

# Resource-rich republic nets major FDI

## Papua New Guinea's rich natural resources offer many opportunities for Chinese investors

The international political and sporting spotlight will shine brightly on Papua New Guinea — PNG for short — in the next few years after the Pacific Island country of just 7.5 million people but hundreds of languages was chosen to host the 2018 Asia Pacific Economic Cooperation and the 2015 Pacific Games.

Hosting these high profile events is testament to the nation's growing stature in the Asia-Pacific region on several levels. It recognizes the efforts of Papua New Guinean Prime Minister Peter O'Neill and his government in achieving impressive socioeconomic development and promoting the island's blend of political, financial and social stability to international investors from China and beyond.

Comprised of more than 600 islands, PNG enjoyed GDP growth of 5.5 percent in 2013 and is on course to record a 6 percent increase in 2014 as the country begins to reap the rewards of massive investment in a new liquefied natural gas project that will boost foreign exchange earnings and help raise living standards for thousands of citizens.

China and PNG started diplomatic relations four decades ago and the two countries enjoy a mutually-beneficial relationship. The Asian powerhouse funds massive infrastructure projects on the island and PNG is becoming a key source of minerals, precious minerals, forest and marine resources for its second largest trade partner.

"China is a very important ally for PNG's development," said O'Neill. "We recognize that and are encouraged by the new leadership in China whom we have met on a few occasions. What happens in China affects our economy."

"More Chinese companies are investing in our resources, infrastructure development and construction. They are also starting to participate in the fisheries sector."



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PETER O'NEILL  
PRIME MINISTER

"We export most of our resources to China, so have a foundation [for future growth]. We send copper and gold to China and this kind of trade is set for many years to come. This security and stability will allow trade and investment to take place and grow."

O'Neill is quick to highlight the size of China's presence in his country and its importance to PNG's overall economic well-being and future financial and trade prospects.

Bilateral trade totaled nearly \$1.3 billion in 2011 — 10 times higher than in 2001.

"China has a number of construction companies already here," the politician and businessman continued. "What we are trying to encour-



**Our development targets will be met by the revenue that will come from the PNG LNG project."**

JAMES MARAPE  
MINISTER FOR FINANCE AND EDUCATION

age them to do is to set up joint ventures with local companies so they can help our firms build capacity and get experience for the massive construction work required."

Speak to any minister from the current government and the one phrase they will use to describe the secret to PNG's recent robust economic growth is "political stability", with this solidity providing a strong platform for socioeconomic development.

"Political stability gave us an environment to pass laws that would strengthen our institutions such as banks and financial service providers and bring in reforms to our way of doing business in finance and treasury," said Minister for Finance

and Education James Marape.

"We have proved to the international community that we have a resilient economy, are able to manage well and our resource base can sustain us in the short, medium and long term," Marape said.

The most exciting and lucrative infrastructure and investment project in the country's history — the PNG liquefied natural gas project — is an integrated development featuring an initial investment budget of nearly \$20 billion.

More than 700 kilometers of pipelines will pump more than 9 trillion cubic feet (254.85 billion cubic meters) of gas to customers including China Petroleum and Chemical Corporation, known as Sinopec, and Taiwan-based energy company CPC Corporation.

Spearheaded by global energy giant ExxonMobil, the project is expected to bring significant benefits to PNG from sales revenue, taxes and royalties that will be invested in a sovereign fund and used to boost the country's socioeconomic development.

The first LNG cargo is expected to be shipped later this year — less than five years since work on the massive project got underway. It is a tremendously exciting moment in PNG's development history, said local officials.

"This project will have, and already has had, a tremendous effect on our economy," confirmed O'Neill. "It will almost double our GDP which will have a profound effect on the economy."

One of the major challenges facing PNG as it embarks on an economic diversification drive and seeks to improve people's living standards is how to boost power generation and distribution capacity across its 450,000 square kilometers of rugged land.

### Energizing the economy

The government's proactive approach involves the planned construction of several power plants and modern transmission facilities with the help of foreign financial partners and international investors.

In May 2013, the Asian Development Bank signed a project agreement for the implementation of the Port Moresby Power Grid Development Project to boost access to reliable electricity in the city.

The four-year, \$80 million project includes the extension of existing electricity grids in urban and semi-urban areas and aims to boost electricity access rates in Port Moresby to 74 percent.

Tasked with generating sufficient power for the country's fast-growing energy needs, PNG Power Ltd is a fully integrated power authority responsible for the generation, transmission, distribution and retailing of electricity and servicing of individual consumers.

