

# Papua New Guinea

## Energy project gives nation an economic jolt

Papua New Guinea looks to attract Chinese buyers with mammoth liquefied natural gas venture

Papua New Guinea has great potential to improve its socioeconomic development through its natural resources — land, cash crops, forests and fisheries.

Equally important are other areas that can contribute to economic growth and better living standards for its people, including human capital development, an improved infrastructure network and an efficient service delivery mechanism for public goods and services.

These areas underscore Papua New Guinea's development agenda in its Vision 2050.

The most lucrative infrastructure and investment project in the country's history — the Papua New Guinea liquefied natural gas project — is an integrated development plan that features an initial investment budget of nearly \$20 billion that will massively boost the Pacific nation's economy and people.

Modern gas production and processing facilities in the Southern Highlands, Hela, Western, Gulf and Central provinces will utilize more than 700 kilometers of pipelines to pump more than 9 trillion cubic feet of gas to customers including China Petroleum and Chemical Corp and CPC Corp.

Spearheaded by global energy giant Exxon-Mobil, the Papua New Guinea LNG Project will bring significant benefits to the nation from sales revenues, taxes and royalties that will be invested in a sovereign fund and used to boost the country's socioeconomic development. Nearly 15,000 people are working on the initial phase of the project, of whom more than a third are Papua New Guineans.

"This project will have, and already has had, a tremendous effect on our

economy," said Papua New Guinea Prime Minister Peter O'Neill. "It will almost double our GDP, which will have a profound effect on the economy.

"Because of this project, we have been able to maintain the level of fast growth that we have been experiencing. When the revenues start to come in, we will also use the money to build and invest in infrastructure.

"We are contributing to the Chinese economy as they will receive our gas as well as our minerals."

He also said the mammoth project will create a multitude of business openings.

"On the downstream side, especially with LNG, we are now in discussions with many foreign investors who are trying to get into the petrochemical business.

"We are establishing petrochemical parks for them and special economic zones for this growth.

"China has a great need for resources. We have opened the gates to them to come and establish some of the downstream business that we all want in this country.

"This is because what we really care about is employment, not just making money. People need jobs in order to put food on their tables. So we are encouraging companies to do business in Papua New Guinea so that they can employ more people and build our country at the same time."

### A bright outlook

Minister of Finance James Marape said the project has secured Papua New Guinea's development path for the next 20 years.

"Our development targets will be met from the revenue that will come



“Our development targets will be met from the revenue that will come from the Papua New Guinea LNG project.”

James Marape, minister of finance

from the Papua New Guinea LNG project," he stated.

"Anything on top of the Papua New Guinea LNG project is a bonus for us: We can build even more roads, schools and health facilities. We are a country of only 7 million people and this means our development aspirations can be met with the revenue that flows in from this project. It could be quite a windfall and we're



The Papua New Guinea LNG project will bring significant benefits to the nation through sales revenue, taxes and royalties.

mindful of the fact of accessibility of liquidity in our systems. We should have enough to fund our development budget."

Papua New Guinea has always been a secure investment destination for companies who want to do honest business with the government or local enterprises, the finance minister said.

He cited the Kutubu oilfields, the country's first commercial oilfield development that began pumping oil in 1992 and has never witnessed one delayed cargo in 24 years, as evidence of this enviable track record. The project, also operated by Exxon-Mobil, has an estimated 18.7 million

barrels of reserves.

"We've also had flowing oil from the Southern islands into the Gulf of Papua and a ship has come in every time, on time, picked up their cargo and left," Marape said.

"Our record as a secure exporter of products is there, and we look forward to continual expansion in businesses.

"There is always a market space for China in terms of finance, in terms of infrastructure contribution, and in terms of our own extended supply to the China economy, our raw materials.

"We know we also have a special place and relationship with the Chi-

nese government. That, I believe, is really appreciated in the China leadership structure right now, and they know who we are in terms of our respect for them as a nation. We've also been discussing with Chinese officials the idea of them not only coming in to help with resource development, but also infrastructure support.

"It needs to be a win-win situation for both parties because our infrastructure construction will act as a stimulant for the continually exacerbated local growth taking place in the country."

## Papua New Guinea opens its doors to foreign investors

With the surge of petroleum and mining projects, the Papua New Guinea government has had the foresight to create a sovereign wealth fund to insulate the country's economy from volatility and fluctuations in revenue.

Overseen by the nation's Ministry of the Treasury, headed by Minister Patrick Pruaitch, the fund manages proceeds from mineral and gas exports through the sovereign wealth fund. Offshore proceeds are invested, while onshore revenues are used for infrastructure development.

A spokesman from the Department of Treasury explained: "The fund will also have a buffer so that it does not deplete. Any extra money made, together with any proceeds that come into the country because of price increases in sales or commodities, could possibly be pumped into the economy through the budgetary process to develop infrastructure and provide services in other sectors. Or we can invest through businesses in various investment portfolios."

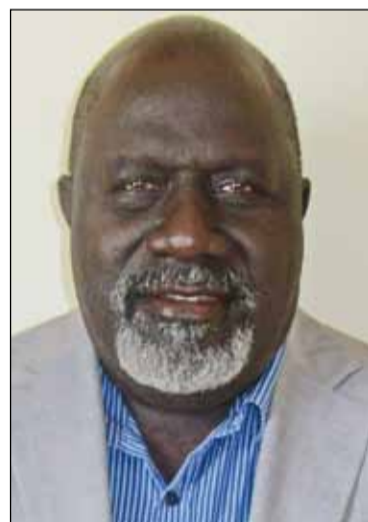
The priority areas of expenditure are threefold: major infrastructure projects will be renewed; there will be money set aside for the future; and the economy will be stabilized.

Development project funds will be targeted at projects discussed in the nation's Vision 2050, a medium-term development strategy, and other government programs.

To be among the top 50 countries in the United Nations Human Development Index, there are several pathways that Papua New Guinea's economy can take. Vision 2050 will pursue four development routes for the first 10 years.

From 2020 to 2050, it will aspire for economic growth at a desirable rate, underpinned by key development projects. These include better service delivery, improved education, improved health services and sound political leadership and structures.

"What this means for investors is a conducive environment in agriculture, tourism, the manufacturing of raw materials, processing of finished products, and a diversified



“We have everything here in Papua New Guinea and we are trying to open ourselves to the world.”

Jim Miringtoro, minister for ICT

field of business investments will take place out of those many areas when you've got a stable environment," the spokesman said.

"The new plan has gone a long way to create a stable macroeconomic environment for the first time in 30 years.

"Chinese mining companies investing in Papua New Guinea, for example, can rest assured that any proceeds that come out of that activity or business with the Papua New Guinea government are managed through the sovereign wealth fund mechanism.

"The people of the country can disagree if the government is not managing it properly or is not



To insulate Papua New Guinea's economy from volatility, the nation has devised a sovereign wealth fund that manages proceeds from mineral and gas exports.

transparent enough. And then it affects not only the government or its leaders, but also business. So this setup also gives confidence to investors.

"The Chinese investor that comes into Papua New Guinea will be assured that landowner issues and any other socioeconomic issues will be properly and prudently addressed through the sovereign wealth fund system, so that a company working in the sector is not disturbed.

