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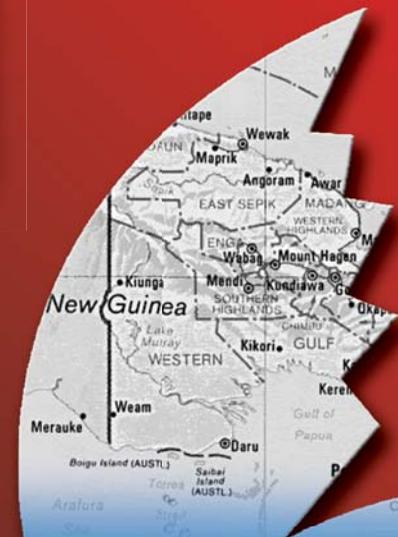
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DOING BUSINESS IN PAPUA NEW GUINEA



Foreword

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Doing Business in Papua New Guinea. A Construction Perspective.

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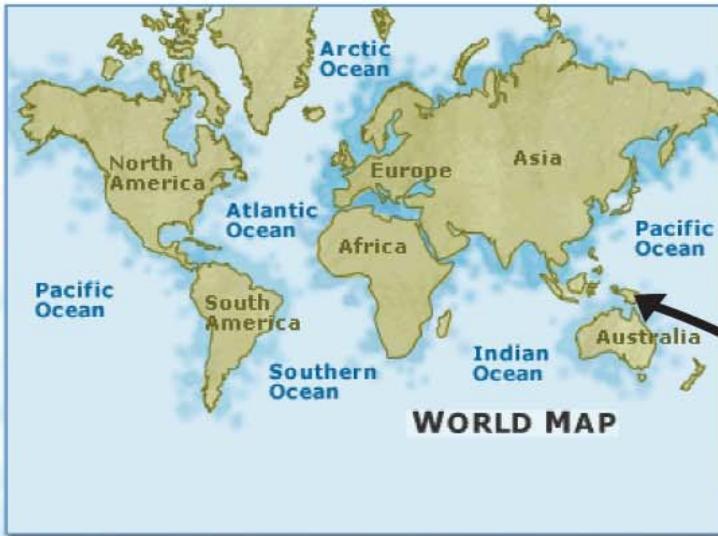
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1.0 BASIC COUNTRY DATA



- Location** : Papua New Guinea occupies the eastern half of the island of New Guinea (the western half, called Irian Jaya or West Papua, is part of Indonesia), as well as some nearby islands. New Guinea is part of the Pacific island region known as Melanesia. Papua New Guinea lies at the southeastern edge of Southeast Asia, to the east of Indonesia, and north of Australia. Major cities in Papua New Guinea are Port Moresby, Lae and Mount Hagen.
- Area** : 462,840 sq. km
- Land Area** : The land area covered is 452,860 square kilometers. The remaining 9,980 kilometers is covered by water bodies. 5,152 kilometers make up of the coastline of the country.
- Population** : 5,940,775 (July 2010 est.)
- Population density** : 20 inhabitants per sq km
- Capital** : Port Moresby
- Administrative Division** : 20 province-level division. The provinces are Central, Chimbu, Eastern Highlands, Eastern Highlands, East New Britain, East Sepik, Enga, Gulf, Madang, Manus, Milne Bay, Morobe, New Ireland, Northern, Bougainville, Southern Highlands, Western Province, Western Highlands, West New Britain, West Sepik and National Capital District
- Time zone** : GMT + 10.00 hours
- Principal languages** : Three official languages are English, Tok Pisin, and Motu. There are approximately 860 other languages.
- English is commonly used in government and is spoken competently by about 1% - 2% of the population
- Principal religions** : Roman Catholic - 27%, Evangelical Lutheran - 19.5%, United Church - 11.5%, Seventh-Day Adventist - 10%, Pentecostal - 8.6%, Evangelical Alliance - 5.2%, Anglican - 3.2%, Baptist - 2.5%, other Protestant - 8.9%, Bahai - 0.3%, indigenous beliefs and other - 3.3%. ([source from www.cia.gov](http://www.cia.gov))
- Education and literacy** : Papua New Guinea's literacy rate stands at 57.3%
- Male : 63.4%
Female : 50.9%
(census 2009 - source from www.cia.gov)

- Currency** : Papua New Guinea Kina (PGK)
- Measures** : Metric system
- Business hours** : Office hours in Papua New Guinea are from 0800 hours to 1600 hours or 1700 hours and for Government office hours are from 0800 hours to 1600 hours from Monday to Friday.
- Credit Cards** : American Express is the most widely accepted credit card; MasterCard and Visa are often accepted as well.
- National Airlines** : Air Niugini
(There is no direct flight from Kuala Lumpur to Port Moresby. Fly to Singapore, Manila, Japan or Australia and board the Air Niugini flight to Papua New Guinea)
(source from <https://bookings.airniugini.com>)
- Airport** : Port Moresby Airport
(Jackson International Airport)
- Railway network** : Papua New Guinea has no major railways, but some mine sites have disused tracks
- Road network** : Roadways in Papua New Guinea is a total of 9,349km
(source from www.cia.gov)
- Ports and Harbours** : Papua New Guinea has 23 declared ports of which 16 are operational and 7 non-operational. These operational ports are: Port Moresby, Lae, Kimbe, Madang, Alotau, Rabaul, Oro Bay, Kieta, Buka, Vanimo, Lorengau and Daru. The two under agency management are: Aitape and Samarai.
(source from www.pngports.com.pg)
- Exchange rate** : RM 1 ~ 0.85257PGK
USD1~2.63992PGK
(source from universal currency converter as of 26.10.2010)

ITEM/COUNTRY	PAPUA NEW GUINEA	MALAYSIA
Population	6,064,515 <i>(July 2010 est.)</i>	26,160,256 <i>(July 2010 est.)</i>
Land Size	462,840sq. km	329,847sq. km
Reserves of Foreign Exchange and Gold	USD2.607 billion <i>(31 December 2009 est.)</i>	USD95.5 billion <i>(31 December 2009 est.)</i>
GDP - Per Capita	USD2,302 <i>(2010)</i>	USD14,603 <i>(2010)</i>
GDP - Real Growth Rate	7.9% <i>(2010)</i>	6.7% <i>(2010)</i>
Debt - External	USD2.32 billion <i>(31 December 2009 est.)</i>	USD4.157 billion <i>(31 December 2009 est.)</i>
Inflation (consumer prices)	7.12% <i>(2010)</i>	2.2% <i>(2010)</i>
Labour Force	3.723 million <i>(2009 est.)</i>	11.38 million <i>(2009 est.)</i>
Corruption Perception Index Ranking (2010) Out of 178 countries	154	56

Source : www.cia.gov (info correct as at 26.10.2010), en. wikipedia.org/wiki/Corruption_Perception_Index 2010 (info correct as at 01.12.2010) & world economic outlook database www.imf.org. (info as October 2010)

2.0 PAPUA NEW GUINEA AT A GLANCE

2.1 Geography & Climate

Papua New Guinea is the eastern half of island of New Guinea, the islands of New Ireland, New Britain, Bougainville and smaller nearby islands. It shares a border in the island of New Guinea with the Indonesia territory of Irian Jaya. There are maritime borders with Australia to the south and Solomon Islands to the southeast. Papua New Guinea is part of the tropical Oceania and is located at the western edge of the Pacific Ocean. The total land area is 462,840sq.km.

Papua New Guinea is largely mountainous and nearly 85% is covered with tropical rain forest containing an intriguing variety of flora and fauna. The New Guinea Highlands runs the length of New Guinea and the highest areas receive snowfall which is rare for a country in the tropics. Within Papua New Guinea, the highest peak is Mount Wilhelm at 4509 metres. The longest rivers are the Sepik River (1050 km) and the Fly River (1126 km) which flows through one of the largest swamplands in the world to the south coast.

Papua New Guinea's climate is tropical with the northwest monsoons wet season being from December to March and the southwest monsoon from May to October and occasional rainfall rest of the year. There is slight seasonal temperature variation. In the lower altitudes the temperature is around 27°C year round whilst are at a constant 21°C at the higher altitudes.

