion cubic meters of gas during its lifetime, to Japanese and Chinese customers.

The project continues to focus on creating jobs, training, business opportunities and social advancement programs, with full consideration of the livelihoods and cultures of the local communities within the Southern Highlands, Hela and Western Provinces.

“During the past three years, the project has worked diligently with all stakeholders to establish what might be termed a social license to operate in Papua New Guinea and considers this a critical component to the business,” Decie Autin, the project executive says.

“This approach has enabled the project to build relationships with communities within the project area, and in particular, with Papua New Guinean citizens and project workers involved in those communities.

“Our aim is to provide training and opportunities that will positively change and enhance the lives of PNG workers.”

In the meantime, energy regulator the Department of Petroleum and Energy is upgrading to an Authority as part of a modernization drive.

William Duma, Minister for Petroleum and Energy

“We have several projects in the pipeline and we want to develop them quickly and secure long-term gas supply agreements with our customers in Asia.”

involving Horizon Oil and Osaka Gas. There are a couple of other smaller discoveries and I have introduced a ‘use it or lose it’ policy to encourage those who have acreages to be active and carry out more exploration to try their best to find more gas.

“We are very aggressive in encouraging companies to carry

over 20 years. Nippon Oil is now a partner in the PNG LNG project and so the minister is keen for more Japanese companies to continue to invest in the country on a long-term basis.

“We have demonstrated that we are a safe investment destination for Japanese investors and we want to encourage

cal companies from Japan and in one case I signed an MOU three years ago, and this month they came back with a very well-documented proposal.

“I am very pleased and would like to encourage more Japanese trading houses to invest here. Japan has proved to be an honorable trading partner over the



An anchor for Japanese energy investors

As we move to work more closely with industry players, Papua New Guinea’s Ministry of Petroleum and Energy is proud to acknowledge Japan as a significant investor in our energy sector. Responsible for the major liquefied natural gas (LNG) projects currently being built and explored, the Ministry is grateful to

have Japan as our largest customer, having bought significant shareholdings in several LNG projects already. As we reinforce the strong bond that exists between the two countries, we know first-hand that Japan is a highly dependable, long-term investment partner, and that a proposal from a Japanese company will usually result in a successful venture, thanks to their expertise, efficiency and high quality standards. In the light of Japan’s increased demand for LNG and oil, we invite our highly regarded neighbor to join us in more strategic energy partnerships and look forward to a mutually beneficial, sustainable future for all.



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Protecting our nation's assets through commercial performance and economic development

Established in 2002, the Independent Public Business Corporation (IPBC) works to uphold strong governance, best practice and commercial accountability structures in order to maximize the value of the country's assets for the benefit of all Papua New Guineans. We aim to be seen as the benchmark of corporate excellence in Papua New Guinea, and beyond.

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Papua New Guinea's national airline celebrates 40 years of flying the flag

Papua New Guinea never ceases to impress even the most intrepid traveler. Offering a multitude of inspiring experiences, visitors will find a country rich in culture, ethnic diversity and pristine landscapes. Some of the world's best-kept secrets are here: whether it is diving, cruising, fishing, surfing, bird-watching, war history or a land abundant with natural fauna and flora in a setting framed by mountains, rivers and active volcanoes. Trust Air Niugini to get you there.

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CORPORATE

The Independent Public Business Corporation of Papua New Guinea (IPBC) was established commercial assets in trust for the benefit of the State and the people of Papua New Guinea. services, we promote long-term, sustainable decisions and actions that will ultimately keep the

Papua New Guinea's gateway to the world: serving the nation in transportation

As we strive to become the premier maritime service company in PNG, we will be focusing on the following core priorities:

