

# Made in PNG

SHOWCASING PAPUA NEW GUINEA'S PRODUCE AND PRODUCERS 2011

Manufacturing



Agribusiness



Forestry



Fisheries



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**PNG  
MADE**



Foreword by Murray Woo, Chairman of the Manufacturers Council of Papua New Guinea..... 4

## FEATURES



**PNG and its productive sectors ..... 6**  
Mining and gas are by no means the only industries in which Papua New Guinea has considerable natural advantages. In fact, the country's economic future will equally depend on the expansion of its promising agriculture, fisheries, manufacturing and forestry sectors.






**Selling PNG's produce to the world ..... 11**  
How PNG products and commodities are reaching markets around the world.



**PNG's manufacturers seize the moment ..... 14**  
Our unique survey finds PNG's manufacturers talking openly about the challenges and opportunities in their sector.

## SECTOR PROFILES featuring the best of PNG produce

	Manufacturing.....	18
	Agribusiness.....	26
	Fisheries.....	34
	Forestry.....	38

## RESOURCES



Map of PNG's provinces and their produce ..... 22  
Made in PNG directory of useful contacts and information ..... 42  
Manufacturers Council of PNG members..... 42

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# Foreword by Murray Woo, Chairman Manufacturers Council of Papua New Guinea



Welcome to the inaugural edition of *Made in PNG*, your guide to the wide array of goods and foods grown, processed and produced in Papua New Guinea—and the people who produce them.

Papua New Guinea's dynamic mining, petroleum and gas industry is perceived to overshadow its other major industry sectors in the eyes of the business world. In fact, it is the Pacific nation's *other* productive sectors—agribusiness, fisheries, manufacturing and forestry—that provide most Papua New Guineans with their livelihoods.

*'Made in PNG aims to raise awareness of PNG's productive sectors among buyers and key decision-makers locally and around the world'*

These downstream-processing sectors provide essential diversity in the country's economy. As well as supplying import replacements for many products, they provide export and business opportunities for both investors and buyers.

The penetration of overseas markets by PNG produce such as cocoa, coffee, palm oil, tuna, shellfish and spices is gathering momentum each year. Demand is increasing too for PNG's sustainably-produced forest products, while the country has by far the largest manufacturing base in the Pacific. This is a clear indication that PNG is shifting from being an exporter of unprocessed goods and materials to being a genuine value-adder.

*Made in PNG* aims to raise awareness of PNG's productive sectors among buyers and key decision-makers locally and around the world and provide them with an invaluable single reference.

While PNG remains a relatively high cost environment in which to do business, I'm sure you will agree once you have read through these pages that it offers some exciting business opportunities, and that there is some great news to tell the world about what we make and produce.

The Manufacturers Council of Papua New Guinea remains pivotal to achieving a favourable business environment in PNG. With your support, the MCPNG will continue to assist businesses in leveraging many more opportunities in the future.

