

Papua New Guinea

GDP: US\$17.08 billion (Est. 2012 figures).

£1 = PGK 3.04 (PNG KINA, Apr. 2013).

Growth Rate 2012: 9.2%¹



Strengths of the market

- A rapidly growing economy, almost 9.2% in 2012
- Access to large Asian markets
- Large proven deposits of minerals, oil and gas
- Stunning natural environment and fisheries resource
- English is the official language
- Local law is derived from English common law

Whilst the PNG economy is dominated by the extractive resource industries, investment and high commodity prices have stimulated activity and development in related sectors of the economy.

Businesses are able to negotiate favourable conditions such as reduced taxation, protection from outside competition and government promotion or investment. In 2007, 73% of foreign equity was invested in the minerals/petroleum sector, followed by manufacturing (9.1%), agriculture (5.2%), forestry (3.4%) and fisheries (1.2%).²

Papua New Guinea (PNG) is the largest of the Pacific Island economies and has the components to be a great success. The next 5-10 years will be a crucial period of growth given the country's abundant resources and proximity to the Asian market.

A relatively young country, PNG gained independence from Australia in 1975 and retains HM Queen Elizabeth II as Head of State with a population of 7 million and over 800 languages spoken. Politics in PNG can often be a turbulent affair. PNG has a Westminster based parliamentary democracy and an elected Prime Minister. The media in PNG is refreshingly open and the Constitution provides for free speech.

PNG is now at a crossroads. Its economy is booming and it is home to the world's largest new energy project and set to become a top five global gas exporter. Asian demand for its commodities, mainly copper, gold and nickel remains buoyant.

Given the island of New Guinea has the third largest rainforest reserves in the world, PNG is a major player in Climate Change negotiations.

There is a visible UK footprint already in PNG. Active companies include Swire, British American Tobacco, Rio Tinto, G4S, The Corps and Intercontinental Hotel Group. UK development spend through multilateral institutions and the EU is more than £34 million a Year. The Voluntary Services Organisation (VSO) are the largest volunteer network (60 plus) and there is an estimated UK consular population of between 2,500 - 3,000.

>> PNG now stands on a junction of change and social revolution on the basis of having a major resource project such as PNG LNG developing in the country <<

Peter Botten, Managing Director, Oil Search

British trade with PNG is worth approximately £158 million a year. Jan-Dec 2012 imports from PNG totalled £112.8 million, exports were £45 million. Exports to PNG rose 133% in 2012.³

Investment Incentives

- A three year exemption for export sales income from certain manufactured products, with a further four-year partial exemption
- A double claim on expenditure for tax purposes for manufacturers and tourism operators
- A double claim on expenditure for tax purposes for staff training of PNG citizen employees
- A 150% claim on expenditure for tax purposes for certain research and development
- A 10-year tax holiday on income from certain business activities in prescribed rural development areas
- Up to 100% annual depreciation for plant and equipment used in certain industrial, manufacturing or agricultural activities
- Tax free import of plant and equipment to be used for agriculture or aquaculture
- Infrastructure tax credits, for expenditure on approved infrastructure projects by resource companies, primary producers and tourism operators. This is up to a maximum of 1.5% of assessable income
- Exemption from dividend withholding tax for profit distributions by gas and petroleum operators and a reduced rate of 10% for mining operators

Steamships Trading, a subsidiary of UK owned Swire group, have a history in PNG going back 60 years. From their beginnings as a trading company, Steamships has grown into shipping, manufacturing, transport and technology. Over the past decade property has become the major business for Steamships and they are now one of the largest companies in the country. Steamships are also a major in the hotel industry. Recognising the forthcoming mining boom in 2011 Steamships opened the Grand Papua Hotel, a five star hotel in central Port Moresby.

Source: PNG Investment (Chamber of Commerce and Industry, 2nd Edition)



Photo courtesy Papua New Guinea Tourism Promotion Authority



How to Invest

The first port of call for any business seeking to invest in PNG should be the Investment Promotion Authority (IPA). The IPA can assist in many ways including in obtaining the required approvals licences and permits (www.ipa.gov.pg).

There are three types of Companies in PNG;

Citizen Enterprise - wholly PNG citizen owned

National Enterprise - over 50% owned by PNG citizens unless controlled by non-citizens.

Foreign Enterprise - over 50% owned or controlled by non-citizens.

A foreign company may register as;

- Resident Company (Foreign majority owned, incorporated in PNG) - The corporate tax rate is 30%.
- Non-Resident Company - (a registered subsidiary of an overseas incorporated company) -The corporate tax rate is 48%⁴
 - Petroleum companies are taxed at other rates, check with the Investment Promotion Authority
 - Gas companies are taxed at 50% for both resident and non-resident companies
- Not-for-profit organisations are generally registered as associations.