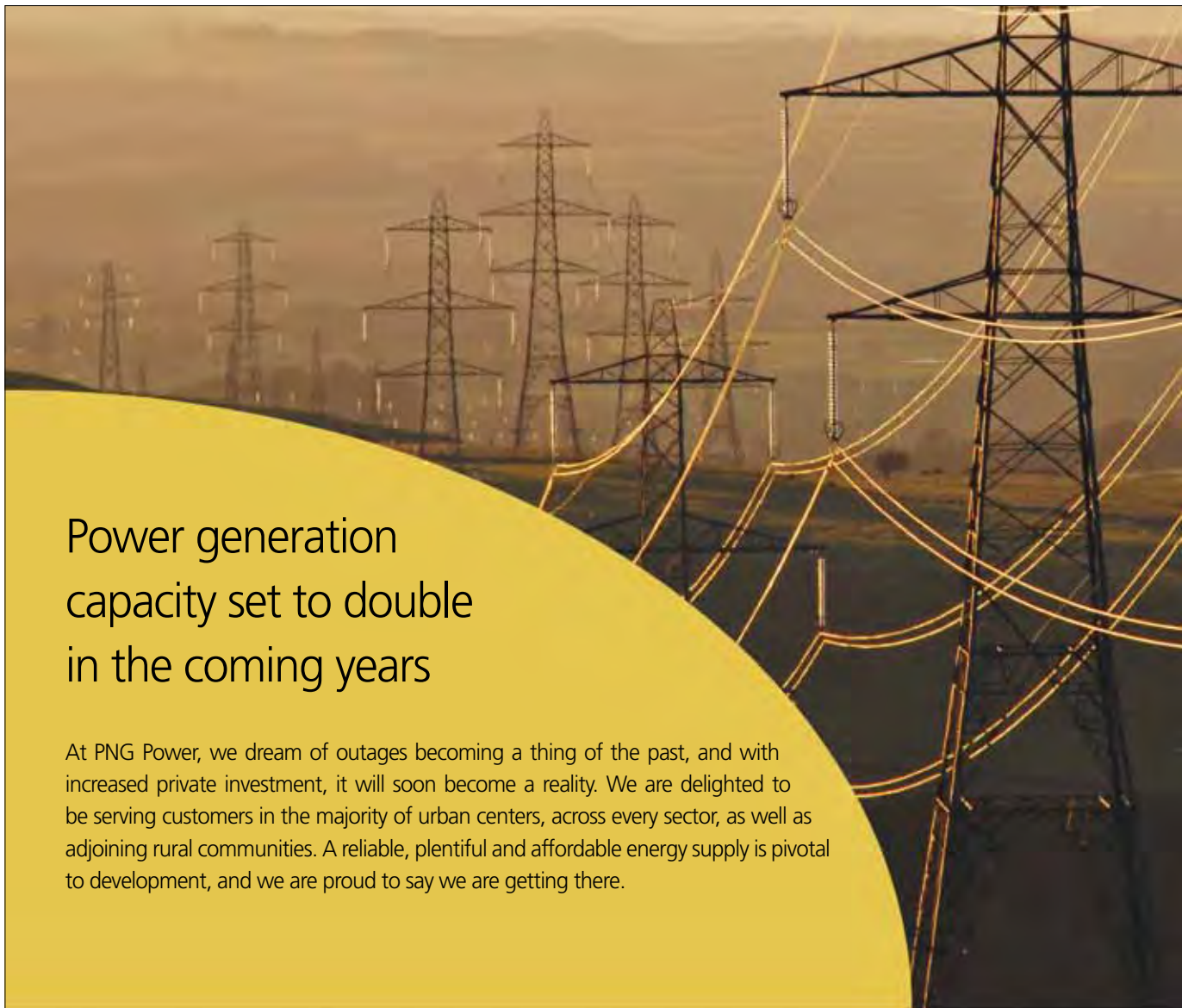
- Developing a strategic framework
- Operational efficiency
- Infrastructure rehabilitation
- Ensuring sustainability and profitability

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Driving progress and ensuring highways are safe to maneuver

We play an active role in the nation's development through commerce, industry and all aspects of the economy by providing innovative, affordable, dependable and effective insurance packages; promoting road safety for the traveling public; modeling, inspiring and influencing the business community in international best practices, and playing a leadership role in promoting sustainable economic development in Papua New Guinea.


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Opening the nation’s mining potential

With more investment, Papua New Guinea could become the world’s premier producer of gold and copper says the minister changing the face of mining in the country.

Mining, the backbone of the PNG economy, continues to bring wealth to the country and although recent drops in the price of precious metals have slowed on a global level, the mining sector on this resource-rich island continues to show promise.

In 2011, mining accounted for 71 percent of export receipts from mainly gold, copper and silver, but there are also recoverable deposits of other minerals being found.

