



Lae Chamber of Commerce Inc. Weekly News Update

7 February 2014

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Thank you

FROM THE PRESIDENTS DESK

LUNCH WITH JULIE BISHOP

If you were one of the 130 guests who joined us for our lunch with the Australian Deputy Prime Minister and Minister for Foreign Affairs Hon Julie Bishop at the Lae Yacht Club on Thursday, then I am sure you would have enjoyed not only the Yacht Clubs hospitality and food but the candor in which Ms. Bishop delivered her speech, but how easily and freely she mixed with the guests after.

Our other guests included Her Excellency Deborah Stokes Australian High Commissioner, Morobe Governor Kasiga Kelly Naru; Hon Loujaya Kouza Member for Lae Open and Minister for Religion, Youth & Community Development; Alan Scott Mission Commander AFP; Stuart Schaefer Minister Development Corp. AHC, as well as AHC Officials, the Morobe Administrator Mr. Gioven Bilong and the Divisional Police Commander Nemah Mondiai and the Metro Commander Iven Lakatani.



Some of the members with Julie Bishop

Ms. Bishop spoke briefly about how the Australian Government had reformed the taxes by cutting out the Mining and Carbon Tax that would have made Australia less competitive. Also they have taken some extreme measures to cut down on red tape. It was pleasing indeed to hear that the Australian Government recognizes the Private Sector as the real driver of a nation's economy.

Ms. Bishop went on to talk up Lae as being the heartbeat of the nation's economy. The fact that out of the nation's 8 million people - 5 million access Lae for business and services. Goods to the value of K1 billion arrive over the Lae Port, which is 10% of the national budget, which make it one of the largest Ports in the Pacific apart from Australia and New Zealand.

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**Objectives
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- To promote the business interests of the private sector;
- To further the economic development in Lae;
- To ensure the provision of services and utilities essential to such development;
- To provide a representative body for business people, which government can consult;
- To promote support or oppose legislation; or take any other measures to improve the business community;
- To provide a forum for discussion of private sector goals;
- To pool the strengths of business people so that together, they can accomplish tasks that each one alone cannot achieve;
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Julie Bishop' visit (Cont)

Before Ms. Bishop attended our Lunch, she took time to visit Angau Hospital where she reaffirmed the Australian Government's commitment to assist PNG in rebuilding the hospital. The total cost of the project will be K1.13 billion which will be shared between the two Governments.

A media statement from the Australian High Commission mentioned that \$A207 million will go toward the redevelopment of the Hospital itself, which includes drawing up of a master plan and 50% of costs of the work and installation of new equipment. The remainder will go towards training doctors, nurses and other staff. Ms Bishop said, "We want the plan to be methodical and sustainable so that the hospital is built to world class standards."

Alan McLay pointed out in his opening remarks that the Private sector need good medical services, so that they can recruit and hold onto good quality staff. One of the conditions for recruiting Expatriate staff is that the medical facilities here must be of equivalent standard at least to that in their place of recruitment. To recruit and hold local staff, good medical facilities in the city are an advantage. Private medical clinics and hospitals that provide most of the Private Sector's needs depend on the Public Hospitals for a wide range of services, including the supply of blood and certain operative facilities.

Ms. Bishop announced that \$A3 million will be made available for a Crisis centre and refuge for abused persons in Lae and victims of family violence, at a yet to be determined location.

The Australian Government's stand on no visas for Papua New Guinean's on entry to Australia has disappointed the PNG Government, but Ms. Bishop said that the Australian Government believes that the way to go forward in this electronic age is to expand and improve the online visa system. She said that to obtain a visa on arrival, only means a long wait in queues which is really a waste of time. By going on line and using a credit card, an electronic visa can be obtained quickly and will save the queuing time. All points of entry into Australia will be automatically notified of this electronic number. If the applicants have no experience with computers, any friend or relative can do it for them; similarly if the applicants have no credit card, then they can have a friend use their credit card.

Alan McLay mentioned in his opening remarks that the online visa system was not currently working well in Lae, where many customers complain that the program drops out before the application form is completed. Ms. Stokes said later that this is a problem with the internet service dropping out, rather than the actual program itself.

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New Made in PNG
2014 Edition
Coming Soon

Business Advantage International is proud to announce the third edition of **Made in PNG**, a publication dedicated to Papua New Guinea's productive sectors: manufacturing, agriculture, fisheries and forestry. It will be published in January 2014 in partnership with the Manufacturers Council of PNG.

