

COUNTRY PROFILE:

PAPUA NEW GUINEA

DATED:

SEPTEMBER 2009

CREDIT GUARANTEE:

IES/02: ATTACHMENT A

Recent Political Highlights

- ❑ Chief of state since February 1952 has been Queen Elizabeth II, who is represented by Governor General Sir Pailius Matane since June 2004.
- ❑ The monarch is hereditary. The governor general is nominated by parliament and appointed by the chief of state.

Recent Economic Highlights

- ❑ Papua New Guinea (PNG) has a population of 6m people with an expected growth rate of 2% in 2009. PNG is rich in natural resources, including minerals, timber, and fish, and produces a variety of commercial agricultural products, but it remains a poor country. Foreign investors dominate the minerals, timber, and fish sectors. Manufacturing is limited and the formal labour market is thus also limited. The country is richly endowed with gold, copper, oil and natural gas, which have helped it gain from the recent global commodity price boom. Much of the oil and natural gas deposits are yet to be fully exploited but a big LNG project is due to come online in early 2014. This has led to a sharp rise in foreign investment inflows, through energy exploration, expansion in capital infrastructure and the construction of a gas pipeline from PNG to Queensland, Australia. As a result Government revenues and foreign exchange earnings depend heavily on mineral exports.
- ❑ According to a report from the Asian Development Bank, economic growth in the Pacific region is expected to fall below earlier forecasts, but remain positive at 2.8%. The report says that the speed of recovery will depend on the ability of the region's Governments to adapt to the economic deterioration. The recent recovery in the international prices of some key commodities, particularly oil, is helping to lift growth expectations in Papua New Guinea and Timor-Leste. Moderate growth in tourism is expected in all major Pacific tourist destinations in 2010. The IMF forecasts the economy to expand 3.9% in 2009 and 3.7% in 2010.
- ❑ The fight against corruption in Papua New Guinea has received a boost from the business community, who formed an alliance to prevent corruption within businesses. The Business Against Corruption Alliance or BACA will ensure that businesses do not bribe or offer gifts to Government officials to get contracts and permits to work in the country. Papua New Guinea is ranked among some of the most corrupt nations in the world.
- ❑ Oil Search Ltd, a partner in the Exxon Mobil Corporation that leads the \$12.5bn liquefied natural gas project in Papua New Guinea, will sell a 3.5% stake to Abu Dhabi's International Petroleum Investment Corporation. The stake is said to be worth over \$500m. Exxon owns 41.5% in the project, Oil Search 34%, Adelaide-based Santos Ltd owns 17.7% and Tokyo-based Nippon Oil Corp 5.4%. A final development decision for the venture is expected in late 2009 with full construction commencing in early 2010. Oil Search will spend \$5m over two years on seven exploration licences in Papua New Guinea to assess potential production from coal seams.
- ❑ Harmony Gold has acquired two new exploration projects, the Amanab and the Mt Hagen Projects in PNG. Three exploration licences complement the exploration activities undertaken by Harmony and underscore the company's commitment and belief in developing the minerals industry in the country.
- ❑ Nautilus Minerals, the Canadian deep-sea mining company will soon start sea floor mining exploration in the waters of Papua New Guinea and Solomon Islands. Exploration activities are expected to be completed by December. The operation will explore for deposits and will do 'target testing' using a remote operated vehicle to test for metal content.
- ❑ An outbreak of cholera has reportedly killed more than 40 people in a remote area of the country. Hundreds of other villagers in Morobe Province have fallen ill. A WHO team has confirmed the outbreak, making it the first time that the disease has been officially confirmed in the country. The health minister warned that more cases of acute intestinal infection would put added pressure on the country's fragile health system. A total of 800 people have taken ill and Government has dispatched medical teams to affected areas.

Latest Trade Developments

- ❑ Main export commodities: oil, gold, copper, logs, palm oil, coffee, cocoa, crayfish and prawns.
- ❑ Major trading partners: Australia, Japan, China and the EU.
- ❑ Papua New Guinea and Japan have signed a new air services agreement that increases the number of flights permitted between the countries. Papua New Guinea will have two flights per week to Tokyo Narita, up from one. The airline, however, has no plans to increase its once-weekly non-stop service to twice weekly. The global economic downturn has adversely affected yields and Air Niugini's service to Japan is still subsidised by the Papua New Guinea Government. Air Niugini planned to withdraw from the loss-making route in 2008, but political lobbying from the country's fishing industry which relies on the airline to transport tuna to markets in Japan, forced it to continue flights to Japan.
- ❑ The EU and Papua New Guinea signed a deal to allow the pacific country to export all of its goods duty free to the EU market. In return, PNG will remove tariffs on 88% of imports from the EU over the next fifteen years. The EU's total trade with the Pacific countries amounts to €1bn a year, with PNG and Fiji accounting for 83% of total trade.
- ❑ SA's exports to Papua New Guinea totaled R25.3m in 2007, R41.7m in 2008 and R41.2m in the year to June 2009.

Lily Maharaj- Economic Services