Papua New Guinea currently operates three world-class, open-pit mines since the Misima gold mine in the Milne Bay Province of Papua New Guinea has ceased operations, namely the Ok Tedi, Porgera and Lihir mines, and one medium-scale underground operation at Tolukuma.

The Ok Tedi mine in Western Province is a major producer of copper and gold and the Porgera gold mine in Enga Province is one of the largest in the world. The Lihir mine in New Ireland Province is a long-life gold project that commenced production in 1997.

The government continues to promote investment and exploration. In fact, the Mineral Resources Authority issued 150 exploration licenses in 2010, compared to less than 100 in 2007. There are plenty of opportunities, but investment is needed, as Byron Chan, Minister for Mining, explains.

“Papua New Guinea has the potential to be the world’s No. 1 gold and copper producer. At present most of our copper is



Byron Chan
Minister for Mining

being exported and the mines, although at an advanced stage, are huge so could be expanded within the next decade.

“However, there are still no refineries in PNG. We have the resources, but we don’t have the capital to develop them.”

Nickel and cobalt are also being mined in Madang Province, through the \$1.37 billion Ramu project — operated by China Metallurgical Group Corp. in partnership with PNG’s Highlands Pacific, which will see 31,000 tons of nickel and 3,200 tons of cobalt produced annually.

The country has also had significant success with the world’s first deep-sea mining project, which has indicated deposits of copper, gold, silver and zinc off the coast of New Ireland.

“There is also talk of uranium on our shores, and we recently discovered rare earth minerals,” the Minister says.

“We realize the importance of resource diversification and are expanding our base from the

traditional raw materials of gold and copper.

“We have already had some interest in exploration from foreign firms who are looking for coal, bauxite and iron sand, but at this stage, a lot of work is needed. Within the next 10 years, we expect around six major mining operations to begin.”

The government is currently registering a company called Kumul in order to develop the resources itself, but is keen to get Japan on board.

“With Japan’s skills and technology, Japanese companies have built some of the biggest infrastructure of this country,” Chan says. “They can help us make the shift from being just an exporter of minerals to being a refiner. We are looking for more permanent domestic downstream processing of our minerals.”

Law changes

The government has also announced amendments to the mining law by “positively updating the legislation,” Minister Chan says. “We are including policies to guide the development of a possible geothermal industry and deep-sea mining. As well as increasing the possible benefits to landowners, we are looking at a requirement for more local consultation to be embedded in these changes. Consultation at a local and provincial government level is essential for the country to move forward.

“We are also looking to extend the length of exploration licenses from two years to three or four

years as the current period is not sufficient.”

The government’s equity stake will most likely remain at 30 percent, as the proposed 50 percent does not seem feasible following consultation with industry stakeholders.

The landowner stake is likely to increase from 2.5 percent to 5 percent, although this is a challenge with the global slump in mining investments.

“We are very real in our approach to policy amendments and taking into account all factors because mining provides almost 60 percent of our GDP. We cannot destabilize the current climate, and we have got to maintain the investment climate beyond the PNG LNG project.

“Our ministry is very realistic regarding any dramatic policy changes that will hinder investment in the mining industry. We are working very closely with our agencies and various stakeholders to ensure the most appropriate policy.”

