

Papua New Guinea independence day

PNG environment ripe for investment, sustainable development

Michael Maue
PAPUA NEW GUINEA AMBASSADOR
TO JAPAN

Papua New Guinea is a small developing island country with a comparatively short history of nationhood, having gained independence 34 years ago on Sept. 16, 1975.



Much of Papua New Guinea society is rural and tradition based. This accounts for 80 percent of the population. The remaining 20 percent is urban dwellers.

Democracy has remained active and vibrant, and its premier institution, the National Parliament, remains intact. Through a system of provincial and local-level governments, power continues to be devolved to the people to ensure participatory democracy.

Like all developing countries, Papua New Guinea has its share of socioeconomic development issues and challenges. With a population of 6.1 million (2006 estimate) and growing at the rate of 2.7 percent, coupled with a per capita GDP of 2,971 kina, or US\$1,002 (2007 estimate), the ability of the government to provide adequate basic social services and infrastructure is stretched.

These challenges are even more acute when the country's geography and demographics come into play. Of the 6.1 million inhabitants, 80 percent live in traditional rural communities, ranging from small remote islands and atolls to large villages and tribes in some of the most rugged and inhospitable interior of the country. Getting basic social services into these isolated communities is a real issue for the government.

Papua New Guinea there-

fore values the cooperative relationship it enjoys with its development partners. In this respect, we hold in high esteem our relationship with Japan. Indeed Japan is the second-largest ODA provider for Papua New Guinea.

Much of Japan's ODA is channeled toward infrastructure projects such as roads, bridges and sanitation, as well as schools and hospitals where it is needed the most. Japanese ODA therefore continues to make a real difference in the lives of the people.

Papua New Guinea has been blessed with an abundance of natural resources, ranging from fisheries and forestry in the renewable sector to minerals, as well as oil and gas deposits on land and the seabed. Vast arable land with year-round tropical weather presents opportunities for agricultural development. Tropical rain forests teeming with flora and fauna, steep mountains and gorges with rapids and waterfalls, pristine waters, sandy beaches and tropical reefs all hold potential for ecotourists, divers and adventure-oriented visitors.

But developing these resources in a sustainable manner for generations to come with minimal impact on the environment and the people, as well as ensuring that investors receive fair returns on their investments, presents challenges for the government. In dealing with these development challenges, Papua New Guinea welcomes partners and genuine foreign investors who can make a contribution to these development efforts in a mutually beneficial way.

Investment climate

Papua New Guinea has taken deliberate measures to create an environment conducive to business, and also to stimu-



Bilateral foundations: Prime Minister the Rt. Hon. Grand Chief Sir Michael Somare performs the groundbreaking honors May 19 for Papua New Guinea's permanent chancellery at the embassy in Tokyo.

late domestic and foreign direct investments. These include various tax incentives and reforms, various tariff reforms as well as wage subsidies for companies manufacturing new products.

In the agriculture and fisheries sector, these incentives include accelerated depreciation of up to 100 percent in the first year on new plants or equipment used in production.

In the tourism sector, incentives offered include exemptions from goods and services tax for tourist hotel accommodations, provided these are secured prior to arrival in Papua New Guinea. In addition, a concessional tax rate of 20 percent over 10 years would apply to new investments in tourist accommodation facilities costing over US\$10 million. Furthermore, accelerated depreciation up to 55 percent on the cost of capital equipment would be granted to those involved in this industry, whether they are hoteliers, restaurant owners, tour, dive or sport fishing operators.

In the manufacturing sector, industrial plants not previously used in Papua New Guinea are eligible for accelerated depreciation up to 100 percent of the costs, provided the plant has a life exceeding five years.

In the mining and petro-

leum sectors, the tax incentives include the phasing out of mining levies, reduction of income tax from 35 percent to 30 percent, royalties at 2 percent and reductions in the dividend withholding tax from 17 percent to 10 percent.