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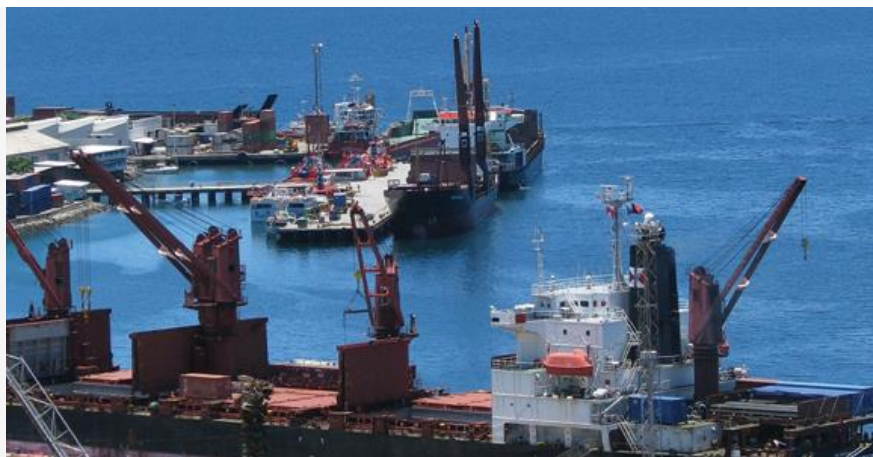
Business Advantage PNG

YOUR GATEWAY TO PAPUA NEW GUINEA AND THE REGION

Papua New Guinea's manufacturers seek level playing field on cheap imports

4 Feb 2014 by [Business Advantage](#) [Leave a Comment](#)

Cheap imports into Papua New Guinea are posing an increasing threat to local producers, with reports of foreign companies 'dumping' goods in PNG or under-declaring the value of imports.



Port Moresby docks

Imports are essential for any economy to function properly, but dumping—the importation of goods at or below their cost of production—is causing headaches for some of PNG's producers.

The General Manager of Goodman Fielder's operation in PNG, Peter Tannahill, estimates the company loses significant sales volume as a result of cheap and inferior flour imports.

When flour is transported in containers across the oceans and then sits on wharves for an extended period of time, it starts to deteriorate, he says.



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BUSINESS ADVANTAGE ARTICLE OF THE WEEK

‘We have a lot of flour that comes in, and quite honestly people get lured into buying it at very, very cheap prices. Often it’s because overseas suppliers are trying to clear it because they’ve carried it for a couple of weeks or a couple of months and its starting to deteriorate. So, they start dumping it in the market, and it causes absolute chaos.’

‘We don’t want tariffs to come down any further. They’ve already dropped by about 80% since the 1990s.’

Greg Worthington-Eyre from rice producer Trukai Industries sees blended varieties, ‘broken’ rice used in desserts, and the threat of cheap rice from Thailand as changing the dynamics in the lower end of the market.

He says the Thai government has been buying and storing rice worth about US\$ 25 billion, expecting prices to rise.

Impact on livestock

While he does not regard it as dumping, Phil Leahy, Managing Director of Zenag Chicken, says the importation of cheap poultry has meant Zenag will be winding down its chicken farming and processing section.

Another chicken producer, Mainland Holdings-owned Tablebirds, is also affected by cheap imports, according to its Corporate Affairs and Research Manager, Dr Keith Galgal.

‘Imported products are landed in Papua New Guinea at costs lower than our costs of production, so the first thing we have to do is look at ways we can reduce our cost of production—to be competitive without comprising quality.’

The company is looking to reduce the cost of stock feed by using local alternatives to imported wheat and soy bean, such as cassava root flour and fishmeal, a by-product of PNG’s fast-developing fish processing industry.

Michael Kingston, General Manager of industrial supplies manufacturer K K Kingston, says cheap imported toilet paper is the main product category affecting his business.

‘Toilet paper is also used by some companies to top up a container. They are then happy to distribute it in the market very cheaply,’ he says.

Meanwhile, Stan Joyce, General Manager of S P Brewery—PNG’s only major brewer—points out that excisable products such as beer are protected from cheap imports or dumping. Nevertheless, he is adopting a wait-and-see attitude towards its recently-launched Heineken brew ‘as to whether or not people try to do that to us’.