An experienced player

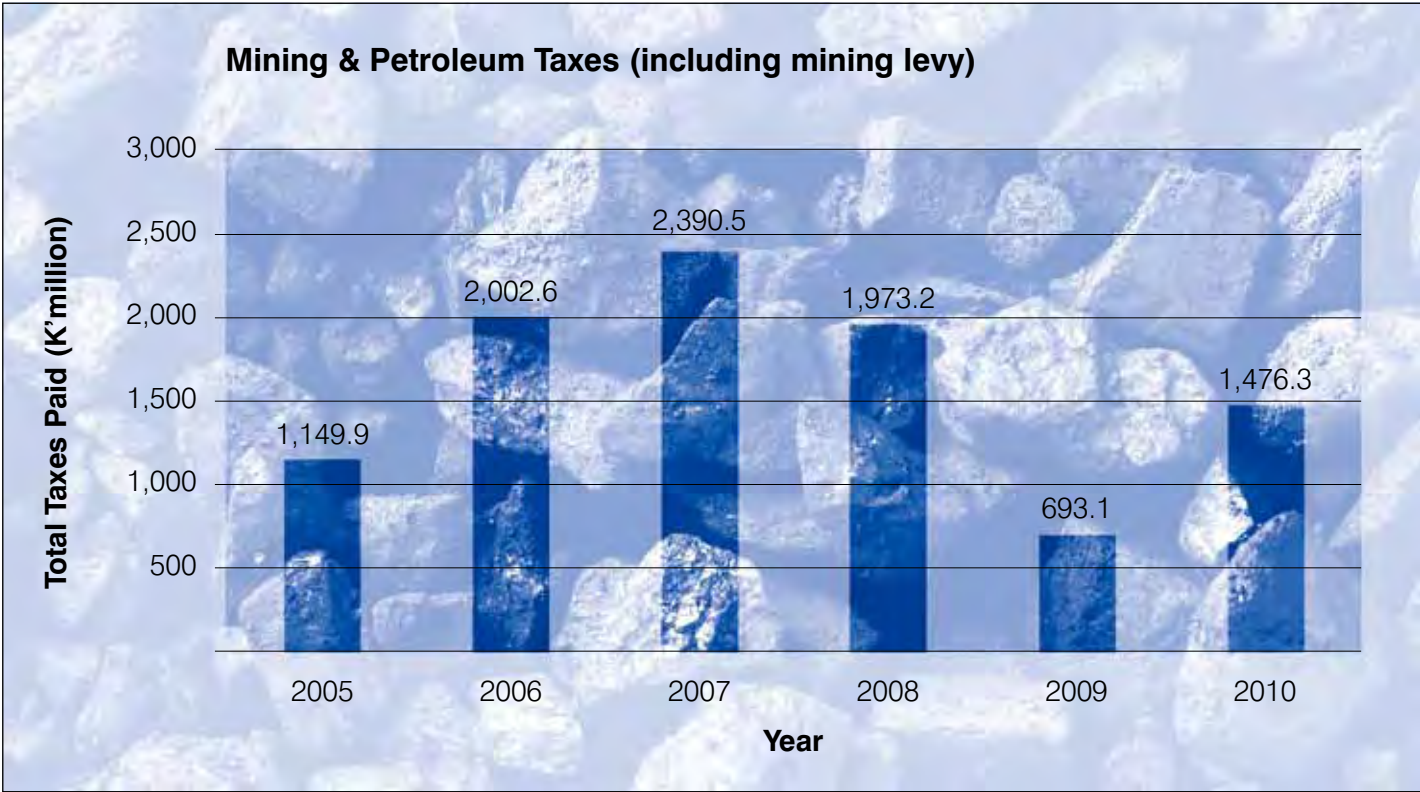
Papua New Guinea has been a gold exporter since the 1930s and has ranked as the 11th largest

“Japanese investors can help us make the shift from being an exporter of minerals to being a refiner. We are looking for more permanent domestic downstream processing.”

Byron Chan, Minister for Mining

gold producer in the world over the last few years.

It also ranks 10th in the world in terms of copper production, and has enormous potential to exceed the present production level. Silver is a commercial by-product from most of the mines.



In addition to several mechanized alluvial mining projects, there are tens of thousands of small-scale gold miners, who work as individuals, family or clan groups that produce about four tons of gold annually.

Information from the PNG Chamber of Mines and Petroleum

million kina and 600 million kina (\$211 million and \$230 million), while formal employment in mining and petroleum combined has grown to more than 30,000.

In terms of nation-building, the resources sector brings taxes, dividends, a tax credit scheme, special support grants develop-

There is a huge non-resources economy that occurs as a result of the resources industry too.

The exploration, evaluation, development and production processes are supported by a wide range of services industries all over the country, with much of the business and commerce in urban centers driven by the mining and petroleum sector.

The contribution of mining and petroleum to downstream business and employment opportunities in associated industries, contractors, suppliers and retailers has not been quantified but it is estimated to have a multiplier of the order of four to five times.

In the meantime, PNG still exports professional manpower generated by the domestic mining and petroleum industry to other resource-rich nations around the world.

Among the many incentives

available for mining projects is the income tax rate of 30 percent, royalties at 2 percent, while interest paid by a resource project to a non-resident lender is exempt from income tax and interest withholding tax.

A double deduction is also available for certain mineral explorations expenditures.

All development expenditure on a project can be deducted on a 25 percent diminishing value basis.