The population of Papua New Guinea is about 6,064,515 (July 2010 est.) with 12% of the total as urban population. The indigenous population of Papua New Guinea has several thousand communities mostly with only a few hundred people and distinguished by language, customs and traditions. Some 800 different spoken languages have been identified. Melanesian Pidgin (also refer as Tok Pisin) is considered the lingua franca and English is spoken by educated people and those residing in Milne Bay Province.

Hiri Motu is spoken by less than 2% of the population and all three afore - mentioned languages are official languages. Approximately 96% of the population is Christians.

2.2 History

There has been evidence of civilization in Papua New Guinea for at least 60,000 years. The first recorded Europeans to sight were the Portuguese and Spanish navigators sailing in the South Pacific in the early part of the 16th Century. The Portuguese, Don Forge de Menezes is credited with naming it in 1526-27, "Papua" a Malay word for the frizzled quality of Melanesian hair. In 1545, the Spaniard, Ynigo Ortiz de Retez called it "New Guinea" because of the fancied resemblance between the natives here and those found on the African Guinea coast.

The German took control of the Northeast quarter of the island first in 1884 as a trading post and in 1899 was proclaimed as German New Guinea by the German imperial government. The Southern coast of New Guinea called Papua was proclaimed as a British protectorate in 1888 and was placed under the authority of the Commonwealth of Australia in 1902.

Following the 2nd World War, "The Territory of Papua and New Guinea" was established in 1949 under the International trusteeship system. In 1972 the name of the territory was changed to Papua New Guinea and gained independence in 1975. A nine - year secessionist revolt on the island of Bougainville ended in 1997 after claiming some 20,000 lives. Papua New Guinea is a member of the British Commonwealth realm.

2.3 Government

Papua New Guinea practices a constitutional monarchy with parliamentary democracy. The Chief of State is Queen Elizabeth II and is represented by the Governor General (Sir Paulias Matane, since June 2004). The head of government is the Prime Minister (Sir Michael Somare, since August 2002). The cabinet, known as the National Executive Council is appointed by the Governor General upon the recommendation of the Prime Minister.

The Legislative branch is the unicameral National Parliament (single house) also known as the House of Assembly with 109 seats (89 elected from open electorates and 20 from provincial electorates).

3.0 CONSTRUCTION OUTLOOK & OPPORTUNITIES

3.1 The Construction Scenario

The construction industry in Papua New Guinea (PNG) today and the next few years is underpinned by PNG Liquefied Natural Gas Project (PNG LNG). The PNG LNG is the largest single private-sector investment in the history of PNG and also, the largest project by far that ExxonMobil, the world's biggest oil and gas company, has undertaken worldwide as project operator. This project also involves the largest ever project loan raised worldwide for any oil or gas project and has put PNG on the world financial map. The USD16 billion projects to produce and transport natural gas via pipeline represents an enormous investment in civil works to build a thousand kilometer pipeline, including 417 kilometers of submarine pipeline leading to the liquefaction terminal near Port Moresby and a 2-3 kilometers trestle for loading tankers. The other works will be associated service roads, a large airport to transport large-scale equipment, improvements to the road and bridge system linking Hides, Juha and Angore fields in Southern Highlands and Western province to the Lae Port supply base.

The whole project is expected to be operational in 2013 - 2014 and will have a life span of 30 years. The project has the potential to materially impact the impoverished country's economy boosting its gross domestic product and export earnings, providing a major increase in government revenue creating employments opportunities during construction and operation and providing a catalyst to further gas exploration and developments as well as flow - on to other industries. The construction industry in general will see a huge growth reflecting the demand in infrastructure, housing and commercial complexes and raised living standards.

PNG government has allocated Kina 0.9billion (USD0.347billion) for transportation infrastructure maintenance and rehabilitation. The Development Strategic Plan 2010-2030 envisions Kina 100billion investments over next 20 years. This is expected to put a huge constraint on the country's capacity to execute civil works.

The PNG LNG Project will further contribute towards a strain in the country's available capacity with the potential to attract the best qualified contractors most skilled workers and equipments away from government contracts in the near term. The increased demand is however expected to attract new market entrants, capital expansion, and increase in the number of companies capable of performing road and other large-scale civil works over the long term.

Currently, PNG is categorized as a middle class income economy and is a recipient of both bilateral and multilateral aid and concession loans. Australia, is the largest bilateral aid donor. Other major sources of aid to Papua New Guinea are from Japan, the European Union, The People's Republic of China, Taiwan, the United Nations, the Asian Development Bank, the International Monetary Fund and the World Bank. PNG receives concessional loans from the World Bank, the Asian Development Bank and the European Union.

3.2 Challenges in the Papua New Guinea Construction Sector

The Asian Development Bank through a study on Papua New Guinea construction sector in an effort to overcome the construction industry's poor performance identified some of the challenges of the construction sector that are summarized as follows:-

1. The construction sector has a limited and overstretched capacity. There is a lack of competition and a structure of technical, financial, procurement and contracting factors constraining the capacity of even the most well-intentioned civil works contractor.
2. There are less than 15 national contractors, and less than 5 international companies with the technical knowledge, capital equipment and financial means to execute large civil works contracts funded by Asian Development Bank. Almost all companies are over-extended in their commitments, causing delays when they do participate and limited competition when they don't. Lack of response to tenders, lead to delays in procurements, and bids are often significantly larger than the engineers' estimates.
3. The government has initiated incorporating contractors past performance and improving the monitoring of contractor performance in an effort to mitigate contractor's poor performance but the shortage of capable contractors has left the government with little choice.
4. The other challenges faced by the industry are:-

a. Skills shortage

One of the most commonly cited problems is a shortage of skilled workers. The skill shortage extends from skilled and non-skilled labourers, equipment and plant operators to qualified engineers. The country's only engineering program at Unitech Lae recently produced only 28 graduates (2009) in the civil engineering field. When available, skilled labor is expensive and Asians and Australians are arriving in large numbers to fill the gap. Although training has been initiated through AusAid and the PNG LNG project, national trainers are scarce and there is little resolution to the skills shortage in the near term.

b. Material Quality and Material Testing

The geology of Papua New Guinea varies greatly over short distances and materials meeting minimum quality standards may not immediately be available at site. The Department of Works has material testing laboratories, but many suffer from poorly trained staff and limited maintenance.

c. Cost of Material

The uncertain availability and quality of materials is a significant variable leading to delays and cost overruns. Sand and other material needed in the Highlands are sourced from the coast and often needs protracted negotiations with local communities to quarry the materials. Most materials, whether imported from abroad or domestically produced, are expensive and bear large transportation costs.

d. Shipping and Logistics Costs

Transportation cost is high in Papua New Guinea. The shortage of suitable materials near the construction site and the limited development of Papua New Guinea are manufacturing sector forces civil works contractors to haul inputs and capital equipment long distances. Manufactured goods such as cement and raw materials are often sourced over long distance. There is only one cement producer supplying the entire country.

It is estimated that the hauling cost in Papua New Guinea is roughly four times that in Australia. Shipping equipment from the Highlands to Port Moresby is an enormous cost and thus the construction company's operation solution is through segmentation by region.

e. Utility Costs

Power and clean water are often unavailable and requires makeshift arrangements, all of which are costly.

f. Compensation and the Cost of Doing Business

It is important to note that the subject of road and other civil works in Papua New Guinea will involve communities seeking compensation. Development partner policies, including those of Asian Development Bank, require community participation, resettlement framework, and compensation for land takings, damage to farmland, crops, trees and temporary buildings, fences and other structures, possibly lost income to ensure effected communities are adequately compensated. The Department of Works traditionally sought approval from communities, and obtains a memorandum of agreement, and the indefinite nature of this arrangement often leads to interruptions.

The burden of initially negotiating compensation falls partly on the contractors and the process does start only upon physical mobilization on the ground and then only passed on to the Department of Works for estimation and approval, with further delays and cost increase. In addition, the local governments are also known to demand their own form of compensation in the form of new taxes instituted at the commencement of construction.