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LAE ROADS

Lae weeks Court Restraining Order to stop the closure of the Kamkumung Bridge over the Bumbu River, has not yet been lifted and the bridge remains open. It is likely to be lifted on Monday.

The stakeholders meeting took place in the LCCI Board room on Tuesday this week, and FTM road contractors agreed to do more work on the Butibum road so it will take the extra traffic better. They will provide funds so the Butibum people can construct a further speed hump.

FTM on their part will keep access across the bridge as long as possible so as to reduce the inconvenience as much as possible.

Shorncliffe road contractors have now started to do work on weekends and over-time, so that the work they are doing will be completed as soon as possible.



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BUSINESS ADVANTAGE ARTICLE OF THE WEEK (CONT)

Falling tariffs threaten sector

While he acknowledges that imports are an inevitable part of the competitive landscape—and, in many instances, in the best interests of consumers—Murray Woo, Chairman of the Manufacturers Council of PNG, says his members want a level playing field, so they can compete effectively and to continue to provide employment to Papua New Guineans.

The high cost of doing business makes things hard enough for manufacturers as it is, but an area of particular concern is falling tariffs. Under APEC, of which PNG is a member, tariffs are due to disappear altogether by 2020.

‘We don’t want tariffs to come down any further. They’ve already dropped by about 80% since the 1990s,’ says Woo.

‘Even with tariffs averaging 20%, imports are still typically 15% cheaper as it is.’

Woo believes a compromise would be to reduce tariffs on those goods PNG does not produce, which would deliver lower prices on many imported goods, while still supporting local industry.

This article first published in Made in PNG 2014, which is published by Business Advantage International this month, in association with the Manufacturers Council of Papua New Guinea.



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A FURTHER BUSINESS ADVANTAGE ARTICLE

Time to focus on customer service and developing local managers

5 Feb 2014 by [Robert de Loryn](#)

With Papua New Guinea's economy slowing, there are more companies chasing fewer opportunities. How to ensure your business gets the job? The answers are good customer service and developing local talent, according to management consultant Robert de Loryn.

For companies to be highly successful and profitable in these times of significant change, they must have a point of difference to their competitors.

There are two key areas that companies look to create this point of difference:

1. Be a customer-focused organisation
2. Develop highly skilled local management

Customer focus

Providing excellent customer service is an investment in future sales. However, a large number of CEOs do not pay attention to customer service—statistics show only about 40%.

It is generally much more cost effective to sell to existing customers than to keep having to find new ones. There's a 5% to 10% probability of selling to a new customer, whereas the probability of selling to an existing customer is 60% to 70%. Plus, it costs six times more to get a new customer than it does to keep an existing one.

Great customer service is the best way to retain customers. Business leaders should therefore take the long term view that great customer service will lead to increased profits.

Through staying close to, and talking to your customers, you will understand their needs better and thus generate increased opportunity.

S P Brewery has had a significant shift towards a customer focus in their commercial operation for the past two years.

'The biggest issue that has to be overcome is the mindset that only an expatriate has the ability to perform a role.'

Since 2013, SP has invested heavily in the training and customer focus orientation of their commercial team, and continues to do so.

Their sales force, customer service team and sales executives have participated in a five-day program of sales and customer focus training, followed by in-field coaching and development.

The program has already made a significant impact in SP's operation and is being rewarded with increased customer satisfaction and sales growth. Feedback from their customers is extremely favourable and SP's customers say they appreciate the way the new approach is focused on their own profitability too.

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A FURTHER BUSINESS ADVANTAGE ARTICLE (Cont)

Skilled local management

When an organization invests in Papua New Guineans for management positions, the results are significant. When the right person has the right leadership development, results and profitability flow rather quickly.

I have witnessed the success of the investment in local management with many companies across PNG. The biggest issue that has to be overcome is the mindset that only an expatriate has the ability to perform a role.

One of the most significant investments in local leadership development has been by Toyota Tsusho's subsidiary in PNG, Ela Motors.

For the past two years, it has invested significant funds in the development of their top 50 national managers. This investment has, and will continue to pay off for Toyota Tsusho, as the investment brings far greater returns than the funds invested.

One success story arising from their commitment to national leadership development was the promotion of their first ever female dealership manager in January of this year.