Investors can also take advantage of PNG’s Infrastructure Tax Credit Scheme, which deems eligible expenditure on certain approved infrastructure to be tax-paid.

Under the Mining Act, the State owns all minerals existing on, in or below the surface of any land or water. Exploration licenses can be obtained from the Mineral Resources Authority.



Opportunities abound in downstream mineral processing

One of the main pillars of Papua New Guinea’s economic development, mining is a booming industry, and the government is particularly interested in expanding the downstream processing and manufacturing of minerals.

Boasting gold, copper, silver, natural gas, and oil, this well-endowed country provides some of the world’s most demanded and lucrative resources.

As a result of this, moves are currently under way to ensure industry players are properly regulated and working to enhance and add value to the local economy, as well as taking care of the environment, thus building a better and more sustainable future for everyone.

With this in mind, the Ministry of Mining is calling on the Japanese to bring their substantial expertise, skills and capital to our shores.

As one of the largest suppliers of machinery and plant equipment to the mining sector, Japan is already an important ally and partner in our development — now we want our relationship to be even closer.



Ministry of Mining

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Bringing resources to the surface

Sustainability is the watchword for the growth PNG wants to see, and the country's highly valued tuna stocks. Global Insight investigates the challenges and the changes.

In 2010, Papua New Guinea began formulating a series of strategic development plans to effectively allocate its vastly abundant natural and human resources to target sustainable and inclusive growth.

These cascading plans for resource allocation across key strategic development areas, including health, education, law and justice, the economic sector — particularly agriculture and SMEs, utilities, high-impact infrastructure and sustainable development — were designed to effectively utilize the country's budget to coordinate various agencies to achieve the targets envisaged in these plans.

The Department of National Planning and Monitoring (DNPM) is the key agency concerned with the formulation, facilitation and coordination of the National Development Plans and Policies. It engages in and coordinates dialogues and discussions on development through a sector-wide approach.

Under its new leader Minister Charles Abel, the department underwent a strategic review and a full change of management at the beginning of this year and will adopt the recommendations at the beginning of 2014.

"As custodians of the public investment program, our responsibilities increased as a result of the changing composition of development investments in PNG," Juliana Komun Kubak, Acting Secretary and veteran of the DNPM, explains. "For the first time in history, PNG faced



Sylvester Bartholomew Pokajam, MD, National Fisheries Authority



Juliana Komun Kubak, Acting Secretary, Dept. of Natl. Planning

an unprecedented deficit this year of 2.5 billion kina, or 7.2 percent against a debt to GDP ratio of more than 32 percent, stretching the normal and legal fiscal parameters of the country. 2013 is supposed to be the year of implementation, setting the foundations of a five-year investment outlook that will bring inclusive and sustainable growth to PNG.

"As custodians of the public investment program, our responsibilities increased as a result of the changing composition of development investments in PNG."

Juliana Komun Kubak, Acting Secretary, Department of National Planning and Monitoring

"High-impact infrastructure, particularly the rebuilding, extension and maintenance of PNG's backbone, the Highlands Highway, as well as the rehabilitation of city roads in Port Moresby and Lae were some of those key investments. Transport rehabilitation is one

"None of these strategic areas will be able to achieve results without the comprehensive mobilization of land and affordable housing for all Papua New Guineans, which has been elevated as a government initiative for 2014," Kubak says, adding: "The revitalized focus

of the government toward nation-building infrastructure, particularly transport, utilities and energy, such as the Ramu Transmission System Reinforcement Project will require continued support from our Japanese partners who have demonstrated their effective ability to mobilize the right modalities to build robust structures on time and within budget.

"As part of the five-year investment outlook, we will be turning to Japan once more to assist in key infrastructure projects that are delivered on time and to a specific standard, but we would also like to extend our partnership with Japan so that they assist us in reforming procurement modalities and capacity constraints across some of the implementing agencies they work with."

Tuna elevates profits

One vital PNG asset that will delight Japan's sushi-loving palate is fish and the Pacific country's fleet catches around three quarters of a million tons of tuna every year.

Around 18 percent of the

around 30 percent of the country's catch is processed on shore.

The government's aim now is to processing the whole of the catch in-house, in order to add value to an industry that is booming. Investment, however, is needed.

Sylvester Bartholomew Pokajam, managing director of the National Fisheries Authority (NFA) takes up the story.