Thus, no matter how well prepared in terms of compensation, the process represents a direct cost in the terms of payments and other forms the government pays for compensation, it also raises contractor's cost in terms of delays and all that represent in terms of wages, cost of equipments, finance, plus the unpredictability of trying to manage an engineering project involving many material and capital inputs without a clear start-up time.

g. The Procurement Process

The procurement process is slow and cumbersome. Most roads and civil works contracts that have values greater than Kina 10million (USD 3.86million) require approval from the National Executive Committee (cabinet committee) and can delay awards by as much as six months or even more. The public procurement of large civil works is prone to corruption and this is further enhanced by the cumbersome processes involved in bidding that includes completing extensive forms, time involved from submission, processing and award. Donor-funded projects attempt to mitigate corruption through processes modeled on international best practices but are even more cumbersome and delays further the processes.

h. Predictability and Continuity of work

The commonly associated issues of cost overruns due to delay, be it for reasons of weather, supply of materials or equipment, variations and contractual disagreements, or disputes with local communities, as well as compensation and procurement mentioned earlier, would include cost in terms of wages, cash flow and financial expenses, and the opportunity costs associated with not proceeding with construction at other sites.

i. Unsatisfactory Subcontracting Agreements

There are limited subcontractors available with competent technical skills, management capabilities, the right equipments and financial capabilities. Moreover, sub-contracting agreements are usually flawed and coupled with poor communications, results in poor output and delays.

j. Scoping and variations

The executing agencies and the local consultants are still challenged by limited capacity and capabilities in respect of survey and design. The process does not reflect good practices based on established standards, specifications, availability of materials and ground conditions. Very often upon award, different materials and works are required and contractors need to study thoroughly the ground conditions before embarking on mobilization of expensive equipment and materials.

k. Implementing Agency Cash Flow

Budget disbursement to Department of Works and other agencies appear only after delay causing the implementation agencies to delay payments to contractors. The cash flow of the agencies is sometimes disrupted due to emergency works which are quite common.

l. Security

Security is a major cause of concern for contractors. Security concerns encountered range from truck hold-ups, theft of construction equipment parts, to violent threats and actions against road workers arising from land takings and the compensation process. Frictions and conflicts between tribal communities and outsiders in remote construction site locations are common. All these concerns can delay project completion indefinitely, making it difficult to maintain a schedule and control costs.

It is possible to invest in security services and possible initiatives to increase active police in protecting civil works site, but no system is foolproof and all security measures raise costs.

m. Market Structure

There are fewer than 15 national contractors and less than 5 international companies with the capacity to conduct civil works on roads. These companies are vertically integrated, concentrate on their home provinces and exercise a high degree of monopoly power within their local markets. Together, these twenty firms estimated turnover is around Kina 350 million (USD134.9million) per annum and their capacity is stretched. Demand is likely to rise, and the market is likely to become much more constrained in the near future.

There are relatively few players in the national civil works market large enough with the capabilities to respond to a bid for a road contract, and most of them tend to concentrate in one, or a few provinces. The limited number of companies in the market, already over-extended in their commitments, and motivated partly by the costs associated with transporting equipment from one location to another appear to silently agree to split up the market on a geographic basis and enjoying the market power that follows. There is often a suspicion of collusion surrounding the bidding processes on construction contracts. This situation results in oligopoly actions resulting in the form of few, or even no bids, in response to tender offers. The subsequent effect is often several rounds of bidding, delays and bid prices that are much higher than the implementing agency's estimation.

The overheated market for civil works combined with limited competition creates a seller's market, causing construction cost to rise at a rate of 15-20% per year, or about double the official inflation rate.

3.3 LIST OF PROJECTS

Some of the projects that have been approved by International Funding Agencies such as Asian Development Bank (ADB), World Bank, Japan International Cooperation Agency (JICA) and Japan Bank For International Cooperation are as per the table following:-

Development Partner	Project	Cost	Project Status
Asian Development Bank	Lae Port Development Project	USD40 million	Approved
	National Airport Development Sector Project	USD450 million	Approved
	Maritime Infrastructure	USD19.005 million	Approved
	Road Upgrading and Maintenance Project	USD18 million	Approved
	Town Electrification Investment Program	USD76.4million	Approved
	Bridge Replacement for Improvement Rural Access	USD50 million	Approved
	Highland Highways /Feeder Roads Upgrading	USD550 million	Approved
World Bank	Read PNG (Education)	USD17 million	Pipeline
	Flexible and Open Distance Education Project	USD5 million	Pipeline
JICA	The Project for the Urgent Rehabilitation of Markham Bridge	-	Propose
	The Project for Construction of Bridges on Bougainville Coastal Trunk Road	-	Propose
	Port Moresby Sewerage System Upgrading Project	8261 billion yen	Ongoing

Sources : <http://www.adb.org/Projects> , <http://www.worldbank.org/>,
<http://www.jica.go.jp/english/countries/index.html>

3.4 Malaysian Companies currently active in Papua New Guinea

Companies	Bank
1. Rimbunan Hijau	1. Maybank (PNG) Ltd
2. Binlai Jaya Sdn Bhd	
3. Kumpulan Jetson	
4. KNM Group Berhad	
5. Kencana Petroleum Bhd	
6. Samling Strategic Corporation	

4.0 STRUCTURES FOR DOING BUSINESS

4.1 Regulatory framework for the Incorporation of the Enterprise in Papua New Guinea

Business operations in Papua New Guinea may be conducted in a number of forms, such as private companies, public companies, branches of foreign companies, partnership, joint venture and the sole enterprises. The companies Act of 1197 and Companies Regulations (1998) regulates all matters regarding private and public companies. The Registrar of Companies under the Investment Promotion Authority (IPA) is the responsible agency for registration. Full details and information on applications are available at the website <http://www.ipa.gov.pg>

All foreign business entities must have approval from the Investment Promotion Authority (IPA). The IPA established under the Investment Promotion Act is for the purpose to promote and facilitate investment in PNG besides monitoring the activities of enterprises. All new foreign enterprises and existing entities wishing to engage in new activities are required to submit their proposal to the IPA for registration.

Foreign enterprises wishing to take over business whether foreign owned or not, are also required to register with IPA.

A foreign enterprise is an enterprise of which more than 50 percent is owned directly or indirectly by non-citizens, or an enterprise which is controlled by non-citizens.

For Malaysian companies the most preferred entity is as follows:-

1. Private Limited Company incorporated in Papua New Guinea as a totally new foreign entity.
2. Malaysian company registered in Papua New Guinea as a subsidiary company.

Wholly foreign ownership is accepted for the purpose of incorporating a local limited company. All foreign companies must also apply for certification with IPA within 14 days after receipt of their Certificate of Incorporation.

All locally incorporated companies are required to have at least one local person as a director.

The following is a summary of the necessities to establish a company in Papua New Guinea (PNG).

Papua New Guinea Company	Overseas Company
Incorporate New Company OR acquire a shell company	Register Overseas company in PNG (Companies Act)
Obtain certification to carry on business in PNG (Investment Promotion Act)	Obtain certification to carry on business in PNG (Investment Promotion Act)
Tax and other commercial registrations	Tax and other commercial registrations
Must have a PNG resident director and registered office in PNG	Must have a resident agent in PNG

5.0 DOING A CONSTRUCTION BUSINESS

Asian Development Bank (ADB) report on challenges of the construction industry in Papua New Guinea (Country Partnership Strategy: Papua New Guinea, 2011-2015) reveals that important barriers to entry limiting international construction firm's participation in the Papua New Guinea market include government regulations in the form of business registration, visas, work permits, and slow customs processes surrounding the import of construction equipment.

5.1 The Current Infrastructure Scenario

Papua New Guinea size and physical constraints has brought in limitations in developing a national road network, and the government has prioritized the rehabilitation and maintenance of transport infrastructure under its Development Strategy Plan. The country has four international gateways (Port Moresby, Gurney, Mount Hagen and Daru) and also an extensive network of domestic airports. The international freight services are provided by the larger ports at Lae and Madang whilst coastal freight services operate from several coastal ports. Electricity and water is available in all major urban centres and electricity is generated by either hydroelectricity or diesel generators.