Toyota Tsusho continues developing their national staff in leadership skills and build their management capabilities for the future growth of the company.

Robert de Loryn is Managing Director of RdL Management Consultants

PNG POWER SPENDS BIG ON A 6 PAGE CENTRESPREAD IN FRIDAYS NEWSPAPERS

The 6 page centre page PNG POWER LTD article in both the National and the Post Courier on Friday contained a lot of interesting information on PPL's current projects and those of the future. It was however overly verbose, whether this was by design or intention I am not sure. I feel that this information would have been easier to understand if it was set out in bullet points, on a single page.

I have extracted the facts from this article that will ultimately affect Lae and Morobe Province, and made my comments and I quote:

PPL - An agreement was recently signed between PPL, the National Government and the Japanese international Cooperation Agency (JICA) for the Ramu Transmission System Reinforcement Project. This project is aimed at stabilizing the power supply to Lae. Work will be carried out on reinforcing 132kv transmission lines between the Ramu 1 Hydro Power Station and Taraka and Erap substations thereby contributing to economic development and livelihood improvement of the residents of Lae and the neighbouring areas."

LCCI - We have known for years that one of the major contributing factors to erratic power in Lae has been the single transmission line running from Yonki to Lae. When there has been a problem with this line then Lae has been cut off from the Ramu Power supply. Hence this agreement with JICA is commended.



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PNG POWER ARTICLE (Cont)

PPL - *"On top of that, PPL and JICA have signed an agreement on the Lae Area Power Development Master Plan project that will see JICA provide technical assistance on the preparation of the distribution system development plan since the improvement of distribution system is an urgent issue. It is necessary to take measures for prevention of earth faults, enhancement of distribution capacity and preventing illegal connections."*

"Another arrangement now in place is the Power Purchase Agreement with Independent Power Producer (IPP) Daewoo International Corporation for a new 30MW power station to be built in Munum, between Lae City and Nadzab Airport. Once completed at the end of 2015, the plant will completely cater for power supply in Lae City alone in the event that there are problems from the Ramu Hydro system. This is an important step towards the future of our capacity of supply in the industrial city and we believe all problems associated with power supply will be over."

"The Power Stations will be constructed by two new Independent Power Producers (IPP) who have signed Power Purchase Agreement (PPA) with PNG Power. The PPA for Lae will be signed between Daewoo of South Korea and PNG Power in early January, 2014 for a 30 Megawatt (Mw) Heavy Fuel Oil Power Station to be located at Munum outside Lae. This Power Station will be used as a standby whenever there is generation of the transmission problems affecting supply from the Ramu Hydro Power Station in the Eastern Highlands Province to Lae, in Morobe Province."

LCCI - This statement is rather confusing. On one hand it states that this 30 MW Daewoo power station will cater for all the needs of Lae City, and then it goes on to indicate that this power will only be turned on when there are problems with the Ramu Hydro system. We believe that it will be run with thermal generators most likely using Heavy Fuel Oil which has its polluting problems whilst still being expensive to operate. If it is run only operated part time then its costs are likely to be very expensive, as I am sure that Daewoo will not like to be paid for only partial use.

Daewoo admit to treating the Kanudi Power Station in Port Moresby as a "Cash Cow" (see the following article on Daewoo by the Korea Times). It seems like the new Munum based power station for Lae, could become the 2nd "cash cow" for Daewoo.

PPL - *"Another IPP arrangement is also being discussed with Oil Search to build a new power station in the Markham Valley. Similar IPP arrangements are now being finalized for Kavieng and Port Moresby."*

LCCI - The Markham Valley Bio Mass Power proposal has been supported by the Lae Chamber of Commerce for the past 18 months. In fact we are of the opinion that this project was a done deal and were surprised to read in this article that the project is still being discussed. This project makes sense as it will be an economical way of producing power, using quick growing trees to fire the bio-mass plant. Whilst Oil Search has commissioned experts to set up this power plant, it is the Markham farmers who will benefit in the long run. They have agreed to use their land to grow the fuel trees, for the 30 MW power station and the power will be sold to PPL into the Ramu Grid, after the Markham's will use a small amount for their own needs. The proceeds will go toward the operating expenses, with profits going back to the Markham landowners.