"We cannot further develop this country without foreign investment. So we invite it to let it help us.

"This country is so vast, with so many resources. But we don't have the technology. So we want people with technology to come because we can use these resources," the ministry spokesman said.

"Once here, private companies will

find a stable place for foreign investment. We have everything here, and we are trying to open ourselves to the world. The Chinese investor who comes to Papua New Guinea will see that it is a long-term investment. He or she will become a corporate citizen of this country because of the conditions that we are creating. There will be competition and there will be stability.

"The people of Papua New Guinea will also be happy because the government is putting the money that comes out of the proceeds of our energy resources into social development, so there will be plenty getting benefits. That will encourage the Chinese investor to invest."

"We will go out to the international market — to the United States, the United Kingdom, Europe, and of course, China, to issue the sovereign

bond and raise capital, the balance of which is currently at about 6 billion kina (\$2.2 billion)."

### Building a country

Infrastructure development is challenging around the world, but in Papua New Guinea, it is more difficult because its tough terrain and geographical features and the high cost of construction and installations.

Traveling by air is the quickest way to get to the 462,840-square-kilometer nation, which has more than 560 airports, 21 of which have paved runways, and two heliports. It also has five major seaports in Kimbe, Lae, Madang, Rabaul and Wewak.

Lae, the capital of Morobe province and the second-largest city in Papua New Guinea, is accessible by the Highlands Highway, the main

land transport corridor from the Highlands region to the coast and which is situated near the delta of the Markham River.

It has the largest cargo port in the country and is Papua New Guinea's most industrial city.

Plans are now afoot to open a four-lane freeway and bring Nadzab Airport up to international standards.

Huge changes are also coming for the nation's information and communications technology infrastructures.

Information and Communications Technology Minister Jimmy Miringtoro said: "The sector is creating a lot of opportunities, especially in the banking industry, business sector, housing and retail and education. The latter is becoming more successful as a result.

"Now we have liberalized ICT, we can see big players coming in, like Digicel (a mobile phone network provider). They have the technology, the money, the technical expertise and they are doing very well. This competitive regime has allowed people to have access to the ICT industry."

One of the challenges that must be faced is the high cost of the Internet.

"It is not ... because we don't have the infrastructure," Miringtoro said. "It is because the fiber-optic network we have is underused.

"It runs through the main centers of the country, from Port Moresby to Australia. And because Telikom — the state operator — uses only 10MB (of bandwidth), traffic was very high and the Internet became very slow. The cost was therefore passed onto the consumer. We are obviously looking at how to solve this.

"Large investments are currently being poured into Papua New Guinea to upgrade its telecom infrastructure. This government has an open door policy to foreign investors."

"This country is so vast, with many resources, but we don't have the technology. If people with technology come, then we can use our resources to their full potential."

# PNG's stability a force for nation's growth

## China contributes to defense and development of country

*Editor's note: The Papua New Guinea Defense Force — or PNGDF — is the unified armed forces of the country. It originated from the Australian Army land forces of the territory of Papua New Guinea before independence, coming into being in January 1973 and having its antecedents in the Pacific islands regiment.*

*At independence, it numbered 3,750 personnel in all ranks, with 465 Australian personnel augmenting the force to assist in training and technical support. Today the PNGDF is a small force numbering around 2,100 personnel due to the PNG government's downsizing operation, and consisting of a land element, an air operations element and a maritime operations element with steady intakes of recruits to reach the 5,000-plus mark by 2018. It is a joint force tasked with defending Papua New Guinea and its territories against external attack, as well as having secondary functions including national-building and internal security tasks.*

*Defense accounts for up to 4 percent of government expenditure, while also receiving significant assistance and training support from Australia, New Zealand, the United States and other nations.*

*Minister of Defense Fabian Pok talks about his vision for stability and peace in the region:*

**What, in your opinion, are the key factors that are contributing to the country's development and success?**

The first is political stability, which has brought many investors. We have ministers that have been in the same position for many years, and that is reassuring for the investors. That is why the country is very stable.

I was one of the people that requested that the prime minister create an integrity law, which has turned out to be fundamental to a stable political climate. We cannot have a new government every six months. We need continuity. Now we have different goals, we have more companies, such as Ramu Nico that is exporting gas.



**If it wasn't for political stability, the LNG project wouldn't have happened."**

Fabian Pok, minister of defense

In PNG the system works when there is political stability. If a minister and department are in a position for many years, they can continue with their politics and projects and look to investment.

Taking the LNG (liquefied natural gas) project as an example, if it wasn't for political stability, the LNG project wouldn't have happened.

So today I can talk to businesses and investors with certainty, because I will be there to deal with what I'm saying.

**You have spoken about the desire to introduce and undertake major changes aimed at remobilizing and developing the defense force. How do you plan to further develop the sector?**

One of the most important things we are looking at is to increase military recruits; we now have between 2,000 and 3,000 people, but we are

trying to increase that.

So we are dealing with a major recruitment project. We are trying to get more people to get to us. Another very big project I'm doing is to transfer this area where we are to a new place. This will be done by a Chinese company with the help of an Eximbank loan. We can only apply to Eximbank when we have the land. We have a master plan, to build a city within the city. We have got the plan, but we are waiting for approvals.

The land we are now standing on will be owned by a company under the defense force. We already have the company created and, with the loan, we will have a lot of money, enough to build around 500 houses. We will rent these houses out and that way, the defense force won't need to depend on the government to sustain itself.

**During your visit to China in 2013, China's former minister of defense Liang Guanglie made clear that China is willing to make joint efforts with PNG to actively push forward exchange and cooperation between the two militaries and make joint contributions to regional peace and stability. Please comment on China's role as a strategic international ally in PNG's military and defense.**

We have adopted the policy of cooperation — everybody we deal with is our friend. We agreed with China that they would train our medical personnel and when I went there, I met with them. Three or four students go every year.

We are also grateful that they contributed to barracks — if you look out across from this office, they were constructed with a contribution from the Chinese, and we are opening a new training center. Also, they have given us the grant, in which we have asked them to supply us with armored vehicles, troop carriers, a gym and swimming pools.

So we are grateful that the Chinese government is helping us. We would like them to help more. We are also looking ahead for further cooperation with the defense force.



Minister of Defense Fabian Pok inspects a facility of the Papua New Guinea Defense Force.

**Liang Guanglie said China and PNG have constantly maintained deep political mutual trust and expanded economic and trade cooperation, achieving great results in such fields as energy, resources, infrastructure, health and education. What areas would you like to highlight for potential Chinese investors?**

After our independence from Australia, we were in quite an inferior position from the start. When we looked around for help, there were a lot of people, and I will be very honest with you, from many other countries like Australia and the US, that told us that the interest of China in PNG is much greater than just this.

But the truth is, we need the support to build the basic infrastructures. And China is also our friend. We are grateful to China for the loan, and there are a lot of Chinese companies here now, developing more infrastructure than ever before.

China has the right to come to our country and help us. If other countries cannot help us, there is nothing wrong in looking for help to China. I

don't see a problem with that.