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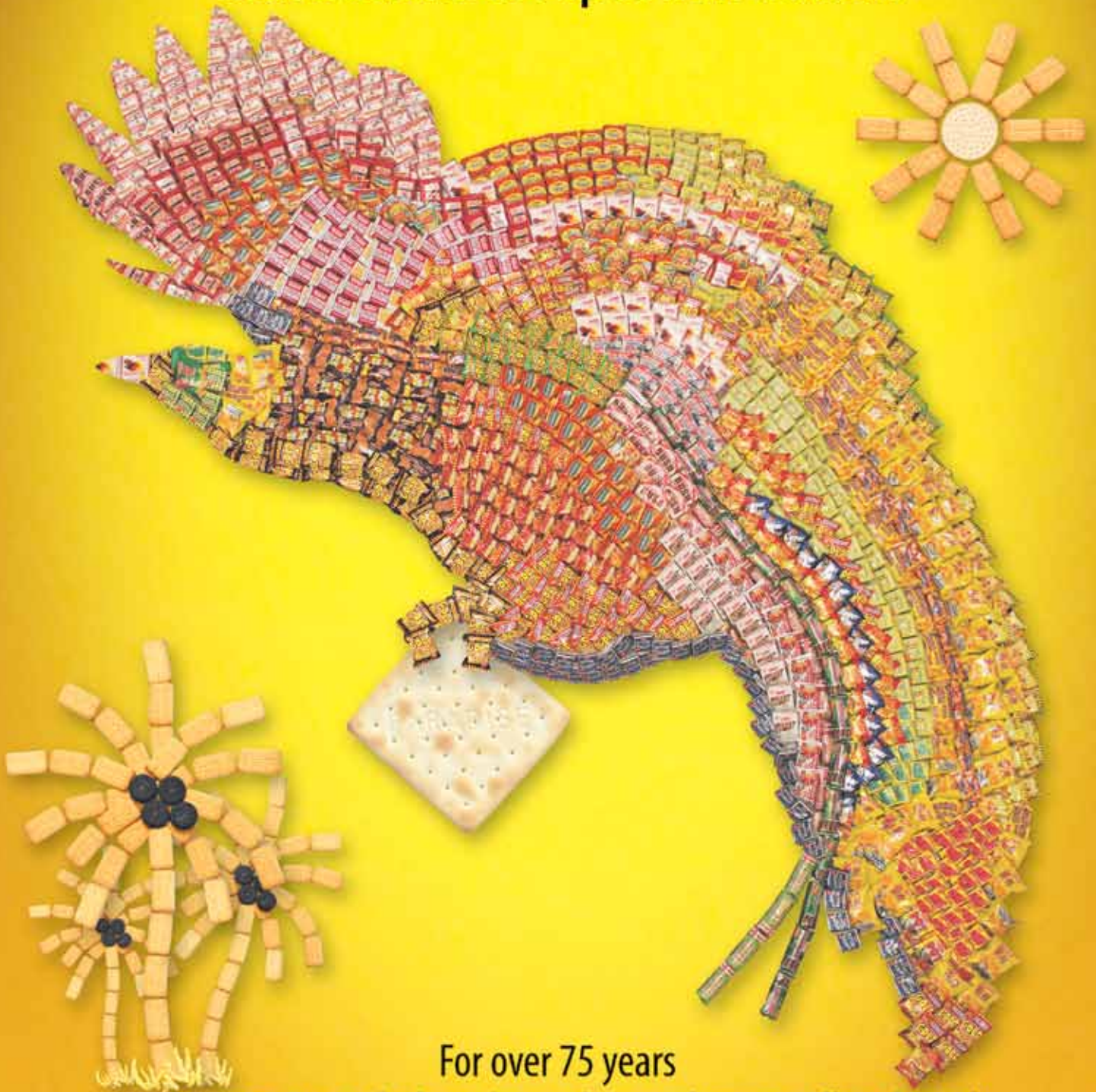
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Papua New Guinea not only produces commodities, but increasingly also manufactured goods.  
Credit: K K Kingston

## PNG and its productive sectors

Mining and gas are by no means the only industries in which Papua New Guinea has considerable natural advantages. In fact, the country’s economic future will equally depend on the expansion of its promising agriculture, fisheries, manufacturing and forestry sectors.

While prominent projects such as the US\$15 billion ExxonMobil-led PNG LNG project and Xstrata’s Frieda River gold mine may dominate business headlines internationally, behind the scenes there is increased diversification in the Papua New Guinea’s economy and business opportunities aplenty.

The Pacific’s largest economy is a country blessed by rich soils, reliable rainfall and warm climate—ideal growing conditions for a wide range of agricultural commodities. It also has a 2.4 million square kilometre exclusive economic zone that contains about 10% of the world’s tuna catch, as well as many other marine species. Its forests are also largely intact at a time when other forests in the Asia–Pacific region have become drastically depleted, while steady economic growth has seen the emergence of a manufacturing sector focused on both import replacement and exports.

