



A LAND OF OPTIMISM AND OPPORTUNITY

Business and investment conditions in PNG are the best they have been in 15 years.



PNG SWIMMER RYAN PINI'S GOLD MEDAL AT THE COMMONWEALTH GAMES BOOSTED NATIONAL PRIDE
PICTURE: AFP

Finally, it's time to hear some good news about Papua New Guinea, Australia's nearest neighbour. Less than ten years ago, the country was faced with high inflation, high interest rates and a dramatically devalued currency, the kina.

'We've had to ride some rough times,' notes Jason Chan, the PNG-born General Manager of Nestlé Pacific Islands. 'Now, things are as good as they've been for a long, long time.'

As a recently released International Monetary Fund report has observed, the country's economy is now in a period of sustained recovery, inflation is low, the currency is stable, there is real and sustainable growth in GDP (the IMF predicts 3.5% growth until the end of the decade), the public sector is running a surplus and government debt has been substantially retired.

NOT JUST HIGHER COMMODITY PRICES

Perhaps the best news of all is that these improvements do not appear to be solely attributable to higher world commodity prices, upon which this resource-rich country relies heavily for its economic well-being.

While historically high gold, oil, gas, silver and copper prices have brought much-needed revenue into government coffers, equally important has been the contribution of the two most recent governments, which have delivered a period of economic and political stability unparalleled in the 31-year history of PNG since independence.

'I've been here since 1994, and it's probably as good as it's been since the early 1990s,' enthuses John Leahy, a partner in PricewaterhouseCoopers' PNG operation and a president of the PNG branch of the Australia-PNG Business Council.

ECONOMIC TURNAROUND

In the words of Greg Anderson, Executive Director of the PNG Chamber of Mines and Petroleum, 'the turnaround in the management of the PNG economy is a huge story'.

The current government under Sir Michael Somare—which may be the first government to complete a full term since independence was declared in 1975—has built on some of the public policy initiatives of the previous Mourata government (which privatised several state enterprises and introduced legislation to promote political stability), to create a vastly improved fiscal regime. A key player in the fiscal reform has been the Treasurer, Bart Philemon, who has been instrumental in protecting the public purse from political pressures and improving economic governance.

While the recent removal of Philemon from the finance portfolio (at the time of writing he remained Treasurer) has caused concern in some circles, the medium-term economic course for PNG appears to be set, with clearly documented strategies for both the government and its individual departments in place that have been endorsed by the IMF.

Another encouraging development has been the creation in 2004 of a National Working Group on Removing Impediments

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to Business and Investment. Prime Minister Sir Michael Somare is on record as saying that the private sector will be the engine for the country's future growth, and the Working Group's purpose is to make policy recommendations directly to him on areas, such as tax incentives for mining exploration and faster business registration processes, that can improve prospects for private-sector growth.

Partly as a result of this proactive approach, PNG was placed a respectable 64th out of 155 countries in the World Bank's most recent Ease of Doing Business rankings. The government is committed to improving its ranking further.

While the economic strategies have been set, much will still depend on the outcome of general elections due in 2007. With elections in PNG traditionally volatile, and the country moving from a first-past-the-post voting model to limited preferential voting, the outcome will be hard to predict.

THE CULTURE, THE COUNTRY

The mountainous topography of PNG and the dispersal of its islands has had a great influence on the country's culture. Because of the impassability of much of the terrain, groups from different regions rarely intermingled and as a result there are now an estimated 830 languages spoken in PNG. It is not unusual for someone from PNG to speak five languages—the three official languages plus those of their father and mother, who may well come from different tribes.

The country of PNG is divided into 20 provinces, each with a local elected government.

PNG EXPORTS

Mining accounted for 55% of PNG's exports in 2003, with petroleum accounting for a further 21%. While gold, silver, petroleum and copper are the mainstays of the PNG economy, foreign earnings are also coming from the agricultural sector, where coffee, palm oil, coconut oil, copra and sugar are produced principally by smallholders. Fisheries is also an active sector, with tuna a major export and aquaculture in the highlands producing prawns and lobster. While logging has attracted some controversy, it also accounts for a small percentage of export revenue. Between them, agriculture, fisheries and forestry accounted for almost a quarter of PNG's export revenue in 2003.

RELATIONS WITH THE REGION

'As people get older, a lot of the links from the war are going. There's a lot less contact than a generation ago,' asserts Bob Sercombe MP, Australian federal politician and Shadow Minister for Pacific Islands Affairs, speaking of links between Australia and PNG.