5.2 Registering a Construction Business

5.2.1 Market Entry Strategies and Approaches

The challenges and opportunities facing new entrants to the construction sector in Papua New Guinea (PNG) have been highlighted in the earlier chapters. ADB is trying to overcome the impediments and constraints and promote the participation of large international contractors beyond enhancing the capacity of local contractors, skills developments, in particular, the large capacity needed for rehabilitation and upgrading contracts.

The initiatives by ADB to promote the entry of large foreign contractors under TA7420-PNG includes a review of investment, contracting and other relevant policy, proposals for reform, and a "road-show" to publicize PNG's need for international contractors to expand and strengthen its civil works capacity including showcasing the various road construction packages that are being prepared for bidding. Four donor agencies namely The World Bank, AusAid, The ADB and Japan International Cooperation Agency are actively participating and assisting the national government to rehabilitate and maintain the road structure.

The best approach identified for market penetration into the industry under the circumstances would be to form joint-ventures with national contractors, including small and medium businesses. Papua New Guinea Industry associations, including the Port Moresby Chamber of Commerce can provide "match-making" to introduce potential joint venture partners

5.2.2 The Opportunities

1. Roads

International companies familiar with maintenance contracts from Malaysia may be the perfect vehicle to lead the way in innovative civil works contract in Papua New Guinea. The Highlands Highway is the main priority under the current maintenance and rehabilitation policy of the government, as outlined in the Medium Term Development Strategy and the National Transport Development Plan. The Highlands Highway is a 700km major artery road and connects the provincial capitals of Lae, Madang, Goroka and Mount Hagen, and all these provinces are where gold, oil and gas and agricultural production are prevalent. ADB estimates that about 70% of the road network in the Highlands is in poor condition. The ADB has a long-term USD400 million program for supporting and maintaining the Highlands Highway.

2. PNG-LNG

The PNG-LNG project has been launched and the construction has commenced since 2010. Details of the various projects launched and others in the offering are available at the following website: www.pnglng.com.

The following international contractors based on engineering, procurement and construction (EPC) contracts have been appointed:-

- a. Chiyoda -JGC Joint Venture: LNG Plant
- b. CBI-Clough Joint Venture : Hides Has Plant
- c. Spiecapag : On shore pipelines and Infrastructure
- d. Saipem : Offshore pipeline
- e. McConnel Dowell - Consolidated Constructors Group Joint Venture : Komo Airfield.

Also, two additional principal contractors appointed have been appointed as follows:-

- a. Clough -Curtain Brothers Joint Venture for Upstream Infrastructure, and
- b. Parsons & Curtain Brothers for LNG Plant Site Infrastructure.

Malaysian companies should communicate with these companies to track any potential opportunities offered by these principal contractors. ExxonMobil has also established the PNG LNG Project Enterprise Centre to provide opportunities and support for local contractors vying for participation in the PNG LNG projects through registration of interest with the Project Enterprise Centre. This register provides a platform for Malaysian companies hoping to partner with a local company, for the purposes of tendering for a sub-contract. The Project Enterprise Centre can be contacted at info.ec@ibm.com.pg

3. Power

Currently Papua New Guinea (PNG) faces unprecedented pressure on power demand on both generation capacity and on maintenance of existing power plant. The PNG Power is a state-owned power generation and distribution company. Its current priorities are both on maintenance of existing plant and energy efficiency, as well as new developments. The next major development will be a hydro plant at Naoro Brown River, about 40km out of Port Moresby. In addition to major power plant developments, PNG Power is also looking at how to expand its network to more rural areas. PNG Power is also looking at hydro as the best means of delivering power efficiently and cost effectively in remote areas and this provides opportunities for companies to invest in the development of these smaller (3-4MW) hydro schemes.

4. Water and Waste Water Treatment

The other smaller opportunities in the construction industry are in areas of water treatment and supply and waste management.

5. Building Construction

The current demand for property far exceeds supply both in the residential and commercial sectors. There is currently a boom but is expected to tail off by 2013 when the construction phase of PNG LNG project is completed. Rimbunan Hijau, a Malaysian company is actively involved in the construction of residential, commercial and hotel complexes.

6. Aviation

Papua New Guinea's 21 major airports are managed and owned by the National Airports Corporation Limited. ADB is financing most of a USD640 million program to rehabilitate and maintain Papua New Guinea's airports. The first phase of the 10-year program includes improvements to the country's largest, Jacksons International Airport in Port Moresby, and the rehabilitation of airports in Wewak, Alotau, Kime and Mt. Hagen.

It is believed by ADB that the improvements at Jacksons International Airport could provide opportunities for the next phase of the government's Public-Private Partnership (PPP) strategy for its redevelopment.

7. Ports

Papua New Guinea's 16 declared ports are managed by Papua New Guinea Ports Corporation Limited, which is a state-owned company. Papua New Guinea's largest port at Lae is undergoing a major expansion program to be completed by 2014.

Papua New Guinea Ports has a large program for other major projects. There are long-standing plans to move the Port Moresby port to a larger site away from the city centre, a project likely to be implemented under a Public-Private Partnership plan. In the meantime, there are plans to upgrade and extend existing wharf facilities in Port Moresby.

The ports of Lae, and Port Moresby are also earmarked for significant remodeling exercise whilst Rabaul Port is expected to be rehabilitated to cater for the Solwara deep sea mining activities.

6.0 ECONOMY OVERVIEW

The Papua New Guinea (PNG) is richly endowed with natural resources, but the rugged terrain and the poor infrastructure has hampered the exploitation. Agriculture provides a subsistence livelihood for 85% of the population. Mineral deposits including oil, copper, and gold account for more than 70% of export earnings.

The government of Prime Minister Sri Michael Somare has brought stability to the national budget largely through expenditure control but it relaxed spending constraints in 2006 and 2007 as elections approached to remain in power. The fiscal surplus of previous years have eroded with large draw down of the savings allocated to new investments with negative consequences in respect of interest rates and higher inflation rates.

Numerous challenges still face the government including regaining investor confidence, restoring integrity to state institutions and promoting economy efficiency by privatizing moribund state institutions. World Bank aid and support from Australia help in maintaining Papua New Guinea's economy.

The country also faces other socio-cultural challenges that could affect the economy including on HIV/AIDS epidemic with the highest infection rate in all of East Asia and the Pacific, and chronic law and order and land tenure issues.

The global financial crisis had little impact because of the continued high demand for Papua New Guinea's commodities export. A consortium led by a major American oil company ExxonMobil has mobilized to begin the commercialization of the country's estimated 227 cubic meters of natural gas through the construction of a Liquefied Natural Gas (LNG) production facility that could begin production in 2013 or 2014. This would be the largest investment project in the country's history and has the potential to double the Gross Domestic Product (GDP) in the near-term and triple PNG's export revenue. However the country faces the challenges of ensuring transparency and accountability for revenues generated from this project and other large LNG projects.

6.1 Gross Domestic Product (GDP)

The economy of PNG performed well in 2009 and is expected to improve slightly in 2010. In 2009 the real GDP grew by a solid 4.5%.

Asian Development Bank's growth projection for PNG remains at 5.5% in 2010 and 7.7% in 2011 with a major contribution from the construction of the Liquefied Natural Gas (LNG) project. Inflation is expected to remain relatively high at 7.1% in 2010 and 7.7% in 2011. Price pressure is being generated from high levels of private sector activity as well as the delayed impact of rapid trust fund expenditures by the government in 2009.

The USD16 billion Liquefied Natural Gas project by Exxon Mobil will contribute very positively towards the economy if landowner compensation issues related to the project are resolved quickly and the developers are able to mobilize the equipment, material and skilled labour inputs to ramp up the construction.