PPL, which is overseen by the Papua New Guinean Ministry of Public Enterprises, has a broad customer base that includes energy users of all sizes in the industrial, commercial, government and domestic sectors.

The firm's services extend to rural communities adjacent to urban centers and the company is working hard to expand its reach in non-urban areas.

However, to achieve this ambitious goal it needs assistance from foreign partners like China as major investment is needed if ageing assets are to be replaced with more modern energy infrastructure such as new power plants and transmission lines.

PPL CEO, John Tangit, said: "One of the major drivers sustaining national economic growth is energy and if we are to achieve our aim of having 70 percent of the PNG population having access to electricity by 2030 then we need to create a conducive business climate."

"PPL has built a lot of hydro-electric power stations and so have the necessary experience to construct more. All we need now is to secure partners in terms of investment."

According to Tangit, PPL is well placed to take advantage of the growth of the LNG and mining sectors, but the country needs to remove bureaucratic obstacles and seek to secure new business deals by way of power supply agreements and

power purchase agreements.

While Tangit acknowledged PNG's complicated land-ownership issues have stymied energy network growth in rural areas, he believes these hurdles can be overcome once land owners realize they can be partners in such projects and share the benefits.

"If we show them their rights ... go for the project and they know they are partners then we won't have any problems as we go along," he said.

"China is already a big player in renewables so we would certainly like to learn from China, but we have got to tailor it to our specific environmental conditions, which includes the social environment and the consideration of land ownership issues. We need to apply it so that it suits the PNG way of doing business."

"PPL is an icon. We have got huge potential for hydro-electric energy because we are triangular in our set-up and we would like to go down that path. Geothermal power also stands out as a very viable option and we have got resource reservoirs that can give us over 1,000 megawatts, but we need investors to come on-board and build a partnership."

Turning to the business openings created by this mammoth project, the leader added: "On the downstream, especially with the 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 PNG so that they can employ more people and build our country at the same time."

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## The power of fish

With huge stocks of the world's top-quality tuna present in Papua New Guinea waters, the NFA is committed to the careful management of this precious resource. We follow rational-practice guidelines to fulfill all obligations and assure sustained growth with long-term strategies that will protect fish supplies for generations to come.



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# PNG: fishing for oil and gas investors

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Cabinet colleague James Marape said the project had secured his country's development path for the next 20 years. "Our development targets will be met by the revenue that will come from the PNG LNG project," he said.

"Anything on top of the PNG LNG project is a bonus for us: roads, schools, health facilities. We are a country of only seven 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 are mindful of the fact of accessibility of liquidity in our systems. We should have enough to fund our development budget."

In March 2014, the head of the PNG LNG Project, Sam Roxburgh, said it was on schedule to produce its first LNG cargo in mid-2014 following the completion of its 292-kilometer onshore section of pipeline.

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

"Not many people know that 60 percent of our country's landmass is yet to be explored, particularly in the oil and gas sector," said William Duma, the former Minister for Petroleum and Energy.

He underlined why investors should choose PNG over other potential investment destinations, as its favorable tax policy is not available anywhere else.

"We offer one of the best fiscal regimes in the region – even better than Australia – in the sense that we give generous tax concessions and are not looking to impose an additional profit tax.

"In other countries, when an oil company starts making profits, the state automatically starts to get in on it. What we do is treat it on a case-by-case basis. In some cases we impose a profit tax, in some cases we don't – first, we always analyse the economics of the project. So when you compare the regime that we have here to other countries, ours is the

most competitive," he said.

For Minister for Finance and Education James Marape, PNG has always been a secure investment destination for companies who want to do honest business with the government or local enterprises.

He used the example of the Kutubu oil fields, Guinea's first commercial oil-field development, which



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SYLVESTER POKAJAM  
FORMER MANAGING DIRECTOR  
OF NATIONAL FISHERIES AUTHORITY  
OF PAPUA NEW GUINEA

began pumping oil in 1992 and has never witnessed one delayed cargo in 24 years as evidence of this enviable track record.

The project, operated by Exxon-Mobil, held through Ampoex (PNG Petroleum) Inc and Merlin Pacific Oil Company with a 14.52 percent stake, Merlin Petroleum Company holding a 18.69 percent stake, and Petroleum Resources (Kutubu) Ltd, 6.75 percent, has an estimated 18.7 million barrels of reserves.

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

"Our record as a secure exporter of products is there, and we look forward to continual expansion in businesses that can be both beneficial to our country as well as our partners," Marape noted.

