



TAXATION DEVELOPMENTS & INCENTIVES IN PNG

David Caradus, a partner of accounting firm PricewaterhouseCoopers, which has been in operation in PNG for over 40 years, provides an overview of recent taxation changes and incentives for business in PNG.

The 2009 Budget did not contain any new tax concessions. However, the Government stated its intention to continue encouraging and facilitating future investment.

The Government is also embarking on an awareness program to inform stakeholders of the existing tax concessions available. These include concessions for minerals explorers, concessions for manufacturing investment and export of certain goods manufactured in PNG, and incentives for promotion and development of tourism in PNG.

TOURISM INCENTIVES

In the 2007 Budget, the Government introduced a concessional taxation rate of 20% in respect of income derived by a taxpayer solely from a new or substantially improved large-scale tourism facility. This rate applied for the first year in which such income was derived and for a maximum of nine years thereafter.

The period of time for which the reduction in the tax rate applies has now been increased from four years to 15 years. In addition, the eligibility criteria have been relaxed to reduce the minimum expenditure requirement from US\$10 million to US\$7 million and the room requirement from 150 to 100 rooms.

MANUFACTURING PLANT

Industrial plant not previously used in Papua New Guinea is eligible for accelerated depreciation of up to 100% of cost. The claim for accelerated depreciation cannot take the company into a tax loss (but can be carried forward and claimed in a subsequent year). To qualify, the plant must have an effective life for tax purposes exceeding five years and must be used by the taxpayer or any other person (eg a lessee) in a manufacturing process. Expenditure on new buildings for the housing of industrial plant, or for the storing of raw materials or finished products also qualifies for the 100% accelerated depreciation.

EXPORT MARKET DEVELOPMENT

Where certain expenditure is incurred on export market development for goods manufactured in Papua New Guinea or for promotion of tourism in PNG, a double deduction is allowed for those costs.

The tax saving resulting from the allowance of the deduction may not exceed 75% of the expenditure actually incurred.

EXPORT INCENTIVES FOR MANUFACTURERS

Taxpayers who export certain qualifying goods manufactured by them in Papua New Guinea are entitled to an income tax exemption of 100% of export sales made prior to the last day of the third year following the date export sales were first made. For the following three years, the excess of export sales over average export sales of the previous three years is exempt.

AGRICULTURE, FISHING & TOURISM

Expenditure on new plant or articles in respect of agricultural production, commercial fishing activities, and boats and ships used solely as dive/snorkelling boats qualifies for a 100% accelerated depreciation deduction.

RESOURCES See page 24.

PRIMARY PRODUCTION

Outright deductions are allowed for certain capital expenditure including clearing or preparing or conserving land for agriculture, the eradication of pests, labourers' accommodation (for labourers earning less than K35 per week) and for the conservation and conveyance of water. Losses incurred in carrying on a primary production business can be carried forward indefinitely.

Major new primary production projects with a minimum investment of K1 million undertaken by a company which commences in the period 1 January 2004 to 31 December 2011 (previously 31 December 2006) will have a tax rate of 20% from the date of commencement of construction to the end of the 10th full tax year after the commencement.

As from 1 January 2004, a 150% deduction is available for expenditure on services provided free of charge to smallholder growers.

David Caradus has over 20 years experience advising on taxation and investment in PNG and is author of 2009 PNG Tax Facts & Figures and Papua New Guinea Resource Project Taxation: a Guide for Operators, as well as being the PNG editor for the CCH International Master Tax Guide.



KEY INVESTMENT ORGANISATIONS IN PAPUA NEW GUINEA

There are several organisations worth knowing about if you're looking to invest in Papua New Guinea. Here, *Business Advantage* profiles four of the most significant.

MINERAL RESOURCES DEVELOPMENT COMPANY LIMITED (MRDC)

The Mineral Resources Development Company (MRDC) is trustee of the wealth that flows to landowners from PNG's rich natural resources. A 100% state-owned company, MRDC manages landowner entities in petroleum and mining projects and is custodian of their assets. (The State's interests in resources projects, with one notable exception, are held by Petromin Holdings.)

As well as providing an efficient management of equity interests for landowners, MRDC maximises shareholders' wealth by investing in economically attractive mining and petroleum projects. It actively seeks growth and opportunities—both for its landowner constituents and to improve its own value—acting for and on behalf of the people of PNG as it responsibly invests landowner royalties in projects that will deliver profitable long-term returns for its landowner constituents.