Framework agreements

Complementing these fiscal policies are the bilateral framework agreements that have been concluded with other countries to promote economic development. These include Double Tax Avoidance Treaties (DTTs) and Investment Promotion and Protection Agreements (IPPAs). Not only do these seek to promote economic development, but they also guarantee foreign investors that Papua New Guinea will not double dip, as it were, on their earnings as well as give assurance that their investments are safe.

A proposed IPPA between Papua New Guinea and Japan is currently being considered by Japan.

Resource development

For a small developing island country, Papua New Guinea is endowed with mineral, petroleum and gas deposits, some of which have been discovered while others remain largely unknown and untapped. "A floating pot of

gold on a sea of oil" is how some commentators have referred to the country when discussing its resource endowment.

In 2008, Papua New Guinea exported 61 tons of gold, 54 tons of silver and 166,00 tons of copper. When the four large mines under construction begin production in the next five years, the total gold output is expected to reach 100 tons. Other products such as nickel, cobalt and molybdenum are expected to enter the market.

Mines in Papua New Guinea include Ok Tedi (gold and copper), Pogera (gold), Lihir (gold), Kainantu (gold), Tolokuma (gold), Sinivit (gold) and Simberi (gold).

Mines that are under construction are: the Ramu Nickel Project (nickel and cobalt), Hidden Valley (gold and silver), Solwara 1 (gold, silver and copper) and Yandera (copper and molybdenum).

Exploration activities have increased in the mining sector. Currently, three exploration licenses are at pre-feasibility to feasibility study stages.

But gold and copper are not the only minerals. There are known deposits of iron oxide and the other metals — magnesium, chromium, titanium and vanadium — which coexist with iron oxide. Large quantities of limestone are also found throughout the country.

Opportunities therefore abound in these areas for Japanese investors to be involved from exploration and feasibility studies to the construction, development and marketing of end products.

Developments in the oil and gas sectors have also attracted wide interest from multinational corporations around the world, including Japan. The Papua New Guinea LNG (PNG LNG) Project, which is the single-largest impact project for the country, is at FEED stage. A final financing decision is expected this December, with construction to begin in 2010 and the first shipment of LNG taking place in 2014. This US\$15.6 billion project entails piping gas overland for over 1,000 km from the interior of the country to a processing plant near Port Moresby the capital and final shipment to overseas markets.

Nippon Oil Exploration Ltd. is a partner in this Exxon-Mobil-led project. In addition, some Japanese companies have made strong and competitive bids for major contracts related to the project. It can only be hoped that they

Year of highlights in Papua New Guinea-Japan relations

Katsuo Yamashita
CHAIRMAN, JAPAN-PAPUA NEW GUINEA
ASSOCIATION

On behalf of the Japan-Papua New Guinea Association, I would like to express my sincere congratulations to the government and people of Papua New Guinea who celebrate their 34th Independence Day today, Sept. 16, 2009.

This year, we happily witnessed quite a number of exciting events concerning our bilateral relationship at official and private levels. The highlight was the official visit of Prime Minister the Right Honorable Sir Michael Somare to attend the fifth Pacific Islands Leaders Meeting between Japan and the members of the Pacific Islands Forum in Hokkaido in May. The prime minister's visit was a major success and helped to deepen personal understanding between the leaders of both

countries, and also attract more attention in Japan to Papua New Guinea.

The association is happy to note that we contributed, albeit in a small way, to the success of the welcoming reception for Prime Minister Somare, organized by the PNG Embassy in Tokyo.

I offer my congratulations on the start of the construction of the PNG Embassy Chancellery in May, which was a long-planned project, the idea for which was energetically initiated by PNG Ambassador H.E. Michael Maue.

On government-to-government assistance, it is highly appreciated that an official agreement was reached between the two countries to implement two major projects, namely, the Port Moresby Sewage Project and the construction of bridges on the Bougainville Coastal Trunk Road. It is a good sign for the

government of Papua New Guinea and Japanese private companies that the negotiations to implement the LNG development project in the near future are moving very smoothly.