"We have a great future — at the moment we concentrate so much on tuna because that is a conventional resource and we still have a lot of potential in processing and value adding.

"We know exactly the capacity of our resource base in terms of tuna, which is 600,000 to 700,000 metric tons on a sustainable basis. We are looking at how we can attract more investors to enter the sector as our focus is now on adding value."

The Fisheries chief would ultimately like to get 10 to 11 fish processors in PNG, double the current amount, although two more are in the pipeline. Although the big future is in aquaculture and inland fishing but the challenge for this subsector lies in developing sufficient infrastructure and feed meal.

The secret to the success of the NFA lies in its management structure. "The running of the NFA is left to me and my team and that's how we managed to grow from 2000," Pokajam says.

"We are separated from political indifference, as the board is responsible for issuing licences, not the minister. This gives us the liberty to exercise our transparency and good governance.

"This is a model organization in the world today. We are the best in the Pacific and we have achieved so much due to our



Tuna stocks in PNG's territory could soon be processed in-house.

organizational structure.

"We are also proud of both the interim economic partnership agreement with the EU and our state-of-the-art vessel monitoring system. We are the only organization within the western central pacific region that has devised a system of monitoring vessels. We did it right here in this office, we were able to link the Vessel Day Scheme platform with the Vessel Motoring System.

"Our system is fully automatic and we can efficiently and effectively monitor vessels in our waters. We have also built a state-of-the-art research facility in Kavieng that is responsible for researching and maintaining our ocean ecosystems, and on top of this, we have just opened one of the largest and most advanced processing plants in the world, so

we see very big things to come."

In fact, within a decade, the NFA wants to be employing around 50,000 people, the majority of them women.

"We are making good progress toward that, in a meaningful way. Government policies are correct that is why people are investing," Pokajam says.

"It's very important that we know our business and we are confident that 600,000 to 700,000 metric tons per year is sustainable. We are also looking at controlling the by-catch of juvenile bigeye tuna and have now introduced a four-month closure from July to November. The bottom line is that we will make sure our fishing remains sustainable."

Under the interim economic agreement with the EU, Papua New Guinea is the only country in the world where you can take

fish caught anywhere in the world, process them in PNG into canned tuna or loin and export to the EU duty-free and quota-free.

In the meantime, Pokajam is keen to reinforce Japanese relations. "After a 19-year absence from fishing, we got the Japanese back in 2006. This time we can see what they have done for us. They have given us assistance through JICA and have built fish markets and jetties throughout the coastal provinces. Over the long term I would like them to continue to do this, and at the same time I would like them to appreciate what we are doing with on-shore processing, meaning that at times we may contact them to offload fish.

"I would like to continue our current strong partnership until long after I move on from this position."



Intelligence and expertise ensures sustainability in the fishing industry

As the guardian of Papua New Guinea's fast-growing and lucrative fisheries sector, National Fisheries Authority (NFA) is helping to catch substantial foreign investment and was the driving force behind the country's fully automated state-of-the-art vessel monitoring system that has brought further success and rewards. With the mission to achieve sustainable fisheries through dynamic, innovative and consultative fishery management, NFA's wide range of industry activities adhere to international best practice that ensure transparency, integrity and impartiality.



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Planning for their future



We are currently devising National Development Strategies that include sustainable environmental goals to preserve Papua New Guinea's natural assets for future generations. With this in mind, we would like to thank Japan for their considerable work in PNG so far, and invite them to engage with us on further public-private partnerships.

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— ALWAYS A PLEASURE —

Improving lifestyles and experiences

Good connections are an important part of life, whether it's the roads you travel on, the cars that take you there, or the people you meet. *Global Insight* speaks to those making PNG more accessible.

As one of the government's oldest departments, the Department of Works will be a key proponent in the country's modernization.

Responsible for building and maintaining a road network that will contribute to a holistic quality of life for the people of PNG, the department is also providing access to opportunities and better infrastructure to serve businesses.

"We are a country with low road density so our future is based on increasing both our national and provincial roads," says David Wereh, Acting Secretary of the Department of Works. "There is a need for connecting people with a good road network. This is the only country where the capital is not connected to the province; we fly in and out. Our department, in line with government objectives, is embarking on a new lease, creating new economic corridors better connecting the islands and stimulating the economy."