The main business structures are; Sole Trader, Partnership, Joint Venture, Trust or Company, with the latter being the main vehicle for foreign investment. Companies offer limited liability, may buy and sell property, can issue additional shares for capital raising, are subject to disclosure and record keeping, have perpetual existence (unless wound up) and dividends are taxed first as company income and again as shareholder income.

Work Permits

Granted by the Department of Labour and Industrial Relations (DLIR), there are three types of work permit;

- A general work permit for commercial employment
- A volunteer work permit (unpaid work only)
- A bridging work permit (for those changing employment where the new work permit has not yet been issued)⁵

Visas

Once issued with a work permit, the next stage is to make an application to the Department of Immigration for a Working Resident Entry Permit. This is best done by an employment agent. Employees will then need to lodge an application in their country of origin to apply for the visa.

Multi entry Business Visas of 12 month validity are currently available for exploratory visits, negotiations and meetings. These are granted by application in the country of origin.

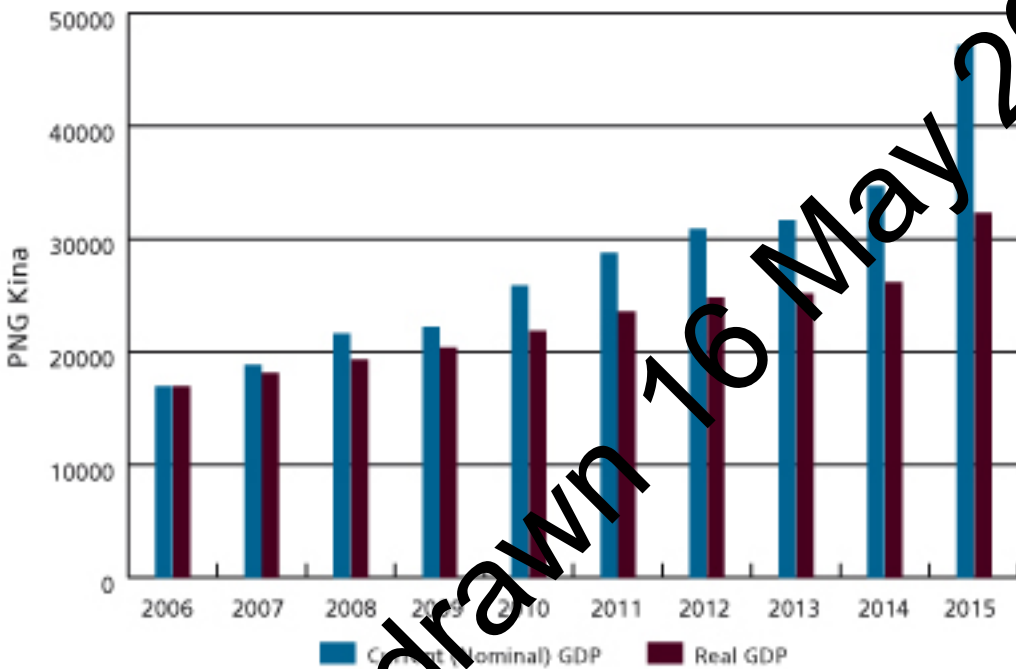
It is advised to contact the PNG High Commission in London for current information on visas.

Photo courtesy Papua New Guinea Tourism Promotion Authority

Economic Outlook

An unprecedented level of activity in resources is generating a new future for PNG. The recent resource boom lifted PNG's economy to a position as one of the world's fastest growing in 2012. One project in particular the US\$19 billion Exxon Mobil led LNG project is a key driver of growth. This constitutes the single largest investment ever made in PNG and is due to come on stream in 2014. Accumulative growth expected for the next four years to 2015, is forecast at 34.1%.⁶

The Rapid Growth of PNG's GDP



Source: PNG Treasury (figures for 2010-2015 are projected)

Whilst the PNG LNG project is crucial to the country's economic development, high levels of activity are also being registered in related sectors. Construction alone has grown at an average of about 15% over the past 5 years.⁷ Exports are also increasing; the value of total exports for 2012 was \$4.43 billion.⁸ Major and very real opportunities exist for investment and service provision to this high growth economy.

Projections to 2030, point to PNG having a population of almost 11 million and GDP four times current levels.⁹ The PNG Kina is expected to appreciate further, driven by an increase in exports. The Kina is a freely convertible currency and has appreciated by 15% against the US dollar between March and September of 2011.¹⁰ However the economic boom is causing the economy to show signs of overheating. Inflation was to rise to 8.4% in 2012, up from 6% in 2010. This along with a shortage of skilled labour and land will keep inflationary pressures high. The uncertain outlook for the global economy also creates risk for PNG's export commodities. The outlook for company earnings is however positive given a lack of lack of supply and the lack of local competition.