'We are a bridge between resources companies and the Government,' new Managing Director Augustine Mano told the 10th PNG Mining and Petroleum Conference in Sydney in late 2008.

PNG SUSTAINABLE DEVELOPMENT PROGRAM (PNGSDP)

With its focus on long-term development, PNG Sustainable Development Program (PNGSDP) is a unique organisation, even in global terms.

'Our programs are centred around sustainability,' Chief Executive Officer David Sode tells *Business Advantage*, explaining that he's looking at projects for the next 40 years, and credible partners who fit the program's mandate.

The largest fund in the country, PNGSDP uses royalties from the OK Tedi copper mine in Western Province to develop long-term infrastructure, construction and resources projects that will benefit PNG—especially its Western Province. The aim is to minimise displacement after the mine closes in 2013. From that time on, PNGSDP will be dealing with the Western Province only, with a fund that will be there for the next 30 years.

'I'd like to find booming projects that have high income rates, high employment rates spread across the province. I'd love to see that province being rated as one of the best in the country and its people enjoying a higher lifestyle,' says Sode, who firmly believes that the best way to support people is to empower them with sufficient infrastructure. Whereas most commercial ventures focus on financials first and then social obligations, PNGSDP will use commercial models but with the ultimate aim of stimulating a flow-on effect of high development gains.

A major project currently in its planning stages involves the re-development and expansion of the Western Province port of Daru (see page 26).



PNG SUSTAINABLE DEVELOPMENT PROGRAM'S CEO, DAVID SODE.

INDEPENDENT PUBLIC BUSINESS CORPORATION (IPBC)

The Independent Public Business Corporation (IPBC) has enjoyed considerable success in its supervision of PNG's state-owned enterprises (SOEs) since they came under its auspices in 2002, and their improved financial performance has contributed to the country's strong economic growth.

Following the National Executive Council's endorsement of a public-private partnership policy last year, IPBC successfully sold 50% of Telikom's B-Mobile subsidiary and is interested in private-sector participation in its other enterprises: Telikom PNG, PNG Power, PNG Ports Corporation, PNG Post, PNG Waterboard, Air Niugini, Motor Vehicle Insurance Ltd (MVIL) and Eda Ranu.

Last year IPBC was also appointed state nominee for the Government's 19.4% equity stake in the ExxonMobil-led liquefied natural gas project, making it the third-biggest equity holder in the project. (See page 15 for more on the PNG LNG project.)

The public-private partnership policy aims to revitalise the state-owned enterprises through the introduction of private capital and management expertise, and should result in improved competition and service delivery throughout the country. Following the B-Mobile transaction, Telikom PNG is expected to become an early candidate for further public-private investment.

PORT MORESBY STOCK EXCHANGE

After several years of exponential growth, the Port Moresby Stock Exchange (POMSOX) inevitably experienced a decline in the last quarter of 2008 in line with the global downturn. However, it is interesting to note that the exchange's local, or 'home', stocks index



THE PORT MORESBY STOCK EXCHANGE'S VINCENT IVOSA.

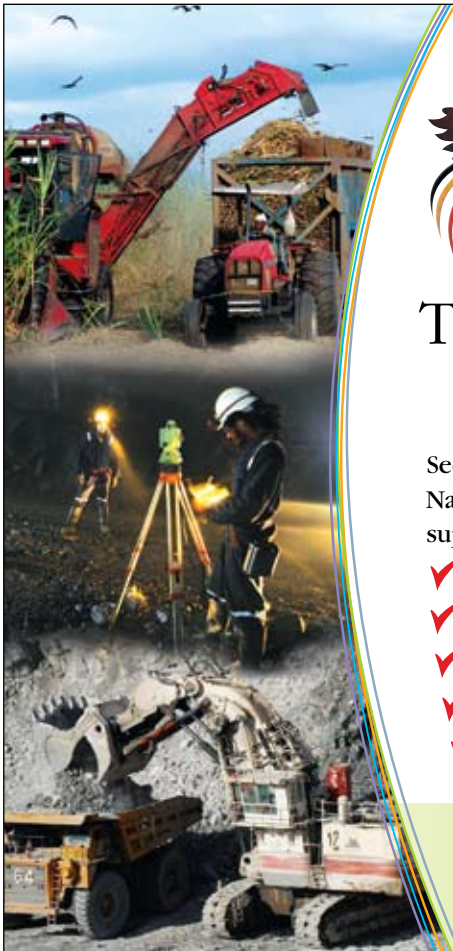
outperformed its overall index during the worst of the declines, indicating a certain degree of resilience in the PNG economy.