6.2 Investment Climate

6.2.1 Challenges and Opportunities

6.2.1.1 Market Challenges

- a. There is perceived possible political instability by the business community even though the previous government (2002-2007) completed its full 5-year term, and the current coalition government retains many members who were in the previous administration.
- b. There is an inherent law and order problem. This imposes substantial cost on business resulting in an aversion for business investment or expansion.
- c. There is no firm government will, resulting in instability in laws, regulations and rules and adversely affecting businesses.
- d. Corruption remains a considerable problem in Papua New Guinea. There is also a lack of consultation by the government with the business community before the promulgation of laws or regulations that affect business.
- e. The quality of the infrastructure is poor and little effort has been made towards improvement.
- f. The quality of the public services is deemed poor and inefficient and not conducive towards growth of the business environment.
- g. There is a shortage of technical qualified and skilled workforce and also construction materials, specialized equipment and tools.
- h. Cost of power and labour is relatively high and adds to cost of doing business.
- i. Many of the issues described above have a negative impact on investment and entrepreneurship and substantial reform is needed.

6.2.1.2 Market Opportunities

- a. The growth of the economy will be underpinned by the mining and exploration sector with legislative reforms and higher commodity prices. The government has approved 11 new exploration leases for high grade copper, zinc and gold.
- b. The PNG LNG Project is the largest project ExxonMobil, the world's biggest oil and gas company, has undertaken worldwide as project operator. It also involves the largest ever project loan raised worldwide for any oil and gas project.
- c. The construction industry is set to boom and there is a shortage on the availability of major builders.
- d. There will also be ample opportunities for property development including mass housing and commercial complexes.
- e. Upgrading of existing highways and construction of new highways are being planned to cater for the huge developmental plans in the mineral, oil and gas industries.

6.2.1.3 The Strengths

- a. Papua New Guinea (PNG) has abundant oil, mineral and agricultural resources. The current surge in commodity prices has placed PNG as a rapidly growing economy with opportunities that surpass those in many other emerging and growing markets. Almost every sector of the economy in PNG is growing and providing many new opportunities for foreign companies.

6.2.1.4 The Risks

- a. There is a risk of political instability. The Prime Minister Sir Michael Somare is expected to have trouble staying in power till 2012. His position was weakened in 2009 when he faced an up cry from the opposition calling for his resignation, especially after his decision to suspend Parliament between July and November 2009 to avoid a no confidence vote directed at him.
- b. The current government is a coalition comprising of thirteen parties, and decision making has remained a slow process.
- c. Security has always been cause for concern in PNG as maintaining law and order has been a major issue with high crime rates.
- d. Lack of transparency, bureaucracy and corruption are all features of the PNG business environment. Transparency International releases an annual report on "Corruption Perception Index" which measures the perceived level of public-sector corruption in 178 countries around the world. PNG was ranked 154 in the 2010 report. (Malaysia was ranked 56).

6.2.2 The World Bank Report on Ease of Doing Business

6.2.2.1 Background

The World Bank Report on Ease of Doing Business 2010 presents quantities, indicators on business regulations and the protection of property rights that can be compared across 183 economies. The report covers the period June 2009 through May 2010.

A set of regulations affecting 10 stages of a business's life is measured namely:-

1. Starting a business
2. Dealing with construction permits
3. Employing workers
4. Registering property
5. Getting credit
6. Protecting Investors

7. Paying taxes
8. Trading across borders
9. Enforcing contracts, and
10. Closing a business.

The indicators refer to a specific type of business, generally a local limited company operating in the largest city.

6.2.2.2 The Ranking of Papua New Guinea (World Bank Report 2011)

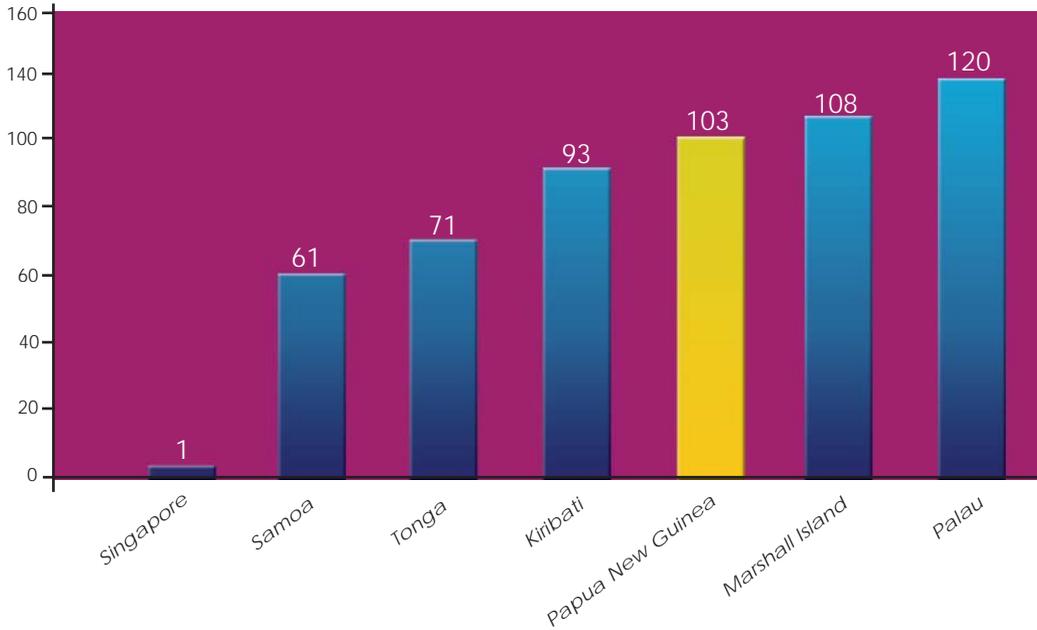
The following chart reveals the ranking of Papua New Guinea globally in the various indicators.

Rank	Doing Business 2011
Ease of Doing Business	103
Starting a Business	81
Dealing with Construction Permis	120
Registering Property	85
Getting Credit	89
Protecting Investors	44
Paying Taxes	101
Trading Across Borders	96
Enforcing Contract	163
Closing Business	108

6.2.2.3 Doing Business - Global Ranking

The following graph is a summary of the indicators for Papua New Guinea and the economies in the eastern pacific region. The graph allows a comparison of the economies in the region not only with one another, but also with the "good practice" economy of Singapore, Malaysia is ranked 21 in the "Ease of Doing Business 2011".

Ease of Doing Business - Global Rank



6.2.3 Open Economy and Freedom

Economic freedom is defined as the fundamental right of every human to control his or her own labour and property. In an economically free society, individuals are free to work, produce, consume and invest in any way they please, with that freedom both protected by the state and unconstrained by the state.

The Heritage Foundation, based in Washington tracks and measures ten components of economic freedom, assigning a grade in each using a scale from 0 to 100, where 100 represents the maximum freedom.

The 10 components of economic freedom are:-

- i. Business Freedom
- ii. Trade Freedom
- iii. Fiscal Freedom
- iv. Government Spending
- v. Monetary Freedom
- vi. Investment Freedom
- vii. Financial Freedom
- viii. Property Rights
- ix. Freedom from Corruption
- x. Labor Freedom

Based on the report, Papua New Guinea's economy is the 126th freest out of 179 countries in the 2010. Papua New Guinea (PNG) is ranked 25th out of the 41 countries in the Asia-Pacific region, and its overall score is lower than the world average. Malaysia is ranked 59th out of the 179 countries.

The Foundation reports that PNG economy scores relatively well in trade freedom primarily due to low tariff barriers. The overall entrepreneurial environment has been afflicted with macroeconomic instability, volatile economic growth, and low investment. Inconsistent government policies, weak property rights, poor infrastructure, lack of competition, and the dominant role of the state in the economy have contributed to the lack of economic development and widespread poverty across the country.

Private - sector growth has been minimal because of structural constraints. The government involves itself in many aspects of the economy through state ownership and regulation, raising the costs of conducting entrepreneurial activity and discouraging the development of a strong private sector. The lack of competition has resulted in a number of highly inefficient state monopolies in key sectors of the economy.

7.0 TRAVELLING TO PAPUA NEW GUINEA

7.1 Visa

Malaysian Nationals visiting Papua New Guinea as tourist have to apply for visa through Consulate for Malaysia. Its takes three working days with a fees of RM100/-.