PNG's main export partners:

Australia	(30.4%)
Japan	(10.0%)
EU 27	(7.9%)
China	(7.8%)
Philippines	(2.8%)
South Korea	(2.2%)
Malaysia	(1.1%)

PNG's main import partners:

Australia	(43.8%)
Singapore	(13.7%)
China	(8.2%)
Japan	(6.9%)
USA	(4.5%)
EU27	(4.2%)
Indonesia	(3.6%)

(Numbers are a percentage of GDP) 2010 figures

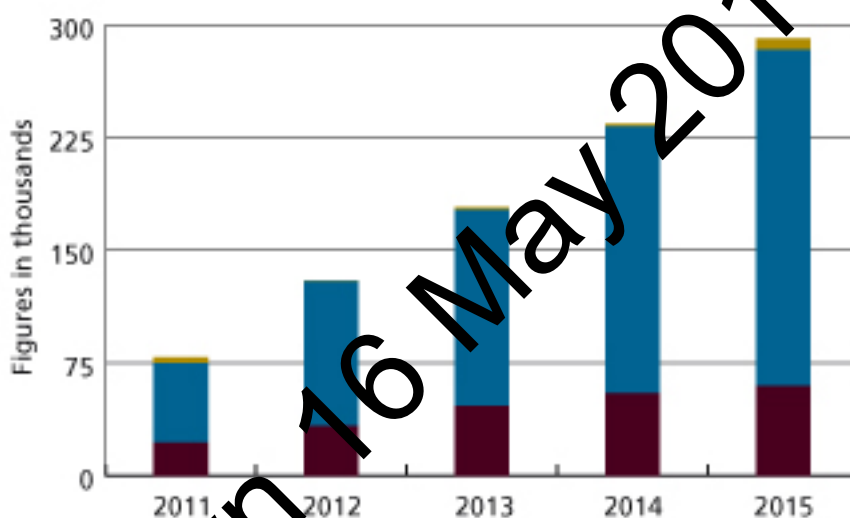
>> PNG is an exceptionally wealthy country in terms of environment and resources <<

Ian Clyne, CEO, Bank of South Pacific, Sept 2011

Increased investment in PNG has created jobs and driven the emergence of a middle class in PNG over the past decade. The new middle class is expected to expand considerably over the next 20 years. A growing middle class will provide impetus and stability to a more diverse economy, growing consumerism and a growth in enterprise. This brings with it new opportunities for the sale of consumer goods, the past few years alone have seen an increasing demand for products such as; cars, cosmetics, food and luxury items.

Employment

Estimated job creation in PNG 2011 - 2015



Source: PNG Department of National Planning and Monitoring, August, 2010

Wages

Estimates from business are that wages have almost tripled in the past five years. In 2010 the Minimum Wage Board approved a minimum wage increase from £10.94 per week to £22.66 per week, an increase of 100%. This has been partly related to upward pressure on prices driven by the resources boom, but there has also been an increase in disposable income.

>> Anecdotes from businesses combined with strong increases in personal income tax revenue suggests that wages growth has been very strong, particularly over the last year

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- PNG Treasury, 2011

Withdrawn 16 May 2019

Finance - Growth of the Formal Economy

- The financial sector has recorded impressive growth for the past five years. PNG Treasury recorded a 9.2% growth in 2012.
- There are expected to be many opportunities for financing of major projects in the next five years, particularly in the sectors of mining, oil and gas and agriculture.
- The expansion of the formal economy and greater access to banking will mean increasing demand for financial services in the future.
- The rise of the middle class will lead to increasing demand for investment products.
- The forecast growth of the economy and expected appreciation of the PNG Kina makes PNG an increasingly attractive place to invest.

At present 85% of the population in PNG has no access to financial services, meaning a considerable unmet demand for financial services in rural areas. PNG's Development Strategic Plan for 2010-2030 recognises the need for a greater role for financial services in the development of the economy.¹¹ The PNG government is committed to expanding access to credit with various initiatives including rural finance expansion and the leasing of micro finance institutions.

PNG's financial sector is still small relative to the size of its economy, lending is at low rates as compared to capitalisation, the ratio of private sector credit to GDP is a low 30%.¹² In order to encourage the expansion of credit to Small and Medium Enterprises (SMEs) the International Finance Corporation (IFC), the World Bank, and the PNG government have a US\$61 million programme which guarantees 50% of loans from banks to SMEs.¹³ As a result PNG Treasury expect an increase in lending to SMEs by major banks in 2012 and 2013.¹⁴

To encourage lending the Asian Development Bank (ADB) worked with government to draft law reforms which were passed late December 2011. That will enable financial institutions to lend in two ways:

- By removing collateral framework that restricts lending against movable assets
- By creating a public registry of credit history and assets.