Importantly, we have never failed a commitment with our loans, we have never been late in paying our loans. We always pay on time. And I'm sure we will pay the loan to China. They wanted a loan of 6 billion kina (\$2.19 billion), and we told the parliament that we could have 10 billion kina and that we are fine to pay it. We need the infrastructure more than anything else. As soon as the roads open up, we can export more coffee and other goods. At this moment, the road infrastructure is in its infancy, and we can see its potential.

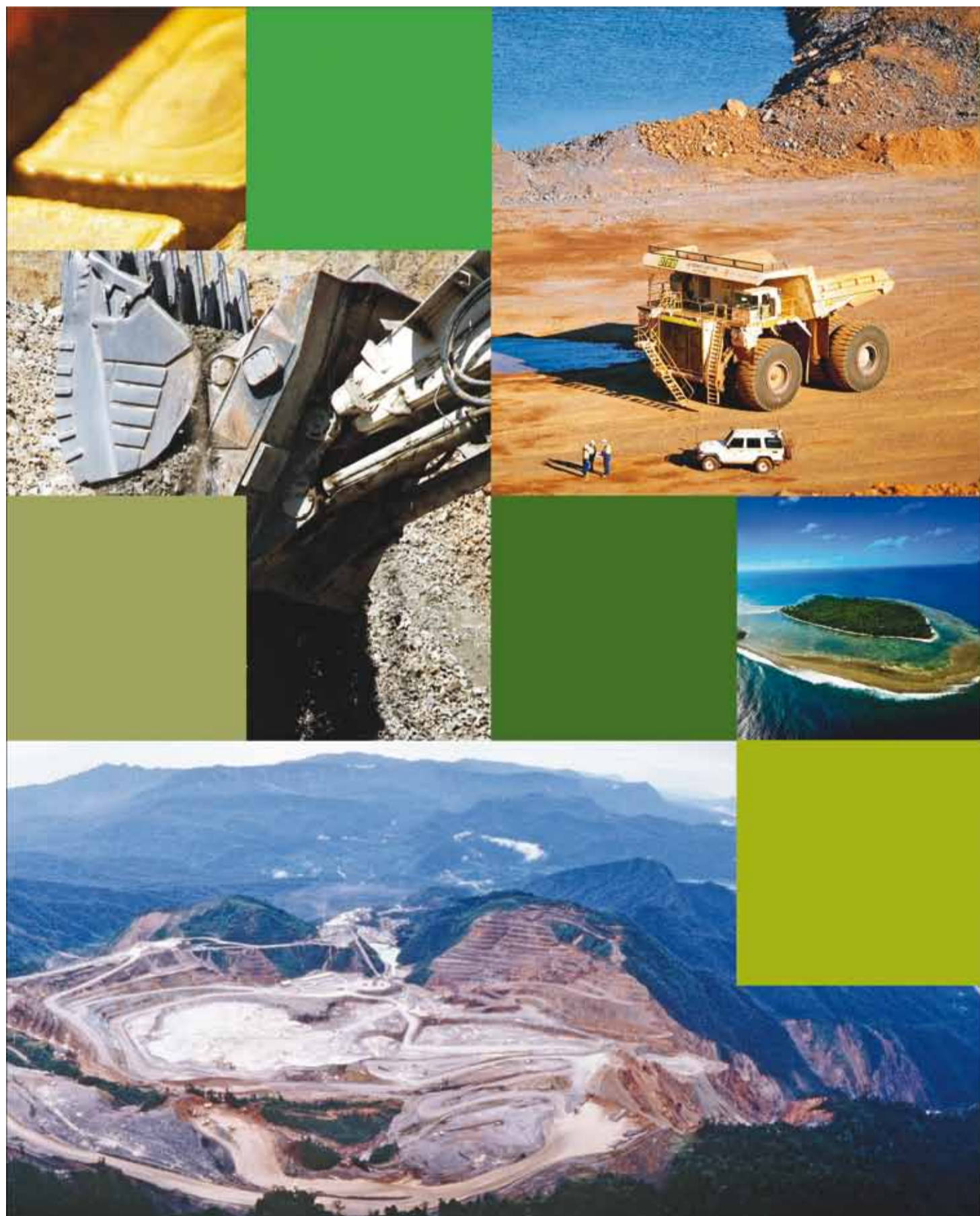
We couldn't do this before, because of the stability issues, but we can do it now. And with new infrastructure, new opportunities will arise.

**You have been contributing to the country's success in many ways, leading various ministerial portfolios during your five-year term. You have been minister for forests, lands and physical planning, public enterprises and communications, petroleum and energy; and labor and employment, demonstrating**

**a deep knowledge of the different sectors of PNG's economy. What motivated you to have such impact and contribution to the PNG. And what will your legacy be?**

The most important thing to me is to see PNG like any other developed country in the world, with services operating fully for all citizens and with conditions like other parts in the world. PNG needs homes, health services, power lines, good road connections and water systems. People's living conditions have to improve — that's a basic thing. At this moment the country is able to sustain itself because we have a lot of resources. But the people in the villages are not living in the way they are supposed to live.

And this is my motivating factor. I really want to see the citizens of PNG and in the villages living in conditions like in the rest of the world. The economy is growing, the government is trying to put more money in rural areas — we are donating 10 million kina to every district.



## Opportunities abound in downstream mineral processing

One of the main pillars of Papua New Guinea's economic development, mining is a booming industry, and the government is particularly interested in expanding the downstream processing and manufacturing of minerals.

Boasting gold, copper, silver, natural gas, and oil, this well-endowed country provides some of the world's most demanded and lucrative resources.

As a result of this, moves are currently under way to ensure industry players are properly regulated and working to enhance and add value to the local economy, as well as taking care of the environment, thus building a better and more sustainable future for everyone.

With this in mind, the Ministry of Mining is calling on the Chinese to bring their substantial expertise, skills and capital to our shores.

China is already an important ally and partner in our development—now we want our relationship to be even closer.



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## PNG aims to become major rice exporter

Minister sets out plan to create sustainable agriculture economy

*Editor's note: In an interview, Tommy Tomscoll, Agriculture Minister of Papua New Guinea, talked about the challenges and opportunities the agricultural industry faces.*

**Papua New Guinea's economy has received international attention because of its mining and oil and gas opportunities, but the backbone of the economy has always been agriculture, which accounts for 24 to 32.3 percent of the GDP. Where does the success of the agriculture sector lie?**

Between the 1960s and the 1980s, the economy of PNG was driven by agriculture. That's what created growth, and what brought this nation together. Agriculture at the time was structured around plantations, so as we moved into the 1980s, the cost of production related to plantations was quite high.

This caused a number of businesses and companies involved in the sector to close down. At the same time, oil and gas was discovered, as well as new mines. That hit the agriculture sector hard, because the development potential was moved to the oil and gas sector, especially in relation to our skilled and educated workforce.

The unskilled labor stayed in agriculture, but since the focus had switched to oil, gas and mining, the trickle-down effect has not been felt throughout the whole demography — only a select few. Some 87 percent of people continue to live a rural-based lifestyle, and as such, do not feel the impact of the high-growth sectors.