PPL - *"Feasibility Studies are still being carried out on the proposed Naoro-Brown mini hydro power station in Port Moresby, Mongy (Mongi) and Singawa power stations in the Morobe Province and the Kagul Hydro Power Station in the Southern Highlands Province. These smaller generation facilities are important components of our power supply and when their development comes through, they will*



Aspermont publishes the popular PNG Report Magazine as well as the ONG Industry News. This article is published as an extract from PNGIndustryNews.net

We regret to advise that the popular PNG Report have run out at the Chambers of-fice. You will be advised when further copies are on hand.

greatly assist in supplementing the power supply demand in their respective areas."

"The Mongi and Singawa power stations have been talked about for years but there has been no move to develop them. The Mongi station is a planned hydro plant which makes economic sense. That the Singawa plant is still being considered is a surprise to us, as it was designed to be a diesel station which we believed was scrapped some time ago.

"Currently the Milford Haven Power station and Taraka Power Station in Lae can only supply 12Mw which is not sufficient to meet Lae's demand of 40Mw.

Feasibility studies are being carried out on two new hydro power stations. They include Naoro Brown in Central Province to supply the Port Moresby grid and Mongi/Bulum in the Finschhafen Electorate in Morobe Province to supply Lae City and also feed the Ramu System.

"PNG Power also has another PPA with PNG Forest Products at Baiune Hydro Power Station in Bulolo where it purchases 10Mw of electricity which supplies Bulolo, Wau Hidden Valley and Lae."

LCCI – Whilst the Milfordhaven and the Taraka Power Stations may have a current output capacity of 12 MW, this is not often achieved due to the unreliability of the Generators. As they are all diesel driven sets, they produce very high cost electricity indeed. We hope that these sets are not relied on for the future.



Policy quagmire may ensnare SOEs

FURTHER signs are emerging of a policy quagmire that may entangle government planning procedures and threaten an inclusive economic recovery that helps to embrace the long-suffering majority rural populace. by Wantok

On the surface, it seemed Prime Minister Peter O'Neill was showing his credentials as an economic rationalist with a well-meaning call that all state-owned enterprises should improve their efficiency, and reduce charges to businesses and the general public.

This is certainly the way to go for SOEs and is a sentiment that no one can find fault with. O'Neill went on to state that it was with this in mind that the National Executive Council had blocked the 5.9% tariff increase imposed by PNG Power on January 1.

O'Neill went on to state that a wider government policy would be implemented to get SOEs to cut costs and become more efficient.

These are admirable goals that ought to be pursued by any government. In the case of Papua New Guinea, these plans go directly against the country's institutional framework and the dire need for virtually all SOEs to greatly expand their operations.

PNG Power, for example, only services a dismal 10-12% of PNG's 7 million population, mainly because of technical and financial constraints. Almost 90% of the population has no access to safe, secure and affordable electricity, probably the worst case among nations in the Asia Pacific. As the nation entered the new millennium, PNG Power had been a bankrupt SOE, described as insolvent by no less than the World Bank.

One of the key reasons for that dismal state of affairs were the decisions of former prime minister Sir Mekere Morauta to refuse to allow the state utility to set higher tariffs in the face of rising costs.

As fortunes of entities such as PNG Power, Post PNG, Telikom PNG and others went into a tail-spin, Mekere implemented institutional reforms to make amends for policy mistakes of the past.

One of these was the establishment of the Independent Consumer and Competition Commission (ICCC), which was provided the role of monitoring the costs and operations of entities such as PNG Power to enable responsible tariff increases that would enable the entity to become a viable business entity capable of raising adequate capital for rehabilitation, maintenance and growth and to manage its own affairs.

By overriding the ICCC, the National Executive Council was setting a precedent and undermining a rational basis for the SOEs to move forward.

A case could also be made that the government had failed to make adequate presentations to the ICCC on why the latest tariff increase should not have been approved and passed on to consumers, leaving the final decision to the ICCC.

In retrospect, it probably could even have challenged the ICCC decision, which arguably was questionable given the deterioration in service provision over the past two years by PNG Power.

Under its previous chairman, the ICCC had in fact forced PNG Power to make a refund to customers because it had failed to meet performance standards that had been set. Few would doubt that these standards had not been met again in recent times, making the ICCC approval for tariff increases highly questionable.

