PAPUA NEW GUINEA
INVESTMENT CLIMATE STATEMENT
2015

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Executive Summary

Papua New Guinea is located in Oceania in the southwestern Pacific Ocean. The Government of Papua New Guinea (GPNG) welcomes foreign investment and appears to have a liberal investment approach, but in practice this may more complex. GPNG is rich in natural resources such as, gold, oil, gas, copper, silver, timber, and fishery. The GPNG has placed a higher priority on the downstream processing of these resources in order to drive sustainable economic growth. A stronger macroeconomic management has created the longest uninterrupted period of economic growth since the country's independence in 1975.

Large investments have been limited to the mining and petroleum sectors. Most notable investments have been ExxonMobil's USD 19 billion liquefied natural gas project as well as developments in the area of communications, construction, and real estate. These investments have supported employment growth, but also evidenced a shortage of skilled labor. Tourism is seen by the GPNG as a sector with huge untapped potential. There is preference towards foreign investment proposals to develop renewable resources.

Over the last year, the GPNG has taken several steps to create additional opportunities for business owners. Nevertheless certain measures to exclude foreign investment from certain key sectors have created uncertainty. The GPNP recently expropriated, Ok Tedi Mining Limited and stated that the purpose behind this move was to remove foreign leadership and ensure that assets were directly benefiting the country. In 2013, the GPNG implemented a series of new policies; a test on foreign companies activities to determine their commitment to activities of national interest and they have carved out additional sectors which have been reserved exclusively for nationals.

There have been discussions to establish a sovereign wealth fund, but this appears to be on hold until they have been able to restructure the revenue management stream for their state-owned enterprises (SOEs) in key sectors.

Over the past year, GPNG has taken steps towards increasing transparency in the management of their natural resources. In 2013, GPNG submitted their application to be an Extractive Industries Transparency Initiative (EITI), which was later approved March 19, 2014. This initiative is a global standard to promote open and accountable management by strengthening government and company systems. GPNG now has until March 2016 to publish its first report on natural resource contracts and revenues in the country. This report will shed light on what the government is doing with the earnings from the extraction of their natural resources.

Some of the challenges to investment include weak enforcement of contracts, inconsistent government policies, corruption, crime, inadequate infrastructure, lack of access to constant utilities, underdeveloped private markets, and extremely high commodity and telecommunications costs. Equally challenging has been the ongoing political instability.

U.S. companies have shared concerns about the GPNG procurement process, stating cases where competition has been narrowly tailored in order to limit participants –resulting in U.S. companies being unable to compete.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

On paper, PNG has a liberal investment regime, and the government has recently placed a priority on the downstream processing of its extractive resources to spur economic growth. Prime Minister Peter O'Neill is known as being business friendly, and has been hailed for providing the political impetus to allow ExxonMobil PNG's massive LNG project to proceed and produce first gas ahead of schedule. Many businesses in PNG are foreign owned, although this has caused some PNG nationals – and politicians – to raise concerns that foreign investment engagement does not allow for a fair operating environment for PNG entrepreneurs.

In 2013 and 2014, the PNG government took several steps to create additional opportunities for PNG business owners and to protect certain industries from foreign investment. PNG expropriated a mining company, which was the largest source of tax revenue in the country, in order to remove their foreign national leadership and also in an effort to ensure that the company's mission was directed towards benefiting the local economy. Since August 2013, the PNG government has instituted a new policy directed towards SME's, which is designed to increase the industry sectors that are reserved for nationals. This new policy is said to have prevented Vodaphone Fiji from acquiring BeMobile and is also blocked Malaysian company Kulim from acquiring majority shares in New Britain Palm Oil Limited. In addition to this there are been comments on the government's intention to pass laws that limit foreign ownership in the media sector.

The PNG has made progress by creating policies and systems to streamline the regulatory and administrative requirements for foreign investors. The 1992 Investment Promotion Authority (IPA) promotes and facilitates investment and acts as a one-stop shop for investors. Foreign investment does require government approval and the procedure is implements by the government with the assistance of the IPA per the Investment Promotion Act. More information on the IPA can be found at: www.ipa.gov.pg.

The IPA facilitates investment proposals, identifies relevant government departments, and helps investors obtain the required approvals, licenses, and permits, all free of charge. Fees are however applicable for company registrations, foreign enterprise certification, and registration of intellectual property.