### A natural centre for agriculture

While there is some urban drift in its population, Papua New Guinea has not yet experienced the rapid urbanisation of its Asian neighbours. The bulk of the country’s 6.1 million people still live in its remote highlands, and an estimated 85% of PNG’s population is involved in traditional subsistence farming in some form.

PNG is largely self-sustaining in fresh fruit and vegetables. Smallholders typically grow food to feed themselves and their communities, and then grow commodity crops on spare land to obtain cash for such necessities as school fees. Rich soils and good rainfall

mean that chemical fertilisers and intensive farming methods tend to be unnecessary. Thus, much of PNG’s agricultural produce is eligible for organic certification, provided the road to certification can be navigated successfully.

Major agricultural commodities produced in PNG include coffee, cocoa, palm oil, rubber, copra, tea and spices, which are being exported to Europe, the United States, Asia and neighbouring Australia and New Zealand. Most have been traditionally exported in their least processed form, but increasingly value is being added onshore, whether it be as roasted coffee beans, coconut oil or pure vanilla extract.

In the case of palm oil, pioneering producer London Stock Exchange-listed New Britain Palm Oil Limited (NBPOL) has not only become the first company in PNG to offer customers a ‘fully traceable, sustainable, ethically produced palm oil product,’ but has

done it in a way that has overcome the barriers to large scale plantations that can be caused by PNG’s traditional land ownership arrangements.

In PNG, most land is customarily owned, which tends to mitigate against large scale agricultural plantations. In a practice first introduced for the mining industry, land in West New Britain Province was ceded to the State by its traditional owners and then leased to NBPOL, which has thus been able to achieve some scale in production. In addition, local smallholders have been integrated into the production process through the provision by NBPOL of grower extension services—a practice now also prevalent in cocoa and coffee production.

While this process requires, in the words of Jamie Graham, General Manager of NBPOL subsidiary Ramu Agri Industries, ‘time,

‘Large scale agribusiness is not only possible in PNG, but profitable’

investment and patience, the rewards are considerable. NBPOL has not only expanded its plantation holdings in PNG by some 50% over the past two years, but it has also replicated its business in the neighbouring Solomon Islands and in 2010 opened a palm oil processing facility in Liverpool, England, to fulfil growing demand for its palm oil in Europe. In so doing, it has shown that large scale agribusiness is not only possible in PNG, but profitable.

### The move to onshore fish processing

Papua New Guinea has always had plenty of fish, especially tuna, in its waters, but until relatively recently its main income from the sea


came from fees charged to overseas fisheries companies for licences to fish in PNG waters.

This has all changed remarkably over the last decade, as the plentiful supply of low-cost labour, provincial and national government encouragement, and local and overseas entrepreneurs have combined to turn PNG into an increasingly important fish processing centre.

With only 15% of Papua New Guineans employed in the formal sector, onshore processing is generating much needed employment in such coastal centres as Lae and Madang. At the same time, PNG is multiplying the value of its catch many times over, which is critical given the resource is finite and must be managed within the wider



Through its refinery in the UK, New Britain Palm Oil Limited is the first company in the world to offer fully traceable, segregated RSPO-certified palm oil and food ingredients.  
Credit: NBPOL



## Some fish are smarter than others.


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**Processed PNG timber is now being manufactured into a wide range of products.**  
 Credit: Cloudy Bay Sustainable Forestry

confines of PNG's international fisheries management obligations (such as its membership of the Parties to the Nauru Agreement, often described as the 'OPEC of tuna').

International market access is also improving. At the beginning of 2011, the European Union reconfirmed duty free access to the EU market for PNG fish products.

With a landmark Pacific Marine Industrial Zone gazetted for Madang Province and new processing and canning plants being established in Morobe Province, there is likely to be both increased capacity and greater scale in PNG's fisheries sector in future—something that will benefit all operators.