In good times and bad, successive PNG governments have failed to provide adequate financial support to PNG Power to enable it to satisfactorily increase the scope and scale of its service provision.

During the period from 2003 until the parliamentary coup in August 2011, a great deal of internal reform had taken place within PNG Power and other SOEs within PNG's regulatory framework.

There was little provided through capital injections from government and SOEs were forced to undergo a path of internal reform.

Once it got its house in order, PNG Power was able to commercially raise around K300 million from local banks and rehabilitate its key unit at the Rouna hydropower station, just outside Port Moresby.

It subsequently built an additional 30MW of diesel-fired power at its Moitaka power station and successfully fended off the threat of major power disruptions, as the Port Moresby grid for the first time ever saw peak electricity demand exceed 100MW in December 2011.

Sadly, in the past two years the utility has been on a downhill track as politicians returned to the political infighting and instability that marked much of PNG's modern history since independence in 1975.

The worsening of PNG Power's performance seems to also have coincided with the sudden, virtually overnight decision of its former chief executive, Tony Koiri, to resign from his position and the government's intervention in the recent tariff increase initiative could spell further trouble in the years ahead.

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For any further information, please contact Reception at the hospital.

Telephone: 472 7133

Email: reception@lih.com.pg

Article on Daewoo Corporation from the Korea Times

Daewoo has recently signed an agreement with PNG Power Limited to build a 30 MW Power Plant at MUNUM just outside Lae

Daewoo Intl Lights Up Papua New Guinea

PORT MORESBY - In the remote island state of Papua New Guinea (PNG), where cultures of the Old Stone Age and modern times coexist, a South Korean power plant is lighting up the future of the underdeveloped country.

Daewoo PNG Power Plant, built by Daewoo Corporation in the tough times of the financial crisis in the late 1990s, has grown to become an important "cash cow," accounting for over 40 percent of the total electricity of the capital area of Papua New Guinea.

Now in its eighth year of operation, the power plant already retrieved its investment in 2003 and has recently been earning about \$5 million (4.6 billion won) in net profits annually.



Daewoo International Director Lee Sang-ha, head of Daewoo PNG Power Plant, operates the computerized control system of the power plant in Port Moresby, the capital of Papua New Guinea, Wednesday.

/ Korea Times

By Ryu Jin

Korea Times Correspondent

Business in the Back Country

A 12-hour flight via Singapore brings people from Seoul to Port Moresby, the capital of Papua New Guinea, which occupies the eastern part of the world's second largest island and is subject to volcanic activity, quakes and tidal waves.

Seated just above Australia in the southwestern part of the Pacific, Papua New Guinea is the world's most diverse country in terms of language, with more than 700 native tongues, and a country with rich natural resources such as oil and copper.

Without infrastructure, however, the country still remains underdeveloped and a lot of people here go through electricity failures several times a day even in core facilities of the capital such as the airport and hotels.

But the situation has gradually improved. Daewoo PNG Power Plant is playing a leading role with an annual capacity of 24MWH, according to Daewoo International, a leading trading company that succeeded Daewoo Corporation.

Under the official name "Hanjung Power Pty. Ltd.," the power plant was launched in 1997 with a joint investment by Daewoo Corporation and Hankook Heavy Industries, which was later merged with Doosan Heavy Industries & Construction.

Since starting operation in 1999, the plant's two 12MWH-class electric generators have been producing 460MW of electricity around the clock every day for the domestic consumption over the past eight years.

Business results were also excellent. "Since it retrieved the investment in 2003, the power plant gave a dividend of \$5.2 million in 2003, \$5.7 million in 2004, \$4.3 million in 2005 and \$4 million in

2006 to Daewoo International," said Lee Sang-ha, chief of the plant.

Future Opportunities

Daewoo International officials said that the success of the power plant business, which was the first-ever independent project abroad by a private company, is also creating more business opportunities in the country, haunted by robbers armed with guns and bush knives.

"In addition to the hot tropical weather, we've risked the unstable security situation in this country," said Lee, who has spent more than six years in Papua New Guinea. "But this has also granted a lot of chances for new businesses in the backlands."

Daewoo International said that it would push for similar investment in such nations as Vietnam, Azerbaijan and Mongolia, and expand its business into the area of exploration of natural resources such as oil and liquefied natural gas.

Source : http://www.koreatimes.co.kr/www/news/biz/2012/08/123_12248.html