One of the admirable results of Prime Minister Somare's discussions with Prime Minister Taro Aso was that basic agreement between the two governments was finally reached to enable the PNG government to have a second weekly flight to Narita beginning next April, which was a long-standing request to the Japanese government.

In the early part of next year, we look forward to celebrating the official opening of the new chancellery building of the PNG Embassy, hopefully in the presence of Prime Minister Somare, and the official operation of two weekly air services between Narita and Port Moresby.

will be successful.

Another LNG project led by InterOil Corp. is under consideration. The project partners have recently presented to the government a project agreement for consideration and approval. This US\$6 billion project will bring in natural gas from InterOil's gas field in the interior of the country for processing at Napa Napa near Port Moresby before exporting.

These are tangible opportunities for Japanese companies, investors and funding agencies to engage with Papua New Guinea in a relationship that can only be mutually beneficial.

As part of the ongoing effort to promote investment and business opportunities in Papua New Guinea, a two-day investment seminar was held in Tokyo on May 19 and 20, with a whole day devoted to resources and opportunities available in the oil and gas sector. The second day covered mining, fisheries, forestry and other resources.

This successful seminar, which was jointly co-sponsored by JABIC, JETRO, JOI and Nippon Oil Exploration, attracted nearly 300 participants.

Prime Minister the Rt. Hon. Grand Chief Sir Michael Somare opened the seminar when he visited Japan for the Japan-Pacific Islands Leaders Meeting the same month.

Improving trade relations

In terms of trade, Japan remains our second-largest trading partner. There has been steady growth in trade over the last decade, with a

marked increase since 2005. For instance, the total volume of trade in 2007 reached US\$827 million (2.694 billion kina) compared to US\$660 million (1.166 billion kina) in 2004 — the balance of trade being in Papua New Guinea's favor.

Papua New Guinea's major exports to Japan are metal ores, crude oil, coffee, fish and timber products while it imports from Japan motor vehicles, machinery and spare parts.

There is still more room for improvement.

Bilateral visits

Trade and commercial relations are not the only factors that shape Papua New Guinea's relationship with Japan. High-level visits have taken place between leaders of the two countries. In 1980, former Prime Minister Masayoshi Ohira visited Papua New Guinea, he was followed by his successor Yasuhiro Nakasone in 1985.

From Papua New Guinea, Prime Minister Somare made official visits in 1985, 1997, 2003, 2005 and 2006, and in May this year on the margins of the Japan-Pacific Islands leaders summit. Former Prime Ministers Sir Julius Chan and Sir Mekere Morauta also made official visits in 1995 and 2000, respectively.

Government ministers, senior bureaucrats, businessmen, tourists and ordinary citizens also continue to visit in both directions, which promotes better appreciation and understanding of each other's values and cultures.

All these make for a relationship that is extremely im-

portant, robust and expanding.

Permanent chancellery

A measure of the importance placed by Papua New Guinea on its relations with Japan can be seen from the decision by the government to build a permanent chancellery for the embassy in Japan. This is the second chancellery to be constructed in Papua New Guinea's history and further underlines the significance of the Papua New Guinea-Japan relationship.

Prime Minister Somare performed the groundbreaking honors May 19 during his visit to Japan. Construction is under way and is scheduled for completion in December, with a formal opening ceremony planned for next spring.

Economic growth

Papua New Guinea's economy recovered in 2003 after suffering contractions the previous three years. This recovery and the growth in GDP came on the back of high commodity prices for its major agricultural products of cocoa, palm oil, coffee and copra, as well as high mineral and petroleum prices, particularly those of gold, copper and oil.

This positive growth continues to be sustained by strong performances in the communications and manufacturing sector, as well as robust growth in the retail, wholesale, agriculture, forestry and fisheries sectors.

Political stability achieved by the legislative reforms of 2002, which effected the law on the Integrity of Political Parties, has also contributed to investor confidence and stable economic growth.

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on the 34th Anniversary
of Their Independence Day

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