

PERSPECTIVES ON PAPUA NEW GUINEA

Business leaders provide their own take on opportunities in Papua New Guinea's economy.



'While LNG is obviously a focus, there are enormous other opportunities in PNG. I think this is one of the major turning points in the history of the country. If Papua New Guinea can leverage this opportunity, the LNG project will double GDP of the country and bring with it a lot of opportunities and benefits. These have to be

distributed across the country so that the average man or woman in the street realises that these types of project can deliver real benefits to them.'

—**Ian Clyne, Chief Executive Officer, BSP**



'We're very bullish about the economy. When you take into account the multiplier effect associated with the PNG LNG Project, we're likely to see three or four jobs created in the general economy for every job created directly. At the same time, we have to be cautious and

pay close attention to the careful management of the broader impacts likely to be brought by such a dramatic boost to GDP. As a leading investor in PNG and the caretaker of the financial futures of over 113,000 individuals, Nambawan Super is keen to see sustainable growth across a range of industry sectors, particularly long-term sectors such as agriculture and tourism.'

—**Leon Buskens, General Manager, Nambawan Super**



'PNG has the opportunity to have a very robust economy. If we can get our infrastructure right and give everyday Papua New Guineans an opportunity, I think it could be quite exciting. And it also gives an opportunity for whole numbers of new businesses to develop such as in tourism—we've got some of the best tourism products in the world here.'

—**Syd Yates, Chief Executive Officer, Kina Securities Limited**

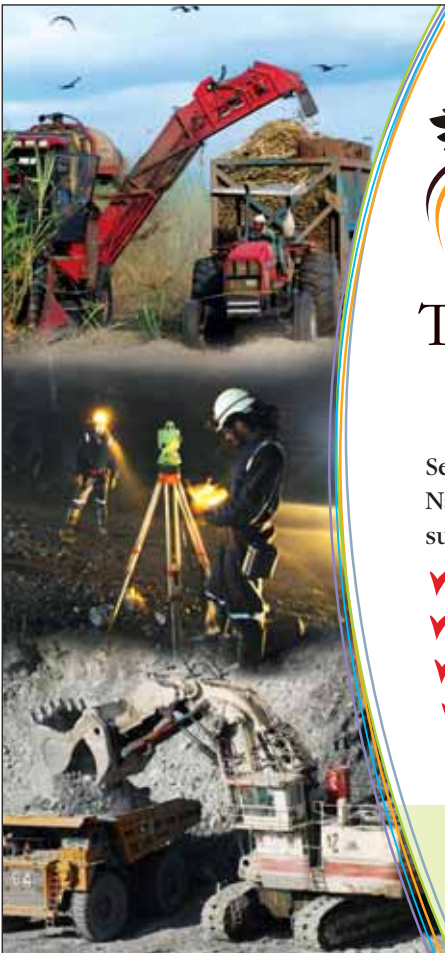


'Clearly, PNG is seen as a growth market by ANZ ... The country has done well post-GFC. If you look at what happened to some of the other countries during that period, you could say that PNG has been somewhat blessed.

I hope the new opportunity we have with

LNG will result in the emergence of a middle market segment of medium to large-sized businesses. I personally believe that the further growth of this country will be driven by Asian investments. There are more and more Malaysians, Chinese, Indonesians and Singaporeans coming into the country looking to invest and wanting to be part of the growth phase of the country.'

—**Vishnu Mohan, Chief Executive Officer, Papua New Guinea and Pacific North West, ANZ**



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DOING BUSINESS IN PAPUA NEW GUINEA

David Caradus, a partner of PricewaterhouseCoopers, whose PNG practice has been in operation for nearly fifty years, provides answers to common questions about doing business in PNG.

Does a foreign company have to register in PNG?

If a foreign company is 'carrying on business' in PNG, it is required to both register as an overseas company in PNG and obtain certification.

When should a foreign company register in PNG?

Under the Companies Act, a foreign company is required to register as an overseas company within one month of commencing business in PNG. This includes appointing a resident agent. A foreign company which enters into a contract for work to be done in PNG and undertakes work in PNG for a period of more than 30 days would be regarded as 'carrying on business' in PNG for the purposes of the Companies Act.

When is a company required to obtain certification to carry on business in PNG?

Companies with foreign shareholdings of 50% or more (held or controlled by non-citizens of PNG) must be certified by the Investment Promotion Authority (IPA) before they can carry on business in PNG. This requirement applies whether an overseas company intends to carry on business in PNG through a PNG incorporated company or overseas incorporated company.