**What would be your solution to revitalizing the industry?**

I would like to find a balance between sector liberalization and protectionism. As well as looking after our growers, we must recognize the investor who has the capital and knowledge base. Every commodity is different; I look at each one on a case-by-case basis, so there is no blanket answer for the agriculture sector in general.

Coffee was our principal earner until 2004. From then on, we saw an increase in revenues from the oil palm sector, and coffee slipped into second place.

There are factors outside of coffee production that contributed to its decline, including transportation and distribution challenges. These can be solved through a collective effort from the producers and the government.

The O'Neill government is very focused and concentrating on improving infrastructure that will help this industry, including the construction of highways and communications. Once we have sorted all those things out, it will drive up production because the farmers will have direct and easy access to both the markets and information and data.

The prime minister's vision helps me direct the policies of the sector after he has laid down the foundations. In terms of coffee, we had some of the biggest plantations in the world, until the demise of the regime, and of course the market also became volatile.

When it collapsed, the sector was replaced by smallholdings — family units, that have built up the coffee industry in this country and what we call smallholder growth.

The challenges these smallholders face are the same that the old companies used to face, the only difference being that since these are small, fam-



**Papua New Guinea is well positioned as the markets have shifted from Europe and the Americas to Asia.”**

Tommy Tomscoll, agriculture minister

ily units, they are able to produce at a cost-efficient level, and break even.

We want to revitalize the coffee industry by first of all rationalizing the industry. Going into the future, our industries will be smallholder based, but we must increase and expand the number of smallholders, to bring unskilled labor back into the sector to become productive members of society.

For 30 years, there was a ban on the licensing of new entries [to the market], which meant no new export licenses were issued to foreign investors.

The idea was to give preference to Papua New Guineans so they that could become the primary exporters in the sector. However, being an exporter means meeting certain criteria, so it hasn't been that easy for Papua New Guineans.

In the meantime, there are still a handful of foreign companies that were here before the ban was put in place, so, we actually haven't seen that many Papuans become exporters even though the regime was set up for them.

I have removed the ban on issuing of foreign licenses, so foreign companies can come, and placed a condition, even on the companies that are already here, and that is this: that you can only be issued with an export license if you bring 10,000 hectares of coffee trees into the industry. That also applies to the companies already in operation.

With regards to palm oil, I want it to become a competitive industry. I want the small producers to become sellers of oil and not just the fruit for the raw materials.

This is why I am setting up four different plants in order to process the fruit into oil, each producing 20 metric tons per hour. If they are not bought domestically, then they will be exported, insuring not only the quality of the product, but also, that farmers sell a value-added products instead of the raw materials. This will allow them to become a higher-value producer contributing to the economy.

**With the PNG relationship**

**increasing with China, and the prime minister relying on this relationship for growth, where is the biggest opportunity for Chinese involvement in agriculture?**

The easiest way for the Chinese to get involved is through direct foreign investment. The high growth area in agriculture at the moment is palm oil, followed by coffee and cocoa. What we are looking at is to find new growths and new crops and that comes to vegetables because at the moment we are importers.

We want to replace our imports with local produce and be able to export. So we are encouraging Chinese and foreign investors to come into our vegetable and spice industries.

Papua New Guinea sits on the fringes of Asia. We are a country that is well positioned as the markets have shifted from Europe and the Americas to Asia. So if you are looking to relocate your business and recapitalize, Papua New Guinea is the place. China has a market but they need land — fertile land with good water and good soil.

With industrialization and climate change, China is losing fertile farmland. China has capital, technology and scientific-based knowledge, but Papua New Guinea has water and land, and the best way to do agriculture in Papua New Guinea is large-scale, mechanized.

This is the way the world is approaching agriculture since small scale has no longer become feasible. And we have done that; the government has now approved rice farming, which will be the first large-scale mechanized farming in PNG.

In 10 years, Papua New Guinea will be a major rice exporter in a prime location to feed the Asian markets.

**Throughout your career, you have been committed to ensuring a better life for Papuans through working the land, as part of a very goal-driven cabinet. As the minister of the sector that employs the largest number of Papua New Guineans, what would you like to leave as your legacy?**

First and foremost, I want to ensure that agriculture becomes sustainable and is a leader among all the other sectors.

As long as the economy has a population of 60 percent or higher that depends on agriculture, that economy is an agriculture economy, by definition.

Second, as long as 20 percent or higher of the GDP is a contribution from the agricultural sector, that economy is an agricultural economy. So if you look at PNG, it is an agricultural economy. About 87 percent of our people live off agriculture, and as a sector, we contribute between 24 to 27 percent to the GDP.

I would like to see growth in the GDP. I want to see more of the population go back to farming and become engaged and productive workers, because agriculture is a business and income generator and a way of life for these people.

I want to see the poverty scale reduced, and if I can see a new trend that poverty starts reducing I would be very happy. I want my contribution to be measured by looking at the current scale of poverty and seeing how it reduces.



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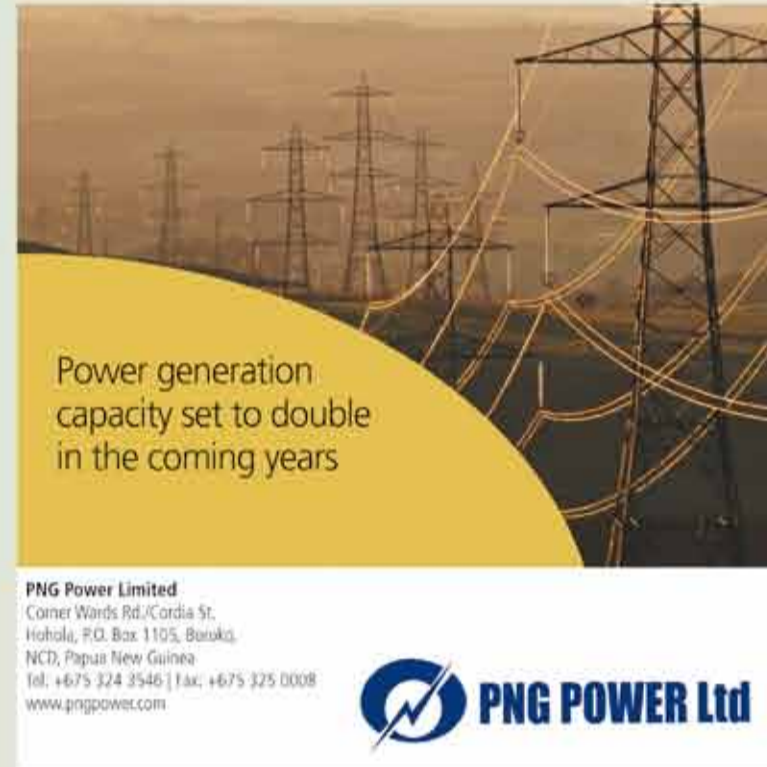