**Sustainable forestry**

While many surrounding countries have drastically reduced the size of their native forests over recent decades, PNG's forests still cover some 65% of the country. The country has an estimated sustainable timber yield of three million cubic metres per annum—a target that has yet to be reached.

Under the management of the PNG Forestry Authority, the government agency that oversees the sector's development, round log exports of old growth timber are being phased out in favour of downstream timber processing and plantation timber —something that is supported enthusiastically by the peak industry body, the PNG Forest Industries Association (PNGFIA), which is introducing its own certification system for forest products.

Thus sawn logs, veneers, processed timber and even pre-fabricated wooden buildings and furniture are becoming the forestry sector's new exports.

At the same time, PNG's forestry sector also has potential to generate income from forest conservation and replanting under future international climate change regimes. As the PNGFIA's Executive Director Bob Tate has observed, 'the easiest, quickest and most cost-effective way for climate change abatement is to plant trees.'

**Local manufacturing base grows**

The growth of PNG's formal economy over the past decade, closely connected to the growth of the mining and petroleum sector, has created demand for new constructions of all kinds. This has not just benefited PNG's timber producers, but has also provided demand for a range of manufactured industrial and building products, from processed steel to paint, cement, and industrial chemicals.

With the costs of importing high, all these products and much more besides are now made in PNG.

At the same time, a new consumer class has emerged as participation in the formal economy has grown. International companies such as Nestlé, Coca-Cola Amatil and Singapore-based Asia-Pacific Breweries not only have a sales presence in PNG, but also manufacture a range of food and beverages for the local market. Many local manufacturers also source their packaging locally, from companies like K K Kingston, which recently attracted a major investment from the International Finance Corporation, the World Bank's private sector division.

So much is now made locally—from noodles to printed magazines and cleaning fluids—that the PNG Manufacturers Council has been able to launch a successful 'PNG Made' campaign to educate Papua New Guineans on which products are locally made (see box).

Notably, because of the rapid internationalisation of PNG's economy through its contact with the demanding resources sector, the quality of PNG-made goods is often as good as any import, making goods made in PNG often suitable for export markets as well as import replacement. ■

**'PNG Made' campaign gathers momentum**

**Over the last couple of years the Manufacturers Council of PNG (MCPNG) has stepped up its 'PNG Made' campaign that encourages PNG consumers to buy locally made products.**

The scheme centres around the 'PNG Made' logo, that acts as a mark to give consumers confidence that the local goods they are buying are of good quality. To qualify for use of the 'PNG Made' logo, 50% of a particular product's cost of production must have been incurred in PNG.

'The use of the logo is not a right of membership,' explains the Manufacturers Council's Chief Executive Officer Chey Scovell, 'participating businesses must also submit a sample of the product to the Council for approval and commit to producing it to the highest standards.'

A wide range of locally produced goods display the logo, ranging from food and beverages, to garments and industrial products.

This increased promotion has primarily been through TV advertising and was funded by leading local manufacturers and a grant from the Department of Commerce and Industry. During 2011 MCPNG plans to diversify into other media such as print and radio to maintain the campaign's momentum



**The PNG Made logo is found on an increasing number of goods sold in PNG. Further information: [www.pngmade.com](http://www.pngmade.com)**

## Expanding the nation's infrastructure

**As a developing country, Papua New Guinea lacks much of the infrastructure that developed nations take for granted, but investment in new infrastructure is under way.**

As PNG's economy has grown, so the condition and capacity of its roads, ports, power supply, airports, water supply and telecommunications network has become ever more of an issue for business. The situation is exacerbated by the country's extreme terrain (which effectively prevents the building of a large road network or a single national power grid, for example) and high rainfall.

The situation is improving, however, thanks to a combination of improved government investment, development aid, and investments from the Asian Development Bank (ADB) and private investors.

