

AGRICULTURE & MANUFACTURING

MOVING TOWARDS VALUE-ADDING

CREDIT: ADB/IAN GILL

PNG's agricultural and manufacturing sectors are vital not just for the employment they provide but also for the chance they provide for PNG to improve its balance of trade.

Agriculture is one of Papua New Guinea's most important economic sectors, producing more than 25% of the country's gross domestic product. At a semi-subsistence level, about 85% of PNG's population is engaged in food production.

Yet despite the country's climate and labour advantages, the sector has grown only marginally over the last decade. Apart from palm oil, most crops have seen negative or stagnant growth. A number of new initiatives, and the PNG Government's *National Agricultural Development Plan 2007-2016* seek to accelerate growth further.

Sector observers such as Vishnu Mohan, Chief Executive Officer in PNG and Pacific North West for ANZ, also see opportunities:

'Even if the LNG project did not happen, this country has lots going for it in other sectors. In palm oil, there are some changes happening, and in coffee. Potentially, with good management and focus on the right areas, trade will evolve and develop.'

COFFEE

Coffee is PNG's biggest cash crop, generating over US\$150 million per annum. PNG exports one million bags of coffee a year but mostly as green beans. Sector leaders such as Jeffrey Kapka, Managing Director of Kongo Coffee—which produces one-tenth of PNG's coffee—are arguing for more downstream processing in the sector.

The International Finance Corporation is looking at investment in the sector. IFC Country Manager Peter Cusak says PNG is included in a new international US\$40 million trading facility to Swiss-based coffee producer Ecom AgroIndustrial Corporation, to finance permanent working capital. Technical assistance to PNG's coffee farmers is also part of the package.

'Here it will be done by field work and demonstration farms and things like that, and it's all about training them to produce more coffee, better coffee and [fair trade and organically] certified coffee,' Cusak says.

COCOA

Cocoa's share of PNG's agricultural exports currently sits at around 22%. More than half the crop comes from rural smallholders, with some 35% produced by plantations.

A new pilot program to grow cocoa for the first time in PNG's highlands, the Chimbu Cocoa Project, recently began with

Department of Agriculture support. From an initial planting of 26 hectares it will grow to a planned 40,000 hectares over the next 30 years, if all goes according to plan.

Further expansion of the industry depends on continued rebuilding on Bougainville and expansion into other possible crop sites, and farmers' response to international price movements. Niche markets also have potential. French chocolate producer, Michel Cluizel is now marketing the Maralumi dark chocolate bar as a single estate, premium chocolate bar produced from cocoa grown at Markham Farm outside PNG's second city, Lae.

New Guinea Island Produce Company (NGIP), PNG's largest cocoa grower, trader and exporter, listed on the Port Moresby Stock Exchange in July 2009. NGIP is a diversified agri-business, operating its own cocoa plantations in East New Britain, and trading more than 60% of PNG's cocoa into Asia, China, the USA and Europe, directly to the world's largest chocolate manufacturers. NGIP's other interests include coastal shipping, hardware, machinery, trucking, and marketing and trading of other crops including vanilla, copra, essential oils, chillies, pepper and spices.

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PALM OIL

Palm oil is PNG's third major crop with 14% of the annual export values. Unlike other crops, government statistics cite industry growth of 15.5% per annum since 1997.

Major oil palm plantations exist in West New Britain, Oro and Milne Bay provinces. New projects include Suwain Damasara Sustainable Agro-forestry in Aitape, Vailala Purari Oil Palm Development in the Gulf Province, the Morobe Gulf Oil Palm project, Kaut Lokono in New Ireland Province and Collingwood Bay in the Oro Province.

PNG's largest palm oil plantation and milling operator, New Britain Palm Oil Limited (NBPOL) which has established a processing mill in Liverpool, England, to fulfil demand for palm oil from food manufacturers in the European Union (see page 35).

WIDE VARIETY

Other PNG agriculture earners include copra, rice, livestock (poultry, pigs, beef, sheep, goats and rabbits), rubber, tea, cardamom, vanilla, chillies, spices and many varieties of tropical fruits and vegetables. There is opportunity for expansion in all these crops, and in many cases, for processed and downstream products.

Recently another diversified agribusiness, Mainland Holdings received support from the Australian government-led Enterprise Challenge Fund (ECF) to set up a vanilla rapid curing project. Mainland's ECF-supported plant will convert fresh green vanilla pods into desiccated, fermented and dry pods to international standards, in a joint partnership with Uvan Ltd, a Ugandan company with more than 20 years' experience in vanilla production. ECF funding support will provide Mainland Holdings with resources to implement this project, rejuvenate and expand village vanilla plantations and provide livelihood opportunities for the poor.

MANUFACTURING

Manufacturing in PNG is currently a small part of the economy, accounting for only about 0.5% of GDP. Even so, there are major manufacturers in PNG, including Coca-Cola Amatil, Nestlé, Arnotts, South Pacific Brewery Ltd (owned by Singapore-based Asia Pacific Breweries Ltd) and K K Kingston (see box below).

The peak body for manufacturers in PNG is the Manufacturers Council of PNG. As well as representing the interests of its members, it also runs a 'PNG Made' scheme to promote PNG manufactured goods. To qualify for use of the 'PNG Made' logo, 50% of a product's cost of production must have been incurred in PNG.

There are significant incentives in place to encourage more manufacturing in PNG in all key sectors, both for import replacement and export. These include accelerated depreciation for plant, double deductions for export market development costs and wages subsidies.

'Nestlé last year undertook an ambitious consumer insights project, surveying consumers across the country about their culinary tastes and preferences.'

