

# Papua New Guinea independence day

## Opportunities await Japanese investors

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On Sept. 16, 1975, Papua New Guinea became an independent state, with the transition to nationhood being smooth. To date, Papua New Guinea remains an active and stable democracy with power devolved to the people through a system of local-level governments. Parliament, however, still remains the premier institution.

On Aug. 2, 2011, the country witnessed a change of government on the floor of Parliament when the then coalition government of the former prime minister and father of the nation, Sir Michael Somare, was voted out of office and a new prime minister was installed in Peter O'Neill, who, together with his coalition partners, has taken charge of government.

This is not the first time Papua New Guinea has witnessed power changing hands on the floor of Parliament, but it demonstrates yet again the active and robust system of parliamentary democracy that Papua New Guinea adopted at independence and has since enjoyed.

While Papua New Guinea enjoys a vibrant and stable democracy, many development challenges still lie ahead.

The majority of the population, around 80 percent, live in rural areas, while the remaining 20 percent are urban dwellers. With a population at around 6.7 million and growing at the rate of 2.7 percent, coupled with a per capita gross domestic product of around \$2,116, the ability of the government to provide adequate basic social and infrastructure services are being stretched.

The geography of the country further compounds these challenges, with scatterings of the rural population over mountains and valleys to oceans and islands in some of the most inhospitable and isolated areas of the country. Papua New Guinea therefore greatly values the Japanese government's assistance provided through its official development assistance (ODA) programs. Indeed, Japan is the second largest bilateral ODA provider for Papua New Guinea.

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

There is an abundance of

natural resources ranging from fisheries and forestry in the renewables sector to minerals as well as oil and gas deposits both on land and on 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 out potential for ecotourists, divers and adventure-oriented visitors.

The sustainable development of these resources with minimal environmental and cultural impacts as well as ensuring that the investors receive fair returns on their investments present challenges for the government. In dealing with these development challenges, Papua New Guinea welcomes partners and genuine foreign investors who can make a contribution in mutually beneficial ways.

### Investment climate

There are deliberate measures for creating an environment conducive to business and the stimulation of 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 the goods and services tax for hotel accommodations of tourists, 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 for new investment in tourist accommodation facilities costing over \$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 or 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 petroleum sectors, the tax incentives include the phasing out of mining levies, reduction of the 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.



**Strengthening ties: Then Foreign Minister Don Polye (left) of Papua New Guinea and his then counterpart, Takeaki Matsumoto, sign the Japan-Papua New Guinea Investment Agreement on April 26 in Tokyo.** MINISTRY OF FOREIGN AFFAIRS OF JAPAN

Complementing these fiscal policies are the bilateral framework agreements that have been concluded to promote economic developments. This includes the double tax avoidance treaties and investment promotion and protection agreements.

With Japan specifically, Papua New Guinea signed an Investment Protection Agreement in Tokyo on April 26, which should take effect once both countries have completed their internal ratification processes.

### Resource developments

There are vast deposits of minerals, petroleum and gas, some known while others remain largely unknown and untapped. Exploration activities have increased in the mining sector with three exploration licenses currently at prefeasibility to feasibility study stages.

In 2008, Papua New Guinea exported a total of 61 tons of gold, 54 tons silver and 166,000 tons of copper. When the four large mines currently 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.

Opportunities abound in these and many other areas for Japa-

nese investors to be involved from exploration and feasibility studies to the construction, development and marketing of end products.

### The PNG LNG Project

The construction phase of this project, which started early last year, is continuing and the government remains committed to addressing issues that the traditional landowners raise from time to time.

The PNG LNG Project is the single largest investment ever made in the country, estimated at \$15.6 billion. Over a 30-year period, the project is expected to produce 255 billion cu. meters of gas with an estimated return of \$32 billion in direct revenue to the government and the landowners.

Though operated by Exxon Mobil, Japan's involvement in this project is substantial. Not only is JX Nippon Oil a partner in this project, but the major engineering, procurement and construction contractor is a joint venture between Chiyoda Corp. and Japan Gasoline Co.