In recent times, PNG has started to develop more of a 'look north' approach in its search for new trade and investment. Business with Asian countries—Japan, China, Malaysia, Taiwan, Singapore, Korea and the Philippines—is on the increase, and there has been recent investment in the resources sector from South African and Canadian companies.

'PNG is starting to look more abroad to Asia and China for potential investors,' notes Nestlé's Jason Chan. Often these countries are approaching PNG from a fresh perspective. Often too, they're

PAPUA NEW GUINEA IN BRIEF

Area	462,840 sq km
Population	5.6 million
Capital city Port Moresby	(255,000)
Official languages	English, Pidgin & Motu
People	Melanesian 95%, Polynesian, Micronesian & Chinese
GDP	US\$5.5bn/A\$7.6bn (IMF projection 2006)
Inflation	2% (2004/2005)
Exchange rate	A\$1.00 = 2.10 kina
Major export markets	Australia (28%), Japan (5.8%), Germany (4.7%), China (4.6%)
Major import markets	Australia (46.4%), Singapore (21.6%), Japan (4.3%), New Zealand (4.2%)
Head of State	Sir Paulias Matane (Governor-General)
Head of Government	Sir Michael Somare (Prime Minister)
Distances by air	Brisbane (3h), Cairns (1h 25m)



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PO Box 1152
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S.W.I.F.T: ANZBGPX
Email: dawsonm@anz.com
Website: www.anz.com/png

prepared to take more of a risk to take advantage of the significant opportunities on offer.

While PNG has certainly been creating stronger economic ties with other countries, Australia remains its number-one trading partner (largely due to the resources sector), and perhaps as much as 60% of the overseas businesses based in PNG are Australian.

Australia also donates around US\$240 million in aid to PNG a year, and has assisted the PNG government with a number of its governance issues through the Enhanced Cooperation Package, which has placed Australian public servants in key advisory roles within PNG government departments.

'PNG still needs Australia,' argues Bob Sercombe, 'The PNG people have the opportunity to learn in a spirit of

partnership from Australians. We have something to learn from them too, particularly about the importance of community and maintaining culture.'

THE WORKFORCE

It is estimated that only about 15% of PNG workers work in the formal economy and draw some kind of salary. The remainder work in a bustling informal economy based largely around subsistence agriculture.

While there is no shortage of unskilled people seeking work in PNG, many employers told Business Advantage that skilled labour can be pricey, hard to find and hard to retain. Many businesses, such as IT services company Daltron, consultants PricewaterhouseCoopers, Westpac and resources company Oil

Search therefore rely on their own intern and graduate programmes, and on- and off-shore training, to ensure they have workers with the requisite skills. (Personnel companies such as JDA Wokman also have an important role placing skilled workers into major projects.) PNG's National Education Plan 2005–2014, which is being supported by a number of international aid bodies, has been devised in part to improve the perceived skills shortage.

In the professions, things are better. Richard Flynn, partner in the PNG branch of law firm Blake Dawson Waldron notes that PNG is well-served with 'a well-regarded legal profession with professional standards.' John Leahy of PricewaterhouseCoopers also notes that the local accounting profession has developed considerably in recent years.

LEGAL CONSIDERATIONS

Ian Clarke, below, of Gadens Lawyers, an Australian firm whose Port Moresby office has been in operation for over 35 years, provides an overview of the legal considerations for business in PNG.



PNG's legal system and foreign investment regime are quite straightforward. For a start, PNG's it is based largely on Australia's. The use of Australian law as a model for PNG has continued, although the Companies Act and Securities Act does reflect influence from New Zealand.

The principal features of PNG's legal and regulatory framework most relevant to those looking to conduct business in PNG are:

and localisation program that the employer has lodged in accordance with the Employment of Non-Citizens Act with the Department of Industrial Relations. This program is to monitor the entry of all immigrants into Papua New Guinea, approve the positions in which they can work, and ensure that there is a program for the transfer of skills to Papua New Guinean citizens. Each work permit is for a particular 'position' and is generally valid for a period of three years.

PNG's taxation system is similar to Australia's: income tax, GST and stamp duties apply.

FINANCIAL SYSTEM

PNG's banking sector is comprised of the Central Bank, also known as the Bank of Papua New Guinea. ANZ and Westpac are represented. The other major bank is the Bank of South Pacific [see page 23 for more on financial services].

COMPETITION LAW

PNG has trade practices legislation administered by the Independent Consumer and Competition Commission (ICCC). It regulates market conduct in a similar way to Australian legislation.

Those exploring business opportunities should also consult the Australia-PNG Business Council and its counterpart in PNG, the Business Council of PNG, who work closely with the PNG Government to remove the impediments to doing business in the country.