POMSOX's growth over the past few years had been nothing short of phenomenal. Over a seven-year period, the Kina Securities Index (which tracks its progress on a daily basis) had grown from 1000 points to its current level of over 5500. Growth in 2007

alone was 32%.

2008 did bring five new listings, however—the most ever in a calendar year—including Airlines PNG, miner Coppermoly and Kina Asset Management Ltd, PNG's first-ever listed investment company. Other companies listed on POMSOX include some highly regarded international firms such as Lihir Gold, Oil Search and New Britain Palm Oil, each of which is dual-listed elsewhere.

With a number of PNG-listed companies now operating across the South Pacific, POMSOX is starting to become the de facto regional stock market. According to Vincent Ivosa of the corporate entity that administers the exchange, a project to enable cross-border trading with Australia is also being considered. An Australian broking firm has recently applied for a licence to operate in PNG. ■



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INVESTMENT

HUMAN RESOURCES

Human resources PNG-style presents distinctive challenges—and solutions.

A year ago *Business Advantage* reported on the extreme difficulty companies operating in PNG were experiencing when seeking to attract expatriate professionals: 'we have to recruit from everywhere' said one major firm. The global financial crisis has certainly fixed that problem, with companies now reporting a wave of applications, some unsolicited.

However, getting working visas for expats is still a challenge. 'There have been some very positive developments in the Labour Department in the last six months. Work permits are often issued in less than a week. However, there is still a bottleneck in the Department of Immigration, with working visas taking six to eight weeks to be processed,' says Brett Entwistle, Managing Partner at PricewaterhouseCoopers, which assists clients coping with red tape.

'If you have a trade in PNG, then you are basically guaranteed a job.'

EMPLOYING LOCALS

Of course, companies would far rather be employing Papua New Guineans whenever possible, not just to be socially responsible (and, in certain circumstances, to comply with regulations) but also to reduce costs. Employing expatriates is far more expensive, especially once relocation and accommodation allowances have been taken into account.

The shortcomings of PNG's public education system mean that too few Papua New Guineans are in a position to contribute to the formal economy. Thus chronic skills shortages still remain, even though the global economic crisis does seem to be having some impact on recruitment levels in PNG. 'If you have a trade in PNG, then you are basically guaranteed a job,' says Tamzin Wardley, Deputy Managing Director of the diversified W R Carpenter Group, one of the country's largest employers.

It is therefore important to encourage those Papua New Guineans who are fortunate enough to receive a tertiary education overseas to return. Leading regional HR firm Cadden Crowe is undertaking an innovative program to place those who have just completed studies outside of the country into suitable positions back in PNG. 'We are tracking them right through their tertiary course and try to match them with blue-chip employers once they have finished,' says Cadden Crowe's Scott Roberts.

PRIVATE SECTOR INVOLVEMENT IN TRAINING

Each year, *Business Advantage* carries out more than 60 interviews with a wide range of business leaders to inform its Papua New Guinea edition. This time around, it was striking to note the emphasis companies from all sectors were attributing to human resources and training. While this is partly inspired by several incipient LNG projects, there is also a sense that corporations are increasingly filling the breach when it comes to vocational training—whether to train their own staff, other people's or simply as a means of contributing to the local community. As one business leader told us, 'the apprenticeship system is working because private companies are making it work.'

THE IMPACT OF LNG PROJECTS

Looking forward, the big question is what will happen if and when one of the proposed LNG projects moves into top gear. According to Cadden Crowe's Scott Roberts, the human resources sector could be turned on its head:

'I doubt if any of us appreciate the impact [this] would have on the country. We are very concerned that skills required to support LNG projects cannot be met locally in the proposed timelines ... We believe that massive investment in developing skilled people ... needs to be made now.' ■

PORT MORESBY STOCK EXCHANGE (POMSOX)

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