FOCUSING ON CONSUMERS

International consumer food giant, Nestlé, has a strong position in the PNG manufacturing sector that has been honed by its consumer focus strategy. The company's ongoing campaign to get closer to its consumers has formed the core of its PNG business model.

In 2007, Nestlé introduced two innovative consumer loyalty initiatives aimed at extending its reach throughout PNG. Its Golden Triangle pyramid-style distribution chain was aimed at customers in the remote towns and villages of the PNG highlands, while a mobile noodle vendors network promoted the company's leading local brand, MAGGI Noodles, and helped boost employment in the urban centres.

In keeping with the strategy, in 2009 Nestlé undertook an ambitious consumer insights project that involved surveying consumers across the country about their culinary tastes and preferences. Nestlé, in 2006, teamed up with the National AIDS Council and the Red Cross to promote awareness of HIV/AIDS and, starting in 2010, has created an ambitious Nestlé Hamamas Dei (Happy Day) Consumer Roadshow to educate local communities about nutrition and health.

This year the company plans to take the programs to more than 200 villages throughout the major regions of the country. The roadshow delivers and encourages plans for healthier eating and will feature recipes as well as tips on food hygiene. It will also distribute supporting material including brochures and utensils such as measuring spoons to help villagers manage food preparation and nutrition requirements.

LEADING MANUFACTURER TARGETS EXPANSION



K K KINGSTON'S
MICHAEL KINGSTON

Local manufacturer K K Kingston has ambitious plans to raise capital, in order to take advantage of burgeoning opportunities, in PNG and beyond.

Since its humble beginnings in a garage in 1972, the family-owned firm has carved out a position as a leading manufacturer in an economy mainly dominated by primary producers.

Based in Lae, K K Kingston

manufactures goods including paper, food containers and chemicals for the industrial, commercial and retail sectors. It has had major successes in the production of water tanks, domestic cleaning products and cooking oils.

According to General Manager Michael Kingston, the company has experienced a growth rate of 15% per annum over the last five years:

'PNG has enjoyed a good and reasonably stable macro economy since the arrival of the Somare government [in 2002], and the boom in palm oil, mining and gas has helped to invigorate the local economy.'

In a first for private enterprise in PNG, the organisation is considering the private sector wing of the World Bank, the International Finance Corporation (IFC) as a potential minority investor.

'We're focusing on growing the manufacturing strengths of our industrial division since the tremendous opportunities brought on by the mining boom ... and a minority share holder should help us take the next step—the listing of K K Kingston on the Port Moresby Stock Exchange,' Kingston told Business Advantage.

Kingston believes the outlook is positive for the company, not just within PNG but also in the broader Pacific region:

'We have been very successful and I don't see why that wouldn't continue. We have a K30 million (US\$10 million) capital expenditure budget for 2010 [and] we have double-digit growth in our export sales to Pacific Island nations such as Vanuatu and Nauru.'

'FROM PALM TO PLATE': A WORLD-FIRST FOR PNG

PNG's leading agribusiness company New Britain Palm Oil Ltd (NBPOL) is leading the world when it comes to sustainable palm oil production.

Following its 2007 listing on the London Stock Exchange, NBPOL—the largest palm oil producer in PNG—has recently established an £18 million refinery in the UK and major supply deals with confectionery titans, Ferrero and United Biscuits.

At the same time, the move will underscore the organisation's compliance with sustainability protocols established by the Roundtable on Sustainable Palm Oil (RSPO), of which NBPOL is a prominent member.

'The UK facility will also ensure that NBPOL will be the first palm oil producer to offer customers fully traceable, sustainable, ethically produced palm oil product. We believe that our dedicated supply chain should ensure that NBPOL will be able to supply palm oil that is traceable from "palm to plate", giving manufacturers and consumers total confidence in their product,' says Nick Thomson, CEO of New Britain Palm Oil Ltd (NBPOL).

NBPOL is also a majority shareholder of Guadalcanal Plains Palm Oil Ltd in the Solomon Islands and in 2010 bought some 25,000 hectares of PNG oil palm estates from Cargill Inc. and Singapore Government investment

'NBPOL will be the first palm oil producer to offer customers fully traceable, sustainable, ethically produced palm oil product.'

arm Temasek Holdings for US\$175 million in 2010. The purchase expands NBPOL's plantation acreage in PNG by some 50% to about 75,000 ha.

The business employs more than 12,000 people in PNG but also has smallholder oil palm schemes that provide employment to people who independently grow oil palms outside the company's plantations. In 2008, NBPOL became one of the first companies to achieve RSPO certification for its environmental management systems.

Palm oil is cholesterol free and can be used in foods, cosmetics, soaps, printing inks and as a bio-fuel. It has become a prized commodity, with its value increasing by more than 19% since July 2009 to US\$820 per tonne. Oil palm trees flourish in many parts of PNG and NBPOL's success has inspired a surge of interest in cultivating this commodity locally.



CREDIT: NBPOL

NBPOL'S PALM OIL PROCESSING FACILITY IN THE UNITED KINGDOM

An advertisement for Nescafé 3in1. The background is a vibrant red with a pattern of white and yellow swirls. On the left, the text 'KIKSTATIM DEI WANTAIM' is written in large, bold, white letters. Below it, in smaller white text, it says 'KICK START YOUR DAY WITH NESCAFÉ'. In the center, there is a packet of Nescafé 3in1. On the right, a woman in a purple patterned top and a man in a white t-shirt are smiling and talking to each other. The woman is holding a red Nescafé 3in1 can.