Undoubtedly, the stand-out success has been PNG's telecommunications sector. Opening up the mobile phone market to genuine competition has led to key players Bemobile and Digicel building genuinely national mobile networks. This has in turn led to an explosion in services that can be delivered at a low cost via mobile phones, such as mobile payments and banking (see box on page 10 for an example). Further deregulation of the sector is likely see expansion and more competition of fixed lines and broadband, which are currently expensive and only available in major towns. The PNG Government has also announced plans for a National Broadband Network.

PNG has good shipping connections to the Asia-Pacific region. The ADB-sponsored Tidal Basin project, which is expected to go into construction phases at the end of 2011, will significantly expand and improve PNG's busiest port, Lae. PNG Ports, which runs the country's 16 major ports, is also upgrading and extending facilities in Lae and Port Moresby as well as introducing x-ray facilities. This work is vital if PNG is to develop its export capacity.

PNG's 9000km of roads, in particular the vital Highlands Highway that connects PNG's rural highlands to the port of Lae, are in continuous need of repair. The PNG Government has signalled its intent to eventually seal all roads, while the ABD has committed US\$400 million to assist with construction and maintenance over the next 10 years.

The problems with power generation and supply mean most companies in PNG have their own on-site power generators. State enterprise PNG Power has recently reached agreement with superannuation fund Nambawan Super to enable further investment in Port Moresby's electricity grid, while there are a number of hydro-electric projects being planned.

Finally, with only small parts of the country traversable by road,

PNG is more reliant on air services than possibly any other country in the Asia-Pacific region. A 10-year US\$640 million program supported in part by the ADB is currently rehabilitating and maintaining PNG's 21 airports.

It is hoped that a planned Public Private Partnership (PPP) framework may trigger additional private infrastructure investment.



Port Moresby docks

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## Banking services reach PNG's rural population

With mobile phone use now widespread in PNG, the country's largest bank is aiming to bring financial services to the 'unbanked' in PNG's rural areas for the first time—an initiative that is expected to drive small business development.

**PNG-based Bank South Pacific (BSP), the Pacific's largest bank, will this year ramp up its rural banking program, in an effort to stimulate economic activity in Papua New Guinea's rural areas.**

BSP's Head of Rural Banking Paul Thornton says the bank aims to mobilise at least 200,000 new customers over the next three years.

The first branch of the new network opened in Kwikila as part of a pilot in September 2010, with two branches in the Eastern Highlands following. If the pilot is successful, the program will be rolled out across the country in 2011.

'[The aim] is really to get the money out from under the mattress,' Thornton says, stating Bank of PNG statistics that some K900 million in cash is in circulation around the countryside, but only about K200 million of that is in banks.

Rural banking will give people a safe haven to place their surplus funds, and provide opportunities for financing local agricultural producers and entrepreneurs, says Thornton:

'Once people have a bank account, you start building a financial history. Banks like information and in the absence of any information it is hard to make valid credit decisions. We think by

placing these branches in the districts, money will circulate within the local areas and that will help develop small and micro-business opportunities for people.'

The project has the financial support of the International Finance Corporation, also an investor in BSP.

'Access to banking services is critical for poor households and smaller rural enterprises to boost productivity, create jobs, and reduce poverty,' said Lars Thunell, IFC Executive Vice President and CEO. 'In Papua New Guinea, more than 90 percent of adults lack such access, which denies them opportunities to improve their lives. IFC is supporting BSP Rural to help extend the reach of financial services to rural areas.'

A range of banking services will be delivered via mobile phone provider Digicel's network, now a feature of most major rural communities.

'Digicel's GPRS rollout has made it possible for us to do all sorts of things,' says Thornton.

As part of the effort, BSP is also conducting financial literacy training during field days in order to sign up customers and show them how to use their plastic debit card. BSP is also looking to install more EFTPOS terminals using wireless facilities in 2011.



Lars Thunell, IFC Executive Vice President and CEO (second from right) meets some locals, including BSP's CEO Ian Clyne (left) and BSP Rural's Paul Thornton (third from right) during his February 2011 visit to PNG.

*Credit: BSP*