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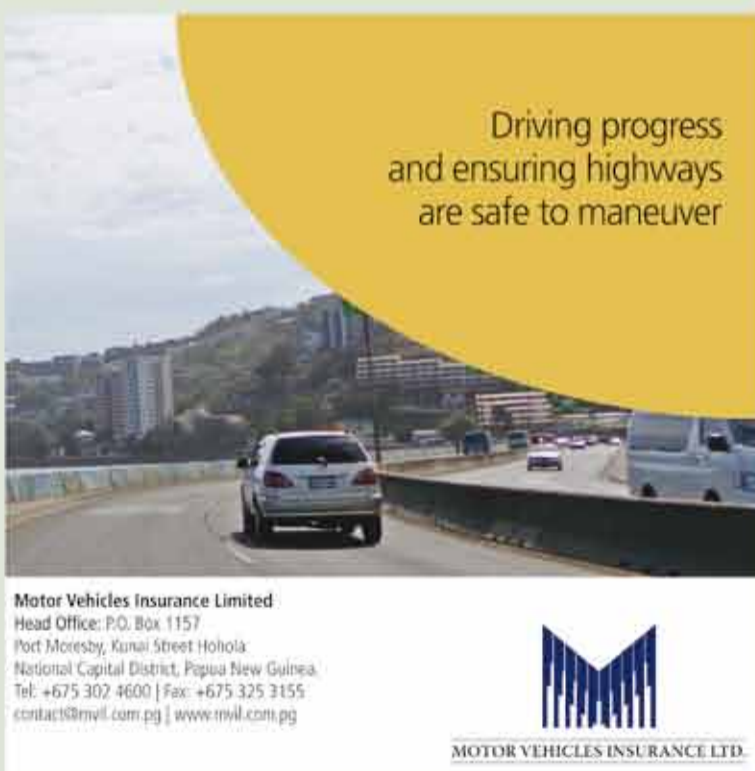
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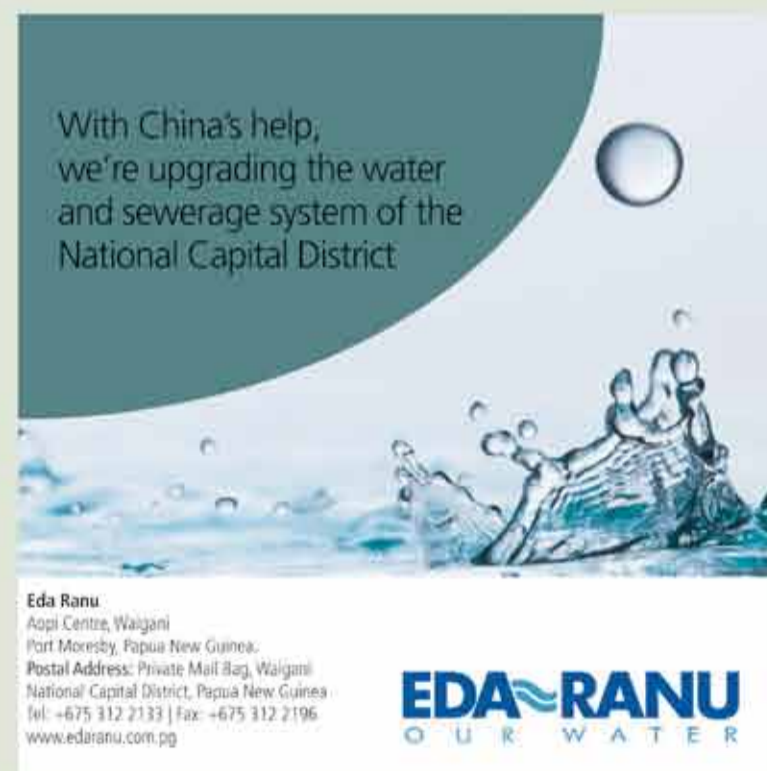


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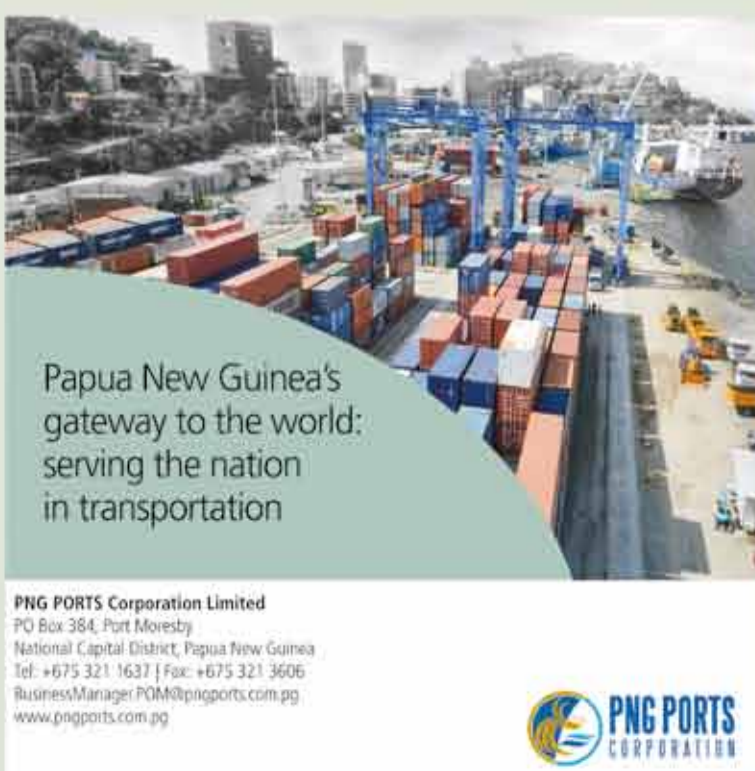


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# Chinese relations look set to strengthen

More involvement expected from China with abundant upcoming infrastructure projects

*Editor's note: In an interview, Ben Micah, minister for public enterprises and state investments, explains more about Papua New Guinea and the many opportunities happening on the ground.*

**China has reaffirmed its commitment to investing in PNG over the long term, and the country has become the prime beneficiary of soft loans distributed by China to South Pacific nations. An example of that commitment is the \$2.7 billion loan granted by Exim Bank to further develop infrastructure and other sectors of the economy. Please comment on the momentum of China-PNG bilateral relations.**

The Chinese have been very solid friends with PNG since diplomatic relations were established almost 40 years ago. China has played quite a significant role within that period to assist PNG in many forums in the UN and in regional cooperation, and helped us fund agriculture and build a stadium for the 1991 Pacific Games.

Since then, China's influence in the world has grown significantly, and also our relationship with them has increased to cover areas of economic, education and cultural cooperation. Large investment by Chinese companies like Ramu Nico in the mineral sector, BNBM in trading and the entry of China Railway, China Harbor, COVEC, CMEC and Sinohydro in infrastructure development, and Huawei and ZTE in telecommunications, have had a tremendous impact on our economy.

China is a large buyer of our liquefied natural gas. All our log exports are destined for China. Both Exim Bank and the China Development Bank are vying to finance large projects in many sectors. We have small and medium-sized companies, as well as individuals and families doing business here that are contributing to the increasing trade between China and Papua New Guinea.



**Why should we sit around daydreaming in a land of opportunity while the status quo takes us nowhere?"**

Ben Micah, minister for public enterprises and state investments

**You have previously stated that "the government alone is incapable of meeting legitimate development expectations, therefore the private sector will be a partner with us". More than 20 Chinese firms are established in PNG's infrastructure development and property construction. How do you see the future of public-private partnerships with Chinese companies?**

That's the only way we can attract the transfer of capital, technology and expertise without exposing ourselves to too many loans to foreign

banks and financial institutions. I am encouraging partnerships between our state-owned enterprises and Chinese SOEs in the construction of hydropower dams, transmission lines, telecommunication infrastructures, seaports and airports.