Malaysian national visiting Papua New Guinea on business has to obtain visa by submitting the following documents to the Consulate for Malaysia:-

- i. Duly completed visa application
(download from <http://papua-new-guinea.visahq.com>)
- ii. Passport of the applicant
(validity at least 6 months and have at least one visa page).
- iii. One standard passport photographs 2 x 2 inches on white background.
- iv. Letter from the local employer/agency giving details and purpose of visit with the specific dates of travel.
- v. Invitation / correspondence from relevant organization in Papua New Guinea.
- vi. Visa fee for Malaysian Nationals - RM 650/-

Embassy/ High Commission / Consulate for Malaysia

CONTACT DETAILS

Papua New Guinea High Commission

No 11 Lingkungan U-Thant

Off Jalan U-Thant,

55000 Kuala Lumpur

Telephone: (+603) 42575405, (+603) 42579260

Fax : (+603) 42576203

7.2 Flights and Airports

The major international airport in Papua New Guinea is Jackson International Airport, also known as Port Moresby Airport, and is located 8 kilometers outside Port Moresby, in Papua New Guinea. It is the largest and busiest airport in Papua New Guinea and is the main hub for Air Niugini, the national airline of Papua New Guinea, as well as the main hub for Airlines Papua New Guinea. Other airlines operating in this airport are Virgin Blue Airlines, Singapore Airlines and Qantas Airways.

This airport consists of two terminals, that is, the International Terminal housing Air Niugini and Airlines PNG, and the Domestic Terminal servicing all other airlines.

7.3 Ground Transport

The major hotels supply free courtesy bus transfers to and from the Port Moresby Airport. The local hotel can make arrangements for transfer to other regional airports in Papua New Guinea. It is advisable to confirm transfer requirements while making booking with the hotel.

Taxis are available and are not recommended as they are unreliable, expensive and unsafe. If no choices are left and if you have to use the taxi make sure the fare is negotiated before entering the vehicle. Travelers are discouraged from using public buses commonly referred as PMVs (Public Motor Vehicles)

7.4 Security and Health

7.4.1 Security

Travellers are advised to exercise a high degree of caution in Papua New Guinea because of the high levels of serious crime. Crime is random and particularly prevalent in urban areas such as Port Moresby, Lae and Mt Hagen. Settlement areas of towns and cities are particularly dangerous. 'Bush knives' (machetes) and firearms are often used in assaults and thefts. Car jacking, assaults (including sexual assaults), bag snatching and robberies are common. Banks and automatic teller machines are attractive targets for criminals. The crime rate tends to increase leading into the Christmas holiday period. Most crimes are opportunistic, and there have been incidents of robbery in which expatriates have been targeted in their homes or workplaces. There have been a small number of high profile kidnappings for ransom.

Walking after dark is particularly dangerous in Port Moresby and other urban centres. All travel at night should be made by car, with doors locked and windows up.

7.4.2 Health

When travelling to Papua New Guinea, vaccination for yellow fever (and the certificate to prove it) is required if you are entering from a yellow fever-endemic country. Vaccinations are also recommended for hepatitis A, hepatitis B, typhoid fever and, for some visitors, Japanese B encephalitis.

Malaria is a risk throughout Papua New Guinea. The mosquito-borne disease Japanese encephalitis is found throughout many regions of North, South and South-East Asia and Papua New Guinea.

Food-borne, water-borne and other infectious diseases (including tuberculosis, typhoid and hepatitis) are common. Travellers are encouraged to have their vaccinations before travelling. The rate of HIV/AIDS infection in Papua New Guinea is high and considered epidemic.

Local water supplies can be interrupted or polluted so take precautions to ensure to have access to safe water. It is advisable to boil all drinking water or drink bottled water, avoid ice cubes and raw and undercooked food.

7.5 Climate and Business Attire

7.5.1 Climate

The climate throughout Papua New Guinea is tropical. The altitude of the Highlands tempers the heat of the tropics and provides a stable warm climate throughout the year ranging from 13°C - 26°C.

Port Moresby differs from most of Papua New Guinea in that it is located in a 'rain shadow' and is consequently much less humid. There are two main seasons in Port Moresby that are the wet and dry. The average temperature is from 22°C - 31°C. The wet season is between December and April with February being the wettest month. The dry season starts roughly from April to October or November.

7.5.2 Business Attire

Business affairs in Papua New Guinea tend to be conducted in a very informal fashion. A conventional suit will not be required. Shirt and tie are sufficient.

7.6 Business Hours and Public Holidays

Business hours in Papua New Guinea are 8.00 am to 4.30 pm or 8.00 am to 5.00 pm from Monday to Friday and 8.00 am to 12.00 noon on Saturdays. Government offices are from 7.45 am to 4.05 pm from Monday to Friday.

Most shops are generally open for normal business on all days with Saturday being a half day. Some supermarkets are open on a Sunday but as a rule most shops are closed.

Banking hours in Papua New Guinea are from 8.45 am to 3.00 pm on Monday to Thursday but on Friday it is from 8.45 am to 4.00 pm.

Papua New Guinea has branches of many leading international banks such as Bank South Pacific Ltd, Maybank (PNG) Ltd and Westpac Bank. A Bank South Pacific (BSP) branch is open for business at Port Moresby's airport for currency exchange on arrival and departure for all international flights. BSP has three convenient city locations which feature 24-hour Automatic Teller Machine (ATM) that is at Port Moresby, Waigani and Boroko. With its network of over 150 ATMs nationwide, the BSP Kundu card is a work essential during a stay in Papua New Guinea. BSP provides a variety of services such as options for deposits, current and savings accounts, ATM services, Credit Cards services and money transfer services.

Date	Public Holiday
1st January	New Year Day
2nd April	Good Friday (Holy or Great Friday)
5th April	Easter or Dyngus Day
7th June	Queen's Birthday
13th September	Constitution Day
15th September	Independence Day
11th November	Remembrance Day
25th December	Christmas Day
26th December	Boxing Day

7.7 Tipping

Tipping is not customary or encouraged anywhere in Papua New Guinea or the Solomon. The listed price is what we will be expected to pay. Visitors to the country as guests, and hospitality is an honor in the Melanesian culture.

7.8 Time Zone

Papua New Guinea is 2.00 hours ahead of Malaysian Standard time.

7.9 Telecommunication

The country code for Papua New Guinea is 675

For calls from Papua New Guinea to Malaysia dial 00 + 60 + area code+ telephone number.

For calls from Malaysia to Papua New Guinea dial 00 + 675 + area code+ telephone number.

Telikom PNG Ltd is a public telecommunications network operator and service provider that is 100% owned by government. Mobile services is provided by Pacific Mobile Communications which is a wholly owned subsidiary of Telikom PNG Ltd.

7.10 Currency

The currency of Papua New Guinea (PNG) is made up of Kina (keena) and toea (toea) with 100 toea equal to One Kina. The Kina was introduced on the 19th of April 1975. The Kina replaced the Australian Dollar and the toea replaced the Australian cent.

Today the Papua New Guinea currency consists of the following notes that is K100, K50, K20, K10, K5 and K2 and the coins are in the denomination of K1, 50t, 20t, 10t, 5t. The 1t and 2t toea coins have been phased out and are hard to find as most of them have been returned to the bank and are not legal tender.

There is no restriction on the import of local or foreign currency. The export of local currency is restricted to K200 and foreign currency to the equivalent of K10,000.

7.11 Electricity

Electricity is supplied in Papua New Guinea by the Government owned Papua New Guinea Electricity Commission, known as Elcom Electricity in Papua New Guinea is 240 Volts, alternating at 50 cycles per second. The Australian three - prong plugs are the most common.



7.12 Hotels

Airways Hotel which is a 4 star is Papua New Guinea's finest hotel, a member of Boutique Hotels and Resorts International and one of the most unique airport hotels. It is just 2 minutes from Jackson's International Airport.

Crowne Plaza Port Moresby a 4 star hotel is situated on a hilltop in the heart of the business district and commands panoramic views of the Coral Sea and surrounding inland areas. Conveniently located 15 minutes from Jackson's International Airport, it makes visiting Port Moresby a highly comfortable prospect for business travelers.

The Quality Hotel® Gateway, a 3 star hotel, is centrally located, just minutes from Port Moresby Airport / Jackson's International Airport.