What are the benefits of registering in PNG?

The commercial banks in Port Moresby will only allow a company to open and operate bank accounts where it can demonstrate that it is duly registered with the Companies Office and, where relevant, certified to carry on business in PNG by the IPA.

Only a company duly registered with the Companies Office and, where relevant, certified to carry on business in PNG by the IPA, can obtain work permits and entry visas for its non-citizen employees.

The Internal Revenue Commission (IRC) will not register an overseas company for GST purposes unless it is provided with a copy of the certificate of registration of the overseas company under the Companies Act and, where required, a copy of the certificate to carry on business under the Investment Promotion Act. Until it is formally registered in this way, a company cannot be issued with a GST registration number, and therefore cannot issue a valid tax invoice.

What are the corporate tax rates in PNG?

The general corporate income tax rate is 30%. The rate of income tax for non-resident companies, other than those engaged in mining, petroleum or gas operations, remains at 48%. As discussed below, some companies may be taxed as foreign contractors'.

Where the company's gross salary or wages exceeds 200,000 kina, the company will also be liable to training levy at the rate of 2% (with the liability reduced by the costs incurred in training citizen employees).

How are foreign contractors taxed in PNG?

Many foreign companies providing services in PNG will be subject to taxation in PNG under the foreign contractor provisions of the income tax law.

As a general rule, the rate of tax applicable to income of a foreign contractor is 12% of the gross contract income unless the

foreign contractor is granted permission to lodge an income tax return and be assessed on an annual basis.

Where the foreign contractor provisions apply, the employees of the foreign contractor will be liable to salary or wages tax in PNG. Where gross salary or wages exceeds 200,000 kina, the foreign contractor will also be liable to training levy at the rate of 2% (with the liability reduced by the costs incurred in training citizen employees).

If the foreign contractor is resident in a country with which PNG has a double taxation agreement, PNG may be prevented from taxing the income or the rate of income tax may be reduced.

The taxation of foreign contractors should not be confused with the taxation of management or technical fees paid to a non-resident for services rendered outside PNG. Broadly, management fee (withholding) tax applies to management fees paid for services rendered outside PNG and foreign contractor's withholding tax is payable in respect of services rendered within PNG. The rate of management fee (withholding) tax is 17% of the gross management fee unless reduced by the operation of a double tax agreement.

David Caradus is the author of 2009 PNG Tax Facts & Figures and Papua New Guinea Resource Project Taxation—A guide for Operators. David is also the PNG editor for the CCH International Master Tax Guide.

A Partner in PNG's Nation-Building Process

Rimbunan Hijau Group of Companies has been in Papua New Guinea for over twenty years and is committed to the nation-building process.

The Group is proud to be involved in rural sector development which involves providing employment, health care, sea and air transportation, communication, basic infrastructure development and contributing to the economic wealth of the country.





KEY INVESTMENT ORGANISATIONS IN PNG

There are several organisations worth knowing about if you're looking to invest in PNG. Here, we profile four of the most significant. For contact details, turn to pages 20 & 29.

INDEPENDENT PUBLIC BUSINESS CORPORATION (IPBC)

In 2008 the Independent Public Business Corporation (IPBC) was appointed as the state nominee for the Government's 19.6% equity stake in the massive Liquefied Natural Gas (LNG) consortium led by ExxonMobil, making IPBC the third-biggest equity holder in the project consortium.

This follows IPBC's considerable success in overseeing the rehabilitation of a wide portfolio of PNG's state-owned enterprises (SOEs) since 2002. Improved balance sheets have subsequently enabled these essential enterprises to make urgently-needed capital investments.

IPBC successfully sold 50% of Telikom's bembobile subsidiary and is considering the options for 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.

Although there has been no private sector investment in the state enterprises under the IPBC's portfolio since bembobile, a range of key infrastructure projects including water and sewerage treatment and the redevelopment of ports, have been identified as suitable for private sector involvement.

MINERAL RESOURCES DEVELOPMENT COMPANY LIMITED (MRDC)

A 100% state-owned entity, the Mineral Resources Development Company (MRDC) is trustee of the wealth that flows to landowners from PNG's rich natural resources. MRDC actively seeks growth and opportunities by acting for and on behalf of the people of PNG as it invests their royalties in economically attractive projects that will deliver profitable long-term returns for its landowner constituents.

One initiative expected to return long-term benefits, is the

ExxonMobil-led Liquefied Natural Gas (LNG) project in which MRDC has invested 2.8% on behalf of landowners.