Apart from the technicalities of the law, it is critical for businesses venturing into PNG to understand how the diverse government, business and cultural issues fit together. The best advice is to remember that you are a guest and need to take the time to understand the issues.

Ian Clarke was the principal legal adviser to PNG's Central Bank during the re-write of all banking, superannuation and life sector legislation in PNG in 1999 and 2000.

INVESTMENT PROMOTION AUTHORITY (IPA)

This is the PNG equivalent of Australia's Foreign Investment Review Board. Foreign-controlled businesses need to be certified by the IPA to carry on business. Certain activities may only be conducted by citizens. The restrictions apply generally to smaller-scale industries—investors need to check which category their business falls under.

FOREIGN EXCHANGE CONTROLS

PNG still has foreign exchange controls administered by the Central Bank. The controls have to a large extent been relaxed. Generally speaking, transactions involving inward equity investment or borrowings require approval. Regulations have been relaxed with respect to the repatriation of capital and profits, provided a taxation clearance certificate is held. Domestic banks have delegated responsibility to deal with a number of the approvals.

WORK PERMITS

Foreigners must apply for a work permit for each non-citizen employee employed in Papua New Guinea. The work permit application must be for a position approved under a training

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Overall, the skills situation is improving. A clear indicator of this is the reduced reliance on ex-patriate workers, as more locals take up middle and senior management positions, partly it must be said due to government regulation which requires companies to be pro-active in replacing ex-pats with locals (see box on Legal Considerations).

'Thirteen years ago, we had 48 ex-pats working here,' says ANZ's Gary Tunstall, 'now we have 19.' Westpac too has changed from the days when every branch manager in PNG was from overseas. Like food manufacturer Nestlé, it has an active policy of 'localisation,' or ex-pat replacement.

'It's smarter to employ locals cost-wise and culture-wise,' notes Alan Walter, Westpac's Chief Executive, Pacific Banking.

The other good news, according to Richard Flynn, is that there are relatively few labour problems and no unfair dismissal laws to worry about in PNG.

Finally, AIDS/HIV has become more prevalent in PNG in recent years, and it is widely acknowledged that if it is not addressed, the disease may have serious repercussions for the workforce and economy generally in future. The government has made public education a major priority, not only in its own programs but also in private-sector activities too. Most major employers and significant private-sector initiatives therefore have some kind of AIDS/HIV-related program, whether it be a contribution to community health or a commitment to raising awareness of the disease.

THE BUSINESS ENVIRONMENT

Beyond the encouraging work being done in government, PNG has a close-knit and supportive local business community, into which visiting business people can tap. Chambers of commerce operate in all the main areas of population and often have a good working relationship with government.

Business developments are often front-page news in PNG, and the population generally are more aware these days of the economic and business challenges facing the country.

'The community are seeking a better deal from their government,' notes Alan Walter, President of the Australia Papua New Guinea Business Council. 'People can see the challenges; they can read about it in the newspapers.'

SMALL & MEDIUM ENTERPRISE

According to Aivu Tauvasa, Trade Commissioner for the Pacific Islands Trade and Investment Commission (PITIC) and formerly of PNG's Investment Promotion Authority, Papua New Guinea's SME sector—especially in the areas of manufacturing and services—has the potential to make an even larger contribution to the country's social and economic growth, especially for the country's huge rural population.

'Development of this sector in the last 10 to 15 years has been largely due to major mining, petroleum and agriculture projects,' she told Business Advantage.

'These have supported peripheral economic activities, such as passenger and freight transportation, small-scale agricultural or timber production, for residents living on or near the project sites. With an increasing emphasis on value-adding and downstream processing of its raw materials (minerals, agricultural timber and fisheries commodities), PNG recognises that there can be positive and long-term prospects

for cottage industries supporting local communities.'

LAW AND ORDER

In September 2005, the UK-based *Economist* Intelligence Unit ranked Port Moresby joint bottom of its 'liveability' survey of 127 capital cities around the world. The survey, which took into account a range of factors, including stability, health care, culture, environment, education and infrastructure, has led to sensational headlines in some media outlets about Port Moresby being the 'worst city in the world.'

It isn't clear if anyone from the *Economist* actually visited PNG to conduct the survey, but if they had, there are two things locals would consistently have told them. First, Port Moresby isn't representative of the majority of PNG; and second, that while street crime is a fact of life, in the words of the President of the PNG Chamber of Commerce and Industry, Michael Mayberry, 'it isn't quite as bad as it is reported in the media.'