"When these links are open, the people of the islands will be able to reach the capital by road and instigate a lot of economic activity, like mining and other industries. Producing a direct link between the main headquarters and the rest of the country is an important goal."

The department is making the process more transparent and participative, and is outsourcing future projects in order to meet its deadlines.

"We are attracting lots of foreign contracting companies

from countries like Japan, China, Australia and the U.S. We want to use this opportunity to train our local contractors so they can learn the necessary skills from these big players," Wereh says.

"We are very respectful of the Japanese, particularly, because of their standards and work ethics. Their contribution is very valuable and of high quality, especially their investment in infrastructure. We regard them as partners and are in talks for them to supply construction equipment and technical support.

"We are grateful that they are filling the gap in the changes we are trying to make. I see that the Japanese contribution to the roads sector is very important and we would of course encourage them to invest more."

Driving the nation

A great local company flanked by one of Japan's most ubiquitous brands, Toyota Tsusho (PNG) trading as Ela Motors, continues

ing company managed record sales at the close of the 2012/13 financial year, having sold no less than 6,450 Toyota vehicles.

The firm, which employs more than 1,000 staff, also retailed a total of 14,000 units in the same fiscal year, showing it is, without question, the leading automotive importer and retailer in PNG, and one that has every intention of remaining at the top.

David D. Purcell, CEO and director of Ela Motors, is justifiably proud. "The business is well-managed, viable and well-respected throughout the country," he says. "Toyota products have been designed specifically for the environment and operational conditions in this country; the same goes for the Hino and Yamaha products.

"Many customers travel on unsealed roads or are from the mining, transport and agricultural sectors so their collective needs are quite specific. They need reliable products that represent a solid price proposition



David D. Purcell
CEO and Director, Ela Motors

deliver and our customers rely on us to support the products we supply through our network of 16 dealerships. Engineers from the vehicle companies also visit regularly to ensure products are meeting customers' needs."

Business commenced in 1963, when Toyota appointed Burns Philp (New Guinea) Ltd. as its authorized distributor in the South Pacific country. Burns Philp was the first diversified trading company in PNG to establish its own branches around the country and the region. In 1969, Burns Philp split the automotive division from the merchandising side, and Ela Motors was born.



Road-building is of crucial importance to increase production rates and improve trade and commerce.

"The vast majority of our dealerships are overseen by local managers and this is a key element of our success," Purcell explains. "The benefits are simple: Papua New Guinean managers understand the local culture and speak the same local languages, which is important in this culturally diverse nation."

He adds: "We could not have achieved our leadership position without the support of our principal partner, Toyota Tsusho South Pacific Holdings Pty. Ltd. in Brisbane, and all the manufacturers we represent here."

There may be more investment opportunities in the pipeline. The distributor's holding company, Toyota Tsusho Corp., a general trading company that develops businesses through a global network encompassing

Japan and more than 60 other countries and over 500 consolidated groups, has established a branch on the island with a Japanese general manager.

"The branch supports our business, but also seeks openings beyond the automotive sector, using the local business contacts we have established," Purcell says. "Our congratulations go to Prime Minister O'Neill and his government for their leadership and innovation, as well as their approach to how PNG will embrace the next stage of its national development."

A comfortable stay

Although it is early days, Papua New Guinea's tourism industry holds huge potential and, with more investment, could become a must-see destination within

the region. The country boasts 5 percent of the world's most pristine ecosystems, a plethora of historical and cultural sites, trekking, fishing, bird-watching and year-round diving.

PNG is also popular pit stop for cruise ships, whose passengers enjoy stunning bays, wonderful landscapes and fascinating cultures.

Although the range of hotel offerings is growing year on year, the multi-award-winning Airways Hotel at the airport in Port Moresby is the pick of the crop. Favored by royalty and presidents, Airways provides a state-of-the-art gym, spa facilities, a swimming pool, squash, tennis, a choice of three restaurants, a coffee shop and superb business facilities.

As Sushil Gordon, the

dynamic general manager of the Airways Hotel explains: "The power of tourism is enormous and untapped here. We don't have enough exposure to the outside world, so they don't know what we have here."

"Our main challenge is infrastructure. We need a better transport system for people to be able to move freely."

Visitors will, however, be hard pushed to find a more welcoming staff and hospitality environment.