Up to 50 percent of the total production of liquefied natural gas from the PNG LNG Project will be taken up between the Tokyo Electric Power Co. (TEPCO) and Osaka Gas, and Mitsui OSK Lines has been subcon-

tracted as the LNG carrier for the project.

This makes the relations between Papua New Guinea and Japan even more important.

### The Gulf LNG Project

This is the second LNG project led by InterOil Corp. and is based in the Gulf Province of Papua New Guinea. The development of the project is progressing well and several head agreements have been concluded already, which includes agreement on funding and construction as well as a shareholders' agreement.

The Gulf LNG Project will utilize InterOil's gas discoveries at the Elk/Antelope fields in the interior of the country, estimated to produce 10 million cu. meters of gas per day.

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

### Trade relations

Japan is Papua New Guinea's

## Looking forward to even friendlier relations with PNG

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 36th Independence Day today, Sept. 16.

I am happy to note that bilateral relations between our two countries are getting closer and closer in recent years. Since last year, we witnessed many important events that have taken place, including the official visit to Japan by then Prime Minister Sir Michael Somare, the official opening ceremony of the chancellery building of Papua New Guinea in Tokyo, and the start of Air Niugini's second weekly flight between Narita airport and Port Moresby in March 2010. In April this year, the signing of an investment agreement between our two countries was attended by then Foreign Minister Don Polye. These events contribute to the further strengthening of the official relations between the two governments, promoting mutual business contacts and enhancing people-to-people exchange at the grassroots level.

In August, we heard the sad news of the resignation of Prime Minister Sir Michael Somare as a result of his poor health.

On this occasion, we would like to pay the highest tribute to Sir Michael Somare for his tremendous contributions to make closer the

relations between our two countries ever since Papua New Guinea's independence 36 years ago. All of us in Japan wish a quick recovery of Sir Michael Somare's health and it is our earnest hope that, in the near future, he will play his role to maintain and strengthen our close relationships.

I take this opportunity to express my deep appreciation to the government and people of Papua New Guinea for extending the sympathy and a large amount of donations to the victims from the March 11 Great East Japan Earthquake and tsunami disaster in the Tohoku area.

Two joyful events occurred for us last month: Papua New Guinea's new government was formed under the leadership of Prime Minister Peter O'Neill and new Ambassador to Japan Gabriel Dusava arrived. We hope that under the energetic leadership of the young prime minister, Papua New Guinea will continue its steady development, being supported by the revenue from the liquefied natural gas project in which Japan is involved as one of its product importers and the contractor of related plants.

The arrival of the new ambassador was long-awaited by the people of Japan after more than a year's absence of an ambassador in Japan since the departure of former Ambassador Michael Maue at the end of 2009. Our association would like very much to continue good cooperative relations with the Embassy of Papua New Guinea under the guidance of the new ambassador for the promotion of even friendlier relations between Japan and Papua New Guinea.

second largest trading partner. Since 2005, there has been a marked increase in trade. The total volume of trade in 2007 reached \$827 million compared to \$660 million 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 the nation imports from Japan motor vehicles, machinery and spare parts.

### 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, the former Prime Minister Masayoshi

Ohira visited Papua New Guinea, which was followed by a visit from former Prime Minister Yasuhiro Nakasone in 1985.

From Papua New Guinea, former Prime Minister Sir Michael Somare made official visits in 1985, 1997, 2003, 2005, 2006, 2009 and 2010. Other 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, helping to promote better appreciation and understanding of each other's values and cultures.

All these make for a relationship that is extremely important, robust and expanding.

Papua New Guinea's econo-

my recovered in 2003 after suffering contractions the previous three years. This recovery and the growth in the 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 that 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 growths in the retail, wholesale, agriculture, forestry and fisheries sectors.

Finally, let me extend a warm invitation to you all to visit Papua New Guinea and experience the rich diversity of our cultures, savor the natural beauty and explore business opportunities.

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