'Often negative news is reported about PNG,' agrees Jason Chan. 'In certain

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pockets law and order is an issue, but in other areas it's very safe.'

The urban areas of Port Moresby and Lae are considered the worst areas for law and order. The blame tends to fall on the 'urban drift' of new migrants from the Highlands to the cultural melting pots of the cities and towns. Low employment prospects for unskilled labour lead many new migrants into a life of 'subsistence crime.'

'There are law and order issues,' agrees Gary Tunstall, managing director of ANZ Bank's PNG operation, 'but with the right government and the right policies it will improve.' Austrade's Senior Trade Commissioner in PNG, John Brand, has this balanced advice: 'If you take sensible precautions and make well-prepared travel arrangements, there are no problems.' (For more PNG travel tips, turn to page 29.)

HOW TO START IN PNG

Ultimately, there's no substitute for getting on the plane to Port Moresby.

'Don't be scared of coming,' advises ANZ's Gary Tunstall. 'It's a great country in which to invest ... there are hundreds of opportunities.'

'It is important to keep an open mind and understand what you are dealing with in terms of risk.' Jason Chan recommends. 'Talk to people and understand how they do business.'

For the investor, the Investment Promotion Authority (IPA) is an excellent first port of call. The local chambers of commerce and business councils are also very useful. For Australian businesses, Austrade hosts regular trade missions to PNG and also arranges buying trips to Australian trade fairs for PNG purchasing managers.

A number of business people Business Advantage spoke with made the point that the Melanesian way is different, and patience is one virtue that will certainly assist.

'Don't expect to come here and impose your ways,' advises Kina Securities Managing Director Syd Yates. 'Look, listen and learn.'

Joint ventures with local businesses are a way of gaining the benefit of local knowledge, access to land or access to markets. While Richard Flynn warns that some underestimate the additional administrative overheads connected with maintaining a joint venture, the opportunities are there to be pursued.

'PNG is Australia's closest neighbour and we know very little about it,' says Ok Tedi Mine's Chief Executive Officer Keith Faulkner. 'PNG deserves greater attention from Australian industry than it gets.' ■

OPPORTUNITIES IN PNG FOR AUSTRALIAN BUSINESS

Austrade's Senior Trade Commissioner in PNG, John Brand (below left) outlines some of the areas in the PNG economy where Australian skills, goods and services are in demand.



Porgera, Ok Tedi and Lihir in June 2006 to introduce new Australian suppliers to these mine sites.

The resource sector, a traditional driver of the PNG economy, is experiencing positive developments in mining, oil and gas. The proposed Ramu Nickel mine and existing mining projects such as Tolukuma, Porgera, Ok Tedi, Lihir and the newly-commissioned Kainantu mine present supply opportunities for Australian goods and services. Indeed, Austrade will lead a trade mission to

The PNG–Australia Gas Project [see page 10] is approaching an exciting stage of its development with financial sanction expected in the third quarter of 2006, again presenting significant supply opportunities in the construction phase and ongoing operations.

The food and beverage sector continues to be a significant importer of Australian products. This sector has two distinct segments. The first is a low-cost, price-sensitive segment which accounts for approximately 85% of consumers. Purchases in this segment are characterised by bulk products such as rice, sugar and flour, and canned protein including fish and meat products.

The other end of the market supplies the higher-income-earning national and expatriate markets. The main supply opportunities in the retail food sector include dairy-based products such as cheeses and dips, pasta products, specialised ethnic

condiments, meat (in particular beef and lamb), and fruit and vegetables.

The National Capital District Commission Building Board indicated in early 2005 that building approvals for that year were projected at AUD\$120M and the *PNG 2006 Year Book* indicates that the outlook for 2006 is even more positive.

A number of commercial and industrial projects are also under way or nearing completion, including new government buildings, industrial sheds, hotel refurbishments and commercial refits. These projects are primarily targeted at the premium end of the market and are specifying medium- and upper-end products that suit Australian suppliers.

Australian businesses are winning ICT contracts, for example, in the supply of financial, management and inventory control systems, and website development. Opportunities also exist in retail finance systems, product tracking and internet services.

Finally, education and training—especially in the area of professional development—is also providing opportunities for suppliers of tailored human resources development training programs.

Given Australia's proximity to PNG and its reputation as a supplier of quality goods and services, Australian exporters are well placed to capitalise on these developing trade opportunities with PNG.

The Australian Trade Commission (Austrade) plays an important role in the development of Australia–PNG bilateral trade. For more information on how it can assist, call its Port Moresby office on +675 325 9150, or contact it in Australia on 13 28 78.