While delays in the IPA's certification process have a direct effect on investment, this challenge is not unknown to foreign investors and it affects them all in the same manner. In December 2013, the IPA introduced an online registry system that will significantly speed up the registration of companies, but this has yet to go live since Parliament did not approve amendments to the Companies Act of 1997 until November 2014. The IPA had expected the online registry system to be up and running by November 2014, but this is now expected to happen after the amendments to the Companies Act of 1997 come into effect on February 1, 2015.

Certification conditions apply to IPA approval, and the IPA may suspend or cancel a certificate if a foreign enterprise breaches its terms. A certified foreign enterprise must notify the IPA of certain changes in control of the enterprise (other than one that is a public company listed on a stock exchange that is a member of the Federation Internationale des Bourses de Valeurs) and would need to obtain a re-certification. Certified enterprises wishing to expand or diversify their operations have to submit an Application for Variation to the IPA. Registering a new or overseas company takes between 24 hours to three weeks and costs 500 kina (PGK), which is approximately USD 217. Certifying a foreign company takes two to five weeks and costs PGK 2,000 (USD 870).

Other Investment Policy Reviews

PNG has not undergone any recent Investment Policy Reviews by UNCTAD or the OECD.

PNG has been a World Trade Organization (WTO) member since 1996. Its last Trade Policy Review (TPR) conducted by the World Trade Organization (WTO) was in 2010, and that report can be found here: https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=92424,108906,94338,83592,20952,39427&CurrentCatalogueIdIndex=1&FullTextSearch=.

The review found that PNG’s resource-rich economy remains heavily reliant on subsistence agriculture, heavily dependent on trade (both on primary exports and manufactured imports, including inputs), and deeply vulnerable to world commodity price movements.

The TPR found that PNG's trade policy has been focused on domestication of value added across sectors, especially fishing, to promote processing, import substitution, and as an effort to diversify the economy. Although PNG adopted an Export Driven Economic Recovery and Growth strategy in 2002, reform of outdated trade-related laws has generally been slow and incoherent, somewhat handicapped by PNG's limited institutional, and technical capacities. PNG controls certain imports predominantly for national health, safety, security, and environmental reasons. The review also found that government procurement, while reformed, is an important instrument of industrial policy. Contracts worth less than PGK 1 million are reserved for local suppliers, who also receive a preferential margin of 7.5 percent on larger contracts up to PGK 10 million. State-owned enterprises (SOEs) dominate many key utilities and service industries such as power, telecommunications, aviation, water, sewerage, postal services, and the administration of ports.

More recently, PNG requested an external review of the five regulatory regimes covered by the Ease of Doing Action Plan launched at the Asia-Pacific Economic Cooperation’s (APEC) 21st Annual Ministerial Meeting in Singapore in November 2009. In response to this request, in 2013 an assessment was carried out through the APEC Technical Assistance Training Facility (TATF), a USAID-funded program.

Laws/Regulations of Foreign Direct Investment

Foreign investors can either be incorporated in PNG as a subsidiary of an overseas company or incorporated under the laws of another country and therefore registered as an overseas company under the Companies Act 1997.

The 1997 Companies Act and 1998 Companies Regulation oversee matters regarding private and public companies, both foreign and domestic. All foreign business entities must have IPA approval and must be certified and registered with the government before commencing operations in PNG. While government departments have their own procedures for approving foreign investment in their respective economic sectors, the IPA provides investors with the relevant information and contacts. The regulations governing foreign investments in PNG include:

• Free Trade Zone Act 2000;
• Investment Promotion Act 1992;
• Papua New Guinea Companies Act 1997;
• Forestry Act 1991;
• Mining Act 1992;
• Fisheries Act 1994; and
• Oil and Gas Act 1998.

In 2014, the government amended the 1997 Companies Act to improve corporate governance and ease regulatory burdens. This amendment will allow IPA to begin using its online company registry. The main six changes to the act are as follows:

1. Increased protection and benefits for shareholders;
2. Clarification of duties imposed upon directors;
3. A more transparent and streamlined process of issuing shares;
4. Increased protection of creditors, including a more disciplined liquidation process;
5. A clearer process for filing annual returns; and
6. Streamlined filing requirements in anticipation of implementing an online registration.

A summary of the changes to the Act can be found on the IPA website: http://www.ipa.gov.pg/wp-content/uploads/Changes-to-the-company-Act.pdf.

In 2013, the government amended the Takeovers Code to include a test for foreign companies wishing to buy into the ownership of local companies. The new regulation states that the Securities Commission of Papua New Guinea (SCPNG) shall issue an order preventing a party from acquiring any shares, whether partial or otherwise, if the commission views that such acquisition or takeover is not in the national interest of PNG. This applies to any company, domestic or foreign, registered under the PNG Companies Act, publicly traded, with more than 5 million PGK (USD 2.1 million) in assets, with a minimum of 25 shareholders, and more than 100 employees.