"There is no particular formula to our success," Gordon says. "Every time we hire people, we talk about customer service as a priority. Japanese customers know a good-quality product and we are that product."

"We are the best hotel in the Pacific region."

David D. Purcell, CEO and Director, Ela Motors (part of Toyota Tsusho) PNG

to go from strength to strength as the market leader in Toyota, Hino and Yamaha dealerships.

As a fitting celebration of its 50-year anniversary in Papua New Guinea, the forward-look-

combined with a high resale value, and our products deliver. Like all consumers, the consumers in this country invest in a product and expect it to do a job. Our products consistently

Many lessons have been learned over the years, not least the importance of employing highly skilled, well-educated and professional PNG staff to support the customer base.

Innovation will power PNG ahead

Information and Communications Technology and liberalization are making PNG a growing competitive force in the region.

Although previous governments neglected the development of ICT instructor, priorities have changed. In 2008, the monopoly regime was phased out, and competition allowed to take place, which has had a huge impact on the country. With two major players, Telikom PNG

and Digicel, the country has the largest telecoms market in the Pacific. Telikom PNG, part of the state-owned enterprise family, provides the majority of fixed lines, and fixed Internet services in the country.

Connection to data cables from Australia and Guam has improved Internet speeds and network capacity greatly within the last two years. Penetration remains low, however, meaning the improved infrastructure, potential is high for investors.

As Jimmy Miringtoro, Minister for ICT explains: "The mobile industry can create real dynamism in the country, espe-

cially when we allow companies to compete. Digicel, for example, has fared very well compared with Telikom PNG, with coverage of approximately 30 percent.

"We have more than 7.5 million people with a small market penetration, so this provides a huge opportunity. Furthermore, we have a population growth rate of more than 3 percent per year. Papua New Guinea is not restricting the investment climate in the ICT sector; any investor is welcome," he says.

"I want to see ICT being used to develop PNG. I would like to see the industry grow 400 percent. ICT is important in

every pillar of development and it has a major role to play. As a developing nation, PNG needs foreign investment to grow, so we encourage Japanese investors to come and invest their money here."

The National Information and Communications Technology Authority (NICTA) was set up in 2010 as part of the ICT Act of 2007, which opened the sector up to competition. The one-stop shop deals with all licensing and regulatory matters, which has cut red tape, and costs, substantially.

A liberalized sector is clearly more attractive to investors as prices fall, and services and products improve. Recent undertakings by NICTA include a rural communications project that will look at improving con-

nections in Papua New Guinea's remoter areas, along with the Department of ICT and a \$15 million loan from the World Bank. It is also helping develop a national broadband policy along with the Department of ICT and the International Telecommunications Union. The ITU and the Korea Communications Commission are also helping the country make the switch from analog to Digital TV broadcasting which is anticipated to take place by 2017.

NICTA has also dealt with the public enquiry into retail price discrimination, infrastructure sharing, and whole declarations

on international connectivity services.

The latter essentially enhances competition in the international gateway market that should, among other things, lead to lower Internet retail prices to consumers thus increasing the uptake of Internet services in the country.

The regulator has also commenced the drafting of necessary regulatory instruments, including legislative amendments to ensure the proper usage of mobile and other ICT devices, and will shortly review the national numbering plan.

One entity firmly embracing

ICT is the PNG Customs Service. Responsible for border and community protection, trade facilitation and revenue collection, PNG Customs is undergoing significant modernization in order to better serve the international business community.

"I think that better connectivity between border agencies, coast guards and other bodies is the key," says Ray Paul, commissioner of PNG Customs.

"That will help the country and move us forward. In terms of ICT, we are using the AC

Coding System at our borders. The system is employed by 90 other countries and is a very good tool that allows importers to submit an entry electronically. Eventually, we can bring in big companies."

Priorities for the coming years include implementing a new service plan, improving human resources, and thirdly, updating legislation.

"We are confident we will achieve all three and hope to increase trade with Japan," Paul says.

This report was produced by Global Insight and can also be read online at: www.japantimes.co.jp/international-reports



Papua New Guinea Customs Service
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En route to great investment opportunities

Dedicated to constructing roads and bridges that connect people and places, the Department of Works is looking for credible, ethical and skilled overseas partners to help it build a sustainable nation. Japan has already proved its civil engineering prowess in Papua New Guinea, so we would be delighted for further engagement with private and public entities.




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