The crystal waters surrounding PNG teem with a vast array of precious marine life that make it one of the world's richest fishing areas. The

country is the second largest producer of tuna – with the 2.4 million square kilometer zone the largest fishing area in the South Pacific.

PNG has an extensive and valuable fisheries sector ranging from inland river fisheries, aquaculture, coastal Beche-de-mer and reef fisheries to the prawn trawl and large scale deep water tuna fisheries.

## Fisheries hooks investors

Featuring an extended reef system, numerous islands and an extensive coastline, the industry's participants include the artisan community, medium-sized domestic prawn and tuna long line operators to large international purse seine fleets.

The sector employs vast numbers of people and key markets include China and the European Union, where it benefits from duty-free access to hundreds of millions of consumers.

The PNG government is committed to developing onshore processing and related downstream and value added operations of tuna and other marine resources harvested in its waters and the Pacific Ocean fishing zones.

This commitment supports its export driven economic growth development strategy, which supports downstream processing and value adding of PNG's natural resources.

Responsibility for the effective management of the country's fisheries and marine resources lies with the National Fisheries Authority, which is dedicated to the sustainable development of the finite resource.

Sylvester Pokajam, who headed the NFA for a dozen years until early 2014, said: "PNG currently has five fish processing plants and another three will start operations in the next five years. Once we have several processing plants, we would like to process whatever is caught in PNG waters."

The authority's former managing director continued: "We are also looking at fish caught in the other parties to the Nauru Agreement waters, within the South Pacific to be processed here as well.



PROVIDED TO CHINA DAILY

Papua New Guinea is a major producer of tuna and is investing heavily in its fast-growing fisheries sector.

"Fish now going to Thailand or the Philippines will instead be processed in PNG. We already have an existing and continuing bilateral partnership with China, but we are working on market access as it's very difficult to convince Chinese consumers to eat canned tuna rather than live or raw fish.

"We would like the Chinese to invest in processing plants or coastal fisheries development, but we want to ensure if they fish in our waters, they give us something back."

The NFA is particularly keen to develop a value-added fisheries industry through FDI in processing operations, as Pokajam explained: "I want every tuna caught here to have value-added to it. By value-adding, we must process.

"I want to show our people we don't have to give resources away. We have to develop our own resource; a downstream process so we get a 100 percent benefit. I'm very happy foreign investors are coming; they see stability and progress and have confidence."

A tropical paradise blessed with vast rainforests, golden beaches and great climate, PNG boasts an extremely diverse range of flora and fauna, making it ideal for tourists

who enjoy wildlife and exploring off the beaten track.

In recent years, the country has become a popular port of call for leading international cruise operators, partly thanks to the introduction of a tourist visa waiver policy for cruise passengers.

## Tourism takes off

National flag carrier Air Nugini connects Port Moresby with several major cities in Pacific Asia, including Hong Kong, Singapore, Manila, Tokyo, Honiara, Cairns, Brisbane and Sydney.

Among the most popular tourist activities available in PNG are trekking and hiking, diving, surfing, fishing, bird watching, kayaking, snorkeling and a array of cultural events like visits to rare tribes and festivals and markets in villages and towns.

Transforming PNG into a regional tourist destination and promoting its natural assets on the international stage is a key goal of the O'Neill administration and local officials are receiving valuable help from Beijing as authorities look to entice more Chinese visitors to the island.

Speaking at the second China-Pacific Island Countries Economic Development and Cooperation

Forum in Guangzhou in November 2013, China's Vice Premier of the State Council Wang Yang pledged to help Pacific island countries expand their tourism market in China.

"We will help them to hold tourism introduction meetings in China to attract more Chinese tourists," he stated. "The air transport agreements will be signed for business in time to motivate airline companies to open direct flights."

"The middle class is growing and they want to travel all over the world," explained O'Neill. "PNG has a lot to offer such as different cultures, beautiful landscapes and the character of the people.

"We benefit from one of the best climates in the world as we don't have extreme winters or extreme summers. PNG is an amazing country and we want our friends to come and experience and share it with us."

In Focus provided the story

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## POWER TO THE PEOPLE PNG'S RENEWABLE FUTURE



A fully integrated power authority responsible for the generation, transmission, distribution and retail of electricity throughout Papua New Guinea Power serves customers across every sphere. Now, operating on the strength of an outstanding balance sheet, we are looking for commercial partners to help us supply more power to local industries and communities. We have the resources, in hydropower and geothermal power, to see the country substantially connected to a reliable, affordable and sustainable energy supply by 2030.



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