>> Economic growth as measured by real GDP will continue to be high at the 8% to 10% range, all through the period of the construction of the PNG LNG project, that is, up to the end of 2014 <<

Governor Lekani
Bank of PNG

- PNG LNG is providing 12,000 to 15,000 full time positions during construction and 1,250 positions once operational.¹⁵

■ PNG is on the cusp of one of the most significant developments since independence with the introduction of mobile banking.

The Bank of Papua New Guinea (BPNG) regulates commercial banks, finance companies, merchant banks, savings and loan societies, superannuation funds, life insurance companies and other licensed institutions in PNG.

PNG has four commercial banks:

Bank South Pacific (BSP)

- 55% market share in PNG
- Largest presence in the Pacific region.
- PNG owned, the International Finance Corporation own 28%
- Present in; PNG, Fiji, Solomon Islands, Niue

ANZ

- Large Australian Bank with a presence in; American Samoa, Australia, New Zealand, Cambodia, China, Cook Islands, Fiji, Guam, Hong Kong, India, Indonesia, Japan, Korea, Laos, Malaysia, New Caledonia, Philippines, Singapore, Taiwan, Thailand, Timor Leste, UAE, UK, US, Vanuatu and Vietnam.
- 24% market share in PNG
- In the Pacific Islands ANZ present in; Cook Islands, Fiji, Kiribati, PNG, Samoa, Solomon Islands, Tonga, Vanuatu

Westpac

- Large Australian Bank.
- 20% market share in PNG¹⁷
- Present in; Cook Islands, Fiji, PNG, Samoa, Solomon Islands, Tonga, Vanuatu

Maybank

- Large Malaysian Bank with a presence in Bahrain, Brunei, Cambodia, China, Hong Kong, Indonesia, Malaysia, Pakistan, Philippines, Singapore, USA, UK and Vietnam.
- Catering mainly to the Malaysian community
- 1% market share in PNG

Insurance companies are regulated by the Bank of PNG. Those in the market include AON, Pacific MMI, QBE, Mitsui Sumitomo and Kwila. Insurance companies in PNG currently offer; risk management services, reinsurance and consulting services as well as personal, commercial and corporate insurance services.

PNG has two capital market companies; Kina Securities and BSP Securities. With an emerging middle class this sector is set for considerable expansion and is an area of potential for UK to provide expertise.

State-Owned Enterprises (SOE's)

Historically SOE's have leveraged their monopoly status to charge high prices while providing poor service. They have focused on charging high prices to the top end of the market, resulting in restricted access to services for the majority of the local population.

The Asian Development Bank (ADB) is working with the Government of PNG on SOE reform.¹⁸ This will entail separating profit making commercial activities from unprofitable but necessary public obligations and provide for contract financing for those obligations. This should allow the private sector to enter the market and compete with SOE's on a level playing field.¹⁹

The **Independent Public Business Corporation (IPBC)** holds government assets in the following State-Owned Enterprises:²⁰

- PNG Power
- PNG Waterboard
- PNG Ports
- Eda Ranu (water)
- PNG Post
- National Development Bank
- Air Niugini (national carrier)
- Motor Vehicles Insurance
- Telkom PNG

Part owned assets include:

- Oil Search
- Bank of South Pacific
- Highlands Pacific
- Ramu
- National Petroleum Company²¹

Sovereign Wealth Funds (SWF)

The PNG government has announced that the revenues generated from PNG LNG production will be held in a single Sovereign Wealth Fund (SWF) comprising a stabilisation fund and a development fund. The SWF will be held offshore but managed onshore. The development funds will have two key objectives; (i) strategic national building of infrastructure and (ii) recapitalisation of state owned enterprises. Through the PNG government's normal tendering process, opportunities will exist for international firms to bid as fund managers. The SWF will require management and the UK's expertise in the field would be welcomed.

Public Private Partnership's (PPP's)

Public Private Partnership (PPP) are a relatively new phenomenon in PNG. With a fast growing economy and considerable revenues PPP's have government support and backing from international development organisations such as AusAID.

The Asian Development Bank (ADB) are supporting a bill to establish a PPP centre; under the proposal any PNG government investment over 50 million Kina would be tendered to the PPP centre to assess suitability. In effect the Centre would help evaluate potential for PPP structure and in practice should translate into opportunities for private enterprise and government to cooperate.