In December 2009, the MRDC purchased 50% of regional aviation company Hevi Lift Ltd, which will be tendering for aviation contracts related to the LNG project, from Australia-based Regional Aviation Group.

At the time, MRDC Managing Director Augustine Mano said the partnership with Regional Aviation marked a milestone for MRDC, as it now had direct control in a company, in contrast to several existing investments where it had no management role.

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. 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. 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.

PNGSDP's domestic investments have continued to perform strongly in comparison to its international interests during the global downturn.

Some of the company's key projects have included the construction and upgrade of national and Western Province roads, a project to process the tailings from the Ok Tedi mine and the establishment of The Star Mountain Institute, a trades training centre at Ok Tedi to augment existing education establishments in the area.

In 2009 PNGSDP escalated its capacity-building efforts through major projects that include initiating feasibility studies

CASE STUDY: DRIVING PNG'S GROWTH



Toyota Tsusho subsidiary Ela Motors has a long and distinguished history in PNG. Its current programme of new investment illustrates how standards are rising fast in PNG's services sector.

While many automotive businesses around the world suffered during the global downturn, automotive sales and service company Ela Motors grew significantly in PNG and dominated the new vehicle sales market, achieving a 58% market share in 2009.

Ela Motors has been established in PNG for nearly 50 years and has been a subsidiary of ToyotaTsusho's South Pacific operations since 2000. Prior to that the company formed part of the Burns Phillips Trading Group. The organisation supplies Toyota, Massey Ferguson, Daihatsu, Yamaha and Hino brands to the local market and owns the largest slice of the Avis car hire franchise in PNG. In PNG's tough environment, a strong, durable and reliable vehicle is not just desirable but essential—a major reason for the large number of 4WDs/SUVs sold there.

The company's rapid growth looks set to continue as the major resources projects planned for PNG result in a dizzying pace of change in the local economy.

'The LNG project will force a positive change in the infrastructure of this country. It is an indicator of the benefits to come,' says David Purcell, Chief Executive Officer of Ela Motors. 'Our challenge this year has been keeping up with supply. In our business we're looking at growth in the volume of new vehicles sold and predict a potential 30% to 60% business increase over the next year.'

At the end of 2009, the company opened a new state-of-the-art vehicle servicing facility in Port Moresby's Waigani district (pictured above) and Purcell is in no doubt that the bar has been raised for service-based companies in PNG as a result of the increased internationalisation of the economy:

'We have to strive and deliver on international standards—a lot of our customers are international companies,' he told *Business Advantage*.

The company will also take on new staff in 2010, taking its head count beyond 1,000 and making it one of PNG's largest private sector employers.

While acknowledging certain operational challenges, such as the logistics of moving vehicles and parts around such a dispersed country, Purcell is bullish about the company's future prospects.

'We're expanding our businesses, we're acquiring more land, we're opening more branches, we're employing more people and we are continuing to promote the brands that we import, distribute and retail ... We are on the cusp of great things and so is the country,' he enthuses.

for an infrastructure corridor in Western Province to facilitate the development of the area's world leading natural gas resources, and the establishment of telecommunications towers to enhance the region's ability to access mobile, internet and radio services.

PORT MORESBY STOCK EXCHANGE

The Port Moresby Stock Exchange (POMSoX) bounced back from the global financial crisis in emphatic fashion in 2009. An increase in capitalisation of around 70% saw it surge back towards its 2008 peak. Trading volumes were slim however, and only one new listing was completed, New Guinea Islands Produce Company.

Among 21 listed companies, POMSoX plays host to some of the world's larger resource companies such as Lihir Gold, OilSearch and New Britain Palm Oil (all dual-listed).

POMSoX operates a fully automated Trading System called the Port Moresby Stock Exchange Electronic Trading System (PETS) that was licensed from the Australian Stock Exchange (ASX).


Given the current dynamism in PNG's economy, there is clearly potential for POMSoX to expand considerably. To facilitate this, Market Controller & Administration Manager Vincent Ivosa told *Business Advantage* that POMSoX is working towards simplifying its settlements process and has also proposed reforms to the existing regulatory framework.

'We are getting interest in new listings from the agribusiness sector in particular,' adds Ivosa, 'while there is also potential for additional dual listings.'

As the Pacific Islands region's largest exchange, POMSoX is also interested in promoting itself to larger regional firms who may not necessarily be domiciled in PNG.


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