The advantage of dealing with Chinese companies is that they have both the financial, logistical and manpower capacity to deliver any size of project within time and on budget. I can cite as an example the major development of the Lae port by China Harbour that is ahead of schedule.

**Competition is the driving force behind economies, while efficient and fair markets are essential for economic growth. What fiscal incentives and competitive packages are being offered to enable an increase within these sectors?**

Unlike 10 or 15 years ago, doing business in Papua New Guinea has become very competitive for foreign investors and service providers. I am amazed at the number of foreign companies in all sectors, from oil, gas, mining, agriculture, fisheries, tourism, energy and telecommunications, making enquiries at the Independent Public Business Corporation — or IPBC — and the Department of Public Enterprise and State Investments about investment opportunities.

This competitive tension will deliver the best outcome for both the country and the foreign investors. With the exception of doing business within a declared special economic zone, there is no sense in giving fiscal incentives in an economy that is growing at the rate we are. The rate of return on investment is the key. Whoever offers a competitive price, makes a profit and still delivers the best outcomes that we require gets the job and over time will appreciate the greater benefits of doing business in our country.

**The staging of international events, such as the Pacific Games**



Papua New Guinea expects to change its landscape by attracting foreign investment to its infrastructure sector.

**in July and the APEC Summit in 2018 will bring the world's eyes to the islands. Since the major infrastructure agencies are under your ministry, how are you ensuring the highest international quality standards are met?**

We are ready. Some of the work is being undertaken by China Railway and China Harbour, while other locally based companies, such as Curtain Bros, Fletcher Morobe and others from New Zealand and Australia are also engaged in developments in Port Moresby.

The government has set an ambitious plan to transform the capital within the next five years so that come APEC in 2018, Port Moresby will define and showcase to the world the achievements of our country. State-owned enterprises, like PNG Ports Corp, PNG Power Ltd, PNG Telekom and EDA Ranu are at the forefront of this challenge.

**Last year you announced reforms in the ministry that**

**are intended to ultimately raise living standard of Papuans by improving the quality of services, limiting costs and repairing, maintaining and expanding PNG's national infrastructure. Would you consider yourself a revolutionary?**

Of course I am a revolutionary when it comes to initiating and effecting change for the better. Why should we sit around daydreaming in a land of opportunity while the status quo takes us nowhere?

I drove the constitutional changes that reformed the provincial and local-level government system from 1992 to 1997 as chairman of the Constitutional Review Commission. This has enabled planning, budgeting and implementation to be decentralized to districts and local-level governments. The government is now focusing on developing the rural areas of the country.

I am determined to revolutionize and transform PNG by strategically aligning SOEs with private sector

partners to allow the flow of foreign capital and technology transfer that will revolutionize our energy, telecommunication and air and sea port infrastructure that will result in creating the platform for transformational change in all other sectors of the country. There is nothing impossible when we have the will and determination to do something. And there is no better country in the Asia-Pacific region that has all the ingredients of successful transformation than PNG in our time.

The IPBC was established as a successor organization to the privatization commission. Its intention was to hold the state's interests in all fully corporatized companies and manage their transition towards full or partial privatization. It is a trust organization established by an act of parliament and does not have a clear mandate to operate as a holding company to directly manage the operations of SOEs.

## PNG seeks partners to build refineries

*In an interview, Byron Chan, minister of mining of Papua New Guinea, talks about new opportunities in the country's mining sector.*

**Thanks to huge surges in foreign investment — particularly a \$19 billion payout by Exxon-Mobil — Papua New Guinea's resources are finally being exploited to help the country develop. How did the government enable this?**

We made some compromises in terms of benefits and taxes but the overall benefit of the investment outweighs all the immediate tax incentives that the government had to give away in turn to get this investment in.

Papua New Guinea has been lucky to have Exxon Mobil invest in its own backyard, and make the LNG project become a reality. The growth associated with that and the stability of the local currency have been phenomenal.

In terms of mining, major companies such as Lihir reinvested almost \$1.5 billion to increase its gold production up from 800,000 ounces (22,679.6 kilograms) to 1 million ounces. The estimated lifespan for this is about 30 years, so that was a significant investment.

The Simberi mine also increased production from about 100,000 ounces of gold up to 200,000. They have made improvements in the plant, so investment in increasing the production of gold grew significantly — almost about \$2 billion I would say. This also contributed to the 8 percent increase over the past couple of years that it maintained.

Everything has slowed down now in terms of LNG so the gold mines are ready to go into production.

**On the exploration front, what new projects are coming on stream and what are your expectations for these projects?**

There are several major mines that we are investigating. The first one is a gold mine in the Milne Bay area that we expect to have 10 years' production.

Next, there is the Yandera Copper



**It won't happen in five years, but within 10 years we expect most of the managerial positions to be localized."**

Byron Chan, minister of mining

mine in Madang province, which is being operated by Marengo. Marengo is a Canadian-registered company, but they have got significant Chinese investors in there, so that will be a boost for PNG-China cooperation.

The Ramu Nico nickel project took off slowly, but I am sure it will be successful, because the systems and technology they have put in place are pretty high-tech and pretty new, so everyone's getting used to it.

We have another one, owned by Pan Australia, called Frieda River. Frieda River has significant findings of copper and the fourth would be Wafi-Golpu, which is a South African-Australian investment. The fifth would be Mount Kare, a possible gold mine. So they are the more advanced

projects that we are looking in.

If the three copper mines develop as we hope, they should put PNG up to a premier start in copper exporting. We would like to be number one in gold and copper. We know we have the resources, thanks to the assistance of the World Bank who funded a geothermal survey of our island.

And we know that there are a lot of minerals. We have highly mineralized areas, and there are over 600 licenses, exploration licenses now. People are out there drilling, trying to establish the fact that we have minerals and we do have. Everywhere that you drill, you will find that there is something. Whether it's rare earth or copper or gold, you will find something.

Over 300 companies are exploring up to 300 sites, both locals and Australian, Canadian, the English are here as well. It's pretty competitive right now. We have five advance projects and if we develop those ones, we will be among the top-five gold exporters in the world.

What we would like to achieve is to go into more downstream processing of these minerals. We just don't want to export all of our resources. What we want to capture is the high value of this resource and keep those revenues in our country and create employment.

There are skills that are required to get those projects, skills transfer, I suppose you could say. Capacity-building of our people, which is not there if everything is exported. So if we can have the opportunity to develop copper refinery, gold refinery and cement refinery, also metals refinery.

We have a lot of minerals — we have everything here except the refineries and the know-how. Obviously, it won't happen in five years, but within 10 years, we expect most of the managerial positions to be localized. China has the capacity right now to help us. We can look at joint ventures to develop this industry, downstream processing, refineries. I'm looking for partners right now to help us establish our refineries.

## Driving the nation towards a digital future

With technology comes opportunity and development, which is why we're working hard to better connect government and the people of Papua New Guinea. Huawei is already on board to help us transform the nation with an integrated information system and universal broadband.