The Holiday Inn Port Moresby, also a 3 star, is situated in Waigani, just 10 minutes from the city centre and Jackson's Airport.

The rates for the hotels range from USD 235.00 to USD 371.00.

7.13 Malaysia Embassy/ High Commission / Consulate for Papua New Guinea

CONTACT DETAILS

The Malaysian Consulate,
Unit 201/203, Pacific View Apartments,
Pruth Street
P.O. Box 1400,
Korobosea,
Port Moresby
Papua New Guinea
Telephone: (+675) 3251506, (+675) 3252076
Fax: (+675) 325 2784
Email: stmpom@global.net.pg,
malpmresby@kln.gov.my,
mwpom@datec.com.pg

8.0 FINANCE AND BANKING

The commercial sector of Papua New Guinea is very well serviced by banks, leasing companies, accountancy and law firms and other service providers. The banks offer a full range of financial products and the larger accountancy and law firms are predominantly subsidiaries of overseas companies. Increased economic activity and expectations around the PNG LNG project, other mining projects and construction are fuelling growth in Papua New Guinea's financial services sector.

The Central Bank, known as the Bank of Papua New Guinea is working on regulatory improvements whilst the country's main banks are now expanding their technological and geographical spread. Banking in Papua New Guinea is dominated by three banks. The largest is Papua New Guinea owned Bank South Pacific. The other banks are Westpac and ANZ, which is the lead bank for the PNG LNG project. Maybank from Malaysia operates in Papua New Guinea as Maybank (PNG) Ltd.

8.1 Foreign Exchange Controls in Papua New Guinea

Uniform exchange controls apply to dealings with all countries. Papua New Guinea adheres to Article VIII of the International Monetary Fund (IMF) and accordingly, does not impose restrictions on verifiable current account transactions.

The exchange controls were (partially) liberalized in 1992 by eliminating the remittance limits on some of the foreign exchange transactions and setting much higher annual remittance approval limits for licensed foreign exchange dealers (the Authorized Dealers), while controls on certain types of foreign exchange transactions (including the licensing of foreign exchange dealers and gold exporters) were retained by the Central Bank. On 1 June 2005, the Central Bank liberalized the bulk of the exchange controls.

Detailed information and guidance can be obtained by contacting the Central Bank at the website address www.bankpng.gov.pg or by contacting authorised commercial banks.

8.2 Current Payments and Receipts Including Remittances

Authorized Dealers can verify and endorse all types of current remittances overseas either in foreign currency or Kina. Exchange control approval is no longer required. Any amount of foreign currency or Kina can be remitted overseas or received from overseas without limit.

a. Imports into Papua New Guinea

Payments for imports do not require exchange control approval. The payments are subject to the following requirements:

- The production of Customs Entry Forms for goods that have arrived in PNG; and
- The subsequent production of Customs Entry Forms where the goods are in transit to Papua New Guinea. The documentation must be forwarded to the Authorized Dealer within 60 days of the payment date.
- The production or submissions of a relevant Balance of Payment (BOP) Form.

b. Other Current Payments

Other current payments can be done through the Authorized Dealers who will verify and certify the remittances without exchange control approval. The payments are subject to the following requirements:-

- The production of relevant supporting documents, where required;
- The production of an original Tax Compliance Certificate (TCC), where required, and;
- The production or submissions of a relevant BOP Form.

c. Receipts of Funds From Exports

Exporters may not be required to bring export receipts to PNG. However, they are required to report to the Central Bank funds received from exports, on the relevant Balance of Payment (BOP) Forms. Export receipts that are received can be processed through an Authorized Dealer.

d. Other Current Receipts

Other current receipts can be received and processed through the Authorized Dealers who will verify and certify the receipts without exchange control approval. The receipts are subject to the production or submission of the relevant BOP Forms.

9.0 LABOUR, LEGISLATION, RELATION AND SUPPLY

9.1 Recruitment

Papua New Guinea is facing an unprecedented skills shortage as the PNG LNG project looms large. It is expected that the demand for some services could triple or quadruple in the next term. The PNG LNG project is expected to attract some of the country's best and brightest workers and staff retention would be an issue for many existing firms.

Training and skills development has now being given priority. New and improved training facilities both by the public and the private sector have been developed. A new training facility, as part of the obligations of PNG LNG project operations, has been developed by ExxonMobil to provide training in those occupations likely to be required by the project.

The facility, to be eventually part of the Port Moresby Technical College will conform to Australian Qualification Framework so that there will be recognition within Papua New Guinea and overseas. A two percent government training levy and a stipulation that any company employing expatriates should commit to a "training and localization plan" (for locals to be ultimately employed instead) is now more vigorously pursued.

Larger firms are often obliged to source expatriates from overseas for specialized or highly - skilled roles and it is now generally expected that there will be tremendous demand for the semi-skilled workers as well from the oversea markets. It can currently take at least six months to obtain both the work permit and visa required for new expatriate employee. The work permits, valid up to 3 years, are issued by the Department of labor & Industrial Relations whilst work visas are issued by the Department of Immigrations. There are now reforms being proposed for work permits to be obtained without the approval of the Department. Details and guidelines for hiring non-citizens are available in the following publications of the Department of Labor and Industrial Relations: (i) Work Permit Guideline : A General Guide to the Foreign Employment System in Papua New Guinea (Version 1) and (ii) Work Permit Guideline: A Guide to the Foreign Employment Industrial Divisions and Classifications of Occupations (Version 1, 01/01/09). These versions can be downloaded from the Department's website at www.workpermits.com.pg.

Staff accommodation has now manifested as a major issue. Company-provided, funded or partially funded accommodation is generally expected for non-citizens that are recruited externally to work in Papua New Guinea and it is a real cost to doing business in Papua New Guinea. Rentals have risen astronomically in recent times and it is expected to stay that way for quite awhile. This situation has also affected the local salaried Papua New Guineans who find it difficult to find affordable housing in the 2 major cities and this inevitably led to costs for employers.

9.2 Contract, Employment and Termination

It is advisable not to assume that what works in other developing countries will work in Papua New Guinea. Employers are advised to research relevant legislations and join the Employers Federation of Papua New Guinea (www.efpng.org.pg) to gain further insight. The Federation is a very helpful organization and provides excellent advice to member companies on relevant awards, employment contracts, labour laws and Industrial Relations issues.

Employment contracts are expected for most of the roles and it is recommended that advice from one of the many quality lawyers in the country or the Employers' Federation be sought. There are unions in Papua New Guinea and also an active Papua New Guinea Trade Union Congress. The National Wages Board sets the National Minimum Wage in the country. The Minimum Wage Board is a quasi-government body with labour and employer representatives.

The key obligations of an employer in Papua New Guinea could be summarized as follows:-

- a. Deductions from employee salary or wages tax and submit remittance to the Inland Revenue Corporation.
- b. To accord an annual leave of three weeks per annum.
- c. To entitle the employee a sick leave of 9 days per annum.
- d. To accord a long service leaves of 6 months after 15 years of service.
- e. To accord a long service leave payable after three years of service.
- f. To allow unpaid maternity and compensation leave.
- g. Compulsory superannuation for companies employing 15 Papua New Guinea workers or more, 8.4% being employer's contribution and 6.0% as employee's contribution.

The labor law also limits the workforce to 42 hours per week in urban areas and 44 hours per week in rural areas. The law also provides for at least one rest period of one full day every week.

Likewise, the law also stipulates that after completion of 3 months continuous service with the same employer, and should employment be terminated, 7 days notice on either side shall be given or one week's wages in lieu of notice. The law also provides for immediate termination with loss of benefits under circumstances from gross misbehavior on the job, refusal to do work reasonably, drunkenness, harassment of other staff or abuse of organizational property. Dismissal without notice can also be effected for offences such as assault, gross insubordination, fighting at work, conviction of criminal offence, sexual harassment, theft, physically threatening behaviors and language, drunkenness or under the influence of drugs whilst at work or absenteeism without approval for 5 or more working days.