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# The land of opportunities yet to be discovered

# 60%

of the landmass in Papua New Guinea lies in wait for exploration



With hydropower, geothermal energy, and gas reserves, Papua New Guinea represents some very interesting opportunities for investors. It also boasts one of the best fiscal regimes in the region, offering generous tax concessions and imposing profit tax on a case-by-case basis.

That alone makes us one of the most competitive investment destinations in the region, but we also have a concession regime, where we allow the investor to take the risk, spend the money and look for oil and gas. If he finds it, he keeps everything—we just buy-in 22.5 percent and collect taxes. This sets us apart from the countries offering production-sharing agreements and the countries that have a hybrid of the two regimes.

We will stick to the investor keeping everything, and us buying into it.



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# Fueling growth across Papua New Guinea

A rise in Chinese investment is leading to development of the resource-rich country

With more than 60 percent of the landmass in Papua New Guinea still to be explored, particularly in the oil and gas sector, it is not surprising that the country is attracting so much international interest.

In an interview last year, former minister of petroleum and energy, William Duma — now minister of transport — discussed the nation's focus on oil and gas projects.

"The country boasts four petroleum basins: the Highlands Basin, the Papuan Basin, the Momase Basin and the Islands Basin. For now, we are only concentrating on the Papuan and Highlands basins as it is there you will find most of the discoveries of gas, specifically in Hide, Juha, Angore and Kutubu that are in the Highlands. Further down, you have the InterOil Elk Antelope discovery in the Papuan Basin, with a number of smaller discoveries," Duma said.

"We have not yet gone offshore, which only serves to highlight the untapped potential still remaining to be discovered. We offer one of the best fiscal mechanisms in the region — even better than Australia — in the sense that we give generous tax concessions, and we are not looking to impose additional profit tax.

"We have what is known as the concession mechanism, where we allow the investor to take the risk, spend the money and look for oil and gas. If he finds it, he keeps everything — we just buy-in 22.5 percent and collect taxes, whereas other countries in the region have a production-sharing mechanism, where the host government allows the investor to find oil, and once he finds it, then the government will negotiate the price, or a hybrid of the two.

"The country's energy mix includes hydropower, geothermal energy, and of course we have gas. Right now, we are solely focusing on oil and gas, but there are some very interesting opportunities in the geothermal sector. We are currently developing policies that have already been approved, but will become effective in the near future. There is also some interest from private companies who are interested in going into biofuels by extracting oil from palm oil and coconut, but there is not much activity in that area.

"The Exxon-Mobil investment capacity is slated to produce 6.9 million metric tons of liquefied natural gas per year. There is 255 billion cubic meters of gas, which was been dedicated to the Exxon-Mobil-led project and we have gas supply agreements with Sinopec, a number of companies from Japan led by TEPCO, and an oil company from Taiwan. So we have three major buyers internationally, and what is key is that these are long-term buyers, with 30-year agreements. Angore and Juha, and the bulk of Hides, are



**We know there is gas, but we are trying to ascertain how much there is."**

**William Duma**, former minister of petroleum and energy

not yet dedicated to this project, as we have reserved them, so drilling and exploration will still continue.

"We know there is gas, but we are trying to ascertain how much there is. In the agreement we signed with Exxon, we inserted a clause that states the minute more gas is found, it will automatically trigger the renewal clause and we go back to the negotiating table.

"This is because we will be looking at gas with a quantity much higher than 255 billion cubic meters — the Gulf area of the Papuan Basin is a gas-prone area. It is quite probable that we will find more gas there once we explore it."

**Realistic goal**

Duma said the liquefied natural gas project is expected to increase GDP up to 20 percent and raise overall living standards.

"It is a realistic goal," he added. "When you talk about gas, you have to bear in mind that it is not subject to short-term price fluctuations. In most cases, you will find that the liquefied natural gas agreements are usually for 30 to 40 years, locked into an agreed price."

Duma said the LNG project is set to supply to four major customers, two of them being Sinopec with about 2 million metric tons per annum and the Chinese Petroleum Corp in Taiwan with about 1.2 million tons per annum.

He added that this project will further strengthen China-Papua New Guinea relationships and increase bilateral trade, especially with China's \$2.8 billion loan for infrastruc-

ture. "China has always been a very big importer of raw materials from Papua New Guinea, particularly timber; our tropical hardwood timber has always been a favorite for Chinese companies, so there has always been a bilateral relationship. Now, however, with the long-term gas agreements with Sinopec, trade will increase even more."

He said there are even more opportunities for Chinese investors to get involved in exploration and greenfield projects.

"Because of our fiscal regime, Chinese companies can only benefit if they come in and get involved right from the start rather than waiting for someone else to come in and build the foundation and then trying to buy into that project.

"Usually we find that once a project is up and running, it is much harder to buy into it, which is why I encourage more Chinese companies to get involved from the start.

"We are responsible for the majority of the revenue of this country. While some industries measure their revenues in the hundreds of millions of dollars, we measure it in billions.

"We are the single largest revenue owners of this country, and that is likely to continue for the next 10 to 15 years. The industry is in a good enough state and has a very attractive fiscal system, so it can only grow from here."

The LNG project team has worked in challenging conditions, including remote locations, steep terrains and areas that sees a lot of rainfall, flooding and is filled with swampland to build this pipeline.

As Exxon-Mobil PNG Limited senior project manager Sam Roxburgh said: "The pipeline was routed and constructed to avoid critical wildlife habitat and cultural areas such as sacred or archaeological sites.

"Also important were the efforts to minimize the project's environmental footprint."

**Beating the challenges**

Although all eyes are presently focused on this huge project, the government is keen for investors to explore other oil and gas opportunities.

Famous for its natural beauty and thriving traditional cultures, Hela province was only formed in 2012 when a trio of districts decided to leave the Southern Highlands district to maximize the benefits of finding LNG in Papua New Guinea.

Under the leadership of Governor Anderson Agiru, the province is 10,500 square kilometers and has a population of about 350,000 people. It has drawn up a development blueprint that focuses on new infrastructure, agriculture, hydropower, better education and empowerment of local residents.



Papua New Guinea expects its major liquefied natural gas project to attract a lot of international investors.

During his first annual budget announcement in January 2013, Agiru said his strategy is about "putting the right foundations in place for the development goals which will anchor Hela's future."

Agiru plans to develop — with the vast proceeds of the Papua New Guinea LNG project — people's farming skills and invest in advanced agricultural technology. Hela will also become home to two large agro-industrial centers near the provincial capital Tari.

"I've been talking about the development of our agriculture industry for a long, long time," Agiru said. "There is an international airport at Komo where we can bring in large planes to take vegetables fresh from the farm straight into China in six or seven hours. China are very aggressive in what they do. When I say aggressive, once you make a commitment to do something, they will go for it."

**Chinese partners**

Agiru is particularly keen to maximize the region's untapped potential with the help of Chinese investors who he respects and admires.

"China is a world leader in hydro-power and so the development of the Purari Hydro project that will generate 600-700 MW is an ideal project for a Chinese company," he said. "We need the Chinese people, technology and money."

"I introduced LNG to this country, then fought for it and delivered it. Now LNG is here. I don't see any more challenges there. The only challenge left is developing a petrochemical industry in Papua New Guinea.

"Now I'm going to argue for this and five years from today, I want to see a petrochemical industry here. The Chinese are very enterprising. They know how to build small to medium-sized enterprises. That is the great engine of our country. It creates a great middle class who pays taxes and creates employment. So, all those cottage industries the Chinese have built, the passion to work hard. That is what we need in Papua New Guinea.

"The Chinese industries in the manufacturing sector that make small products, fix computers, produce all those gadgets, doing research — these are what we need. "I think we need Chinese also to invest in our country and then create



The Grand Papua Hotel in Port Moresby offers convenience to business people and visitors.

small to medium-sized enterprises. I would like to see a lot of partnerships and if the Chinese want to look for a place to invest, my province is available."

**Global support**

Leading global financial institutions such as the World Bank and the International Monetary Fund continue to play an important role in Papua New Guinea through the financing of loans and payments for infrastructure and socioeconomic projects.

Positioned in northwestern Papua New Guinea, Sandaun province covers an area of about 36,200 square kilometers and has a population of about 200,000, most of whom live in the capital Vanimo.

Under the leadership of Governor Akmat Mai, Sandaun is investing heavily in new highways as the region looks to boost the flow of goods and services and become a springboard for trade and commerce in the wider Asia-Pacific region.

The governor is especially passionate about attracting fresh Chinese investment to his province and is eager to develop a range of large infrastructure projects currently on the drawing board — including a major new seaport — with the help of Chinese investors and construction companies.

He also wants to realize the potential of Sandaun's agricultural industry and is particularly interested in growing vast quantities of rice for export to foreign markets like China.

"I want the Chinese to settle down and start their businesses in my

province," he said.

"If China wants to invest in Papua New Guinea, they must invest in Vanimo because its proximity to Asia means it can be a launchpad for trade and commerce and economic development between the Pacific and Asia. I would like China to invest in infrastructure development, agricultural sectors such as cocoa, cattle, pig farms and fisheries, as well as the mining sector. We have a lot of prospects in gold, copper, oil and gas. Maybe in five years, Sandaun province will be producing the next wave of energy for Papua New Guinea."

Finally, visitors to Port Moresby for the Pacific Games, the APEC Summit, congress or general business will find five-star facilities and comfort at the Grand Papua Hotel.

Situated in the center of the city, the hotel offers a day spa, two restaurants, two bars and a swimming pool. "We intend to keep ourselves competitive by bringing in international expertise," said general manager Alex Wilson. Each of the 160 rooms boasts sea views from a private balcony. Guests also enjoy a fitness center, a hot tub and a sauna. Grand Papua Resort is 20 minutes from the airport and a 10-minute walk from Ela Beach.

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# Winning partnerships

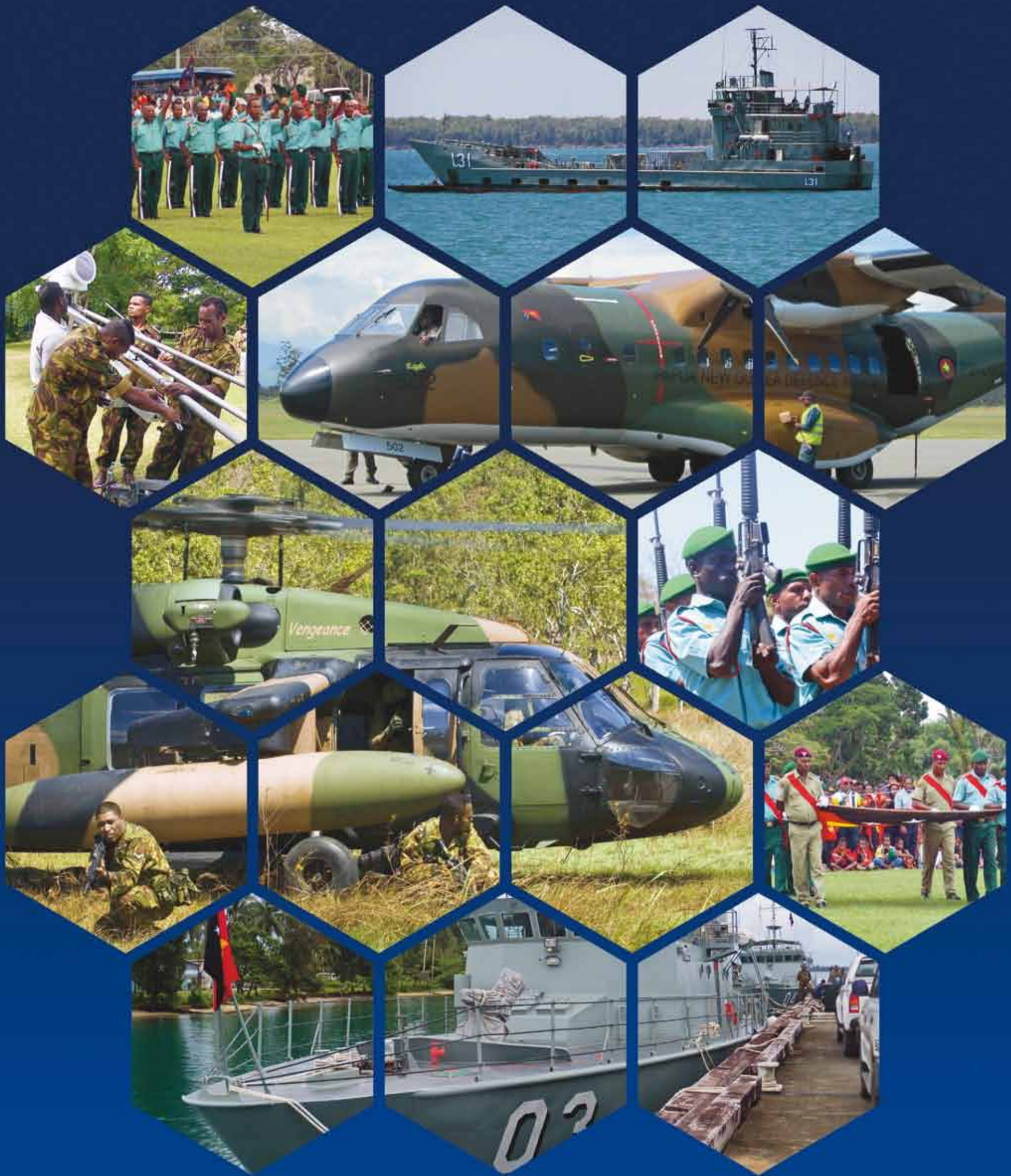


From multinationals to SMEs, the world is taking notice of Papua New Guinea as a key investment destination. The strategically located, democratic, politically stable and business friendly country boasts some of the most interesting and unique business opportunities in the world. The Exim bank is already on board to help further develop our infrastructure, thereby contributing to diversify our economy, and the Ministry of Finance will continue to protect the nation's assets and promote the efficient, effective and ethical use of public money in order to fulfill its mission of making PNG a healthy, wealthy and happy country that grows sustainably.



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