10.0 TAXATION

10.1 Overview

Papua New Guinea boasts a mature and quite well defined tax regime. The tax laws are administered by the Papua New Guinea Internal Revenue Commission (IRC) and customs laws by the Custom Services Commission (CSC). The general company tax rate is 30% and is comparable to major countries in the region. Individual tax payers who earn only salary or wage income are not required to lodge annual tax returns. Malaysia has a Double Taxation Agreement with Papua New Guinea and provides a good level of certainty and commercial flexibility. There is no capital gains tax and restriction on remittances provided prior clearance from Inland Revenue Commission has been obtained for taxation purposes.

10.1.1 Papua New Guinea Tax Rates at a Glance

	Tax Rates (%)
Corporate Income Tax Rate (a)	30
Capital gain tax rate	0
Branch/non-resident company tax rate (b)	48
Dividend withholding tax (c)	17
Interest withholding tax (d)	15
Royalty withholding tax (e)	10
Foreign contractors tax (f)	12
Management fee withholding tax (g)	17
Trusts (i)	30
Superannuation funds (h)	25
Goods and service tax (GST)	10
Net operating losses (years)	
Carry back	0
Carry forward	20

- a. Special rates apply for some resources companies some resources companies. So while gas operations and mining operations by PNG resident companies are also taxed at 30%, those by non - residents mining companies are taxed at 40% and petroleum operations are taxed at rates ranging from a 30% incentive rate at 45% or 50% depending on the project itself.
- b. In some limited cases due to the operation of a relevant non discrimination clause in some of the double tax agreement.
- c. In limited cases dividend holding tax is restricted to 15% for residents of certain double taxation partner countries.
- d. Withholding tax on interest paid to resident of countries of double taxation agreement restricted to 10%.
- e. Royalties paid to all double taxation partner countries are taxed at maximum of 10% on gross income.
- f. The general domestic rate for taxation of foreign contractors is set at 12%. However some of the double taxation agreement partners, this tax may be reduced to 7.5%
- g. Management fees withholding tax may not apply to double taxation partner companies
- h. Must be an authorized PNG resident fund.

10.2 Income Tax - Taxation of Individuals

10.2.1 Personal Tax Rates for residents as per table:-

Taxable income	Tax thereon (K)	Rates of tax on excess (%)
7,000	Nil	22
18,000	2,420	30
33,000	6,920	35
70,000	19,870	40
250,000	91,870	42

10.2.2 Personal Tax Rates for non-residents as per table:-

Taxable income	Tax thereon (K)	Rates of tax on excess (%)
Nil	Nil	22
18,000	3,960	30
33,000	8,460	35
70,000	21,410	40
250,000	93,410	42

10.3 Income Tax - Taxation of Companies

	Tax Rates (%)
Resident companies	30
Non-resident companies	48

10.4 Goods & Services Tax (GST)

A Goods and Services Tax or GST is a tax, which is imposed on the sale of goods and services in Papua New Guinea or the importation of goods into Papua New Guinea. GST is imposed at a rate of 10% of the value of the goods and services sold (or goods imported).

10.5 Withholding Taxes

Withholding Taxes are levied on several payments: The person making the various payments is to deduct withholding tax which is as per table:-

	Tax Rates (%)
Dividends	17
Interest	15
Management Fees	17
Foreign contractors	12
Royalties	30
Overseas ships	2.4
Non- resident insurers	4.8

10.5.1 Dividend Withholding Tax (DWT)

Whenever a Papua New Guinean resident company, other than a company engaged in Petroleum and Mining operations, pays a dividend it must deduct 17% Dividend Withholding Tax and remit it to the Internal Revenue Commission by the 21st day of the following month. Dividend paid by a company engaged in mining operations is subject Dividend Withholding Tax at 10%.

The withholding tax is legally a tax on the receipt of the dividend. Its subsequent status therefore depends on the status of the recipient:

(a) Non-resident companies or individuals: The dividend withholding tax is a final tax on the dividend.

(b) Resident Companies: The dividend withholding tax gives rise to a tax credit, which may be offset against a liability to deduct this tax when the company pays a dividend itself. These tax credits must be used within seven years.

(c) Resident individuals: The dividend withholding tax is credited against the individual's normal tax liability on that dividend income.

10.5.2 Interest Withholding Tax (IWT)

Most interest derived by residents or from sources within Papua New Guinea is subject to withholding tax at a rate of 15%. This tax is an interim tax except in the case of non-resident recipients.

10.5.3 Management Fees Withholding Tax

Management fees paid to non-residents for management services performed outside Papua New Guinea would be subject to tax at the rate of 17% of the gross management fees paid. This rate is reduced if the non-resident is a resident of a country, which Papua New Guinea has a Double Tax Agreements with, as per table:

Country	Withholding tax rate (%)
Canada	Nil
Australia	Nil
Singapore	Nil
United Kingdom	10
Malaysia	10
China	Nil
Germany	Nil
South Korea	Nil
Fiji	15

10.5.4 Foreign Contractor Withholding Tax

Broadly, this tax applies when a non-resident contractor is engaged by a Papua New Guinea resident to perform a contract for prescribed purposes. The foreign contractor is liable for tax on 25% of the gross contract value at the non-resident tax rate of 48%. The effective tax rate is 12% in such circumstances.

A non-resident contractor, with the expressed approval of the Commissioner General of Internal Revenue Commission, may lodge an annual income tax return and be assessed on an actual net profit or loss basis. Prescribed purposes include construction, installation, use of industrial equipment, or provision of professional or consultancy services.

10.6 Stamp Duty

Stamp duty (duty) in Papua New Guinea is payable on the transfer, agreement for sale, declaration of trust over, or grant of certain property. The amount of duty payable will depend on the type of property and its value.

Duty is calculated on the market value of the property as per table:-

Where the value does not exceed K35,000.00	K5.00 or an amount equal to 2 per cent of the value, whichever is the greater
Where the value exceeds K35,000.00 but does not exceed K70,000.00	An amount equal to 3 per cent of the value
Where the value exceeds K70,000.00 but does not exceed K140,000.00	An amount equal to 4 per cent of the value
An amount equal to 4 per cent of the value	An amount equal to 5 per cent of the value

10.7 Other Taxes

The Internal Revenue Commission is responsible for the following taxes:-

- Gaming Machine Tax
- Departure Tax
- Bookmaker Tax
- Training Levy

10.7.1 Gaming Machine Tax

There is a betting tax of 46% of the gross profit from poker machines, this tax is paid by the four gaming machine operators.

10.7.2 Departure Tax

A departure tax of K30 per person is payable by people who travel overseas on an aircraft or ship. The departure tax is including in the ticket and the airline pays the tax to the Internal Revenue Commission (IRC) each month.

10.7.3 Bookmakers Taxes

Bookmakers are registered by the Gaming Control.

There is a turnover tax of 4% of the net turnover paid to the IRC i.e. the gross amount of every bet made (whether or not payment has been received) less lay-off bets made.

Under the Bookmaking Act, a bookmaker must record all bets, whether cash or credit, name with him on a separate betting tickets in respect of:

1. On an event of a race meeting held in Papua New Guinea or Australia.
2. On a boxing or wrestling bout held anywhere.
3. On any other prescribed event

The betting tickets are purchased from the Office by the licensed bookmakers in books of 500 for 50 toea and K1.00 duty on the bet made and books of 200 for K2.00, K3.00, K4.00, and K5.00 duty on the bet made. The bookmaker is permitted to recover the duty from the gamblers or punter.

The bookmakers can recover the turnover tax and stamp duty on the betting tickets from their gamblers.

10.7.4 Training Levy

A training levy is payable by every employer who has a total payroll of 200,000 Kina or more. The levy is assessed on an annual basis and is calculated at 2% of the payroll. The amount of levy payable may be offset against any qualifying training expenses incurred during the year.

Qualifying training expenses broadly include various expenses incurred in the training of citizen employees, including salaries and wages paid to employees during full or part-time training, fees paid for training of employees, salaries paid to trainers, the part of the salary paid to an employee during on-the-job training, the cost of providing scholarships or other form of training assistance, etc.

The training levy is an annual levy. Every employer must submit annual training levy returns and claim training expenses incurred during that year. There is no provision for carrying forward qualifying training expenses.

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