In 2013, PNG has used this regulation to reject a bid by Malaysian palm oil company Kulim who was looking to increase its ownership in New Britain Palm Oil Limited (NBPOL). NBPOL is one of PNG's largest employers, and the largest domestic sugar (Ramu Sugar) and beef producer in PNG. (See decision here: http://www.nbpol.com.pg/wp-content/uploads/downloads/2013/08/NBPOL-Target-Company-Statement-6-Aug-2013.pdf).

PNG has taken steps to limit foreign ownership in telecommunications and the media. In August 2013, the PNG government blocked a deal for Vodaphone Fiji to revitalize PNG's state-owned mobile phone carrier, BeMobile.

In October 2013, the government announced its intention to limit foreign ownership of the media sector. This caused concern because in PNG almost every media outlet is foreign owned.

Industrial Promotion

The PNG government's economic development and industrial policies are aimed at increasing value-added products. Government policies encourage the development of non-mining sectors including manufacturing, business services, and renewable resources such as agriculture and fisheries to promote economic self-sufficiency. These policies focus on creating industries and business that will generate employment and sustainable growth to the local economy.

PNG's mining and petroleum sectors are still relatively under developed. Due to this the government continues to place a high priority on further expanding this sector. There are growing opportunities for investors to establish businesses that support the downstream sector. Investors seeking additional information on investment opportunities in should contact the Investment Promotion Authority (contact information available online here: http://www.ipa.gov.pg/).

New government policies aim to promote the development of small to medium enterprises (SME). There is in interest in knowledge transfer and learning how to adopt more efficient technology. The main objective is to instill a more formalized business culture and ensure their long-term sustainability. PNG's priority sectors include agriculture (production and processing), fisheries, forestry, manufacturing, and tourism/travel.

Papua New Guinea's Vision 2050 and the Medium Term Development Plan (MTDP) 2011-2015 see the tourist industry becoming a significant driver with the development of the local economy. The government offers tax incentives for tourism/travel such as double deductions for costs associated with export market development, and double deductions for staff training costs. Accelerated depreciation is yet another form of tax incentive whereby capital investment in eligible tourism facilities qualifies for 55 percent increased initial-year depreciation. Investors in large-scale tourist/travel accommodation facilities may be eligible for a concessional tax rate of 20 percent.

Limits on Foreign Control

In the natural resources sector foreign ownership is limited, in most other cases 100 percent foreign-owned enterprises is allowed. Joint ventures with local partners are highly encouraged. The amended regulations from the Investment Promotion Act contain the list of restricted business activities as well as those that require at minimum 50 percent local ownership. Activities restricted to citizen enterprises are listed in the Cottage Business Activities List (CBAL).

Foreign enterprises cannot conduct business in activities listed under CBAL. Restricted activities under the CBAL are listed as follows:

Agriculture
- Cultivation and growing of vegetables and other market produce with annual sales of PGK 50,000 (USD 21,739) or less;
- Farming of animals with annual sales of PGK 50,000 (USD 21,739) or less;
- Poultry farming with annual sales of PGK 50,000 (USD 21,739) or less; and
- Hunting, trapping and game propagation including related service activities.

Forestry, logging and related activities
- Gathering of wild growing forest materials including balata and other rubber-like gums; cork; lac; resins and balsams; rattan; vegetable hair and eel grass; acorns and horse-chestnuts; mosses, lichens and cut evergreen trees used for festive occasions; saps; bark; herbs; wild fruits; flowers and plants; leaves; needles; reeds; roots; or other wild growing materials; and
- Wokabaut (Mobile) sawmills.

Wildlife
- Hunting or collecting of non-protected fauna, including insects, shells, animal teeth, tusks, feathers, declared sedentary organisms and similar products, and living or dead fauna.

Fishing
- Fishing on a commercial basis in coastal and inland waters. "Coastal" means within three miles of the shoreline;
- Taking of marine or freshwater crustaceans and mollusks. Hunting of aquatic animals such as turtles, sea squirts and other tunicates, sea urchins or other echinoderms and other aquatic invertebrates; and
- Gathering of marine materials such as natural pearls, sponges, coral, and algae.

Mining
- Alluvial mining, according to the definitions of the Department of Mining.

Catering
- Mobile food delivery service.

Wholesale and Retail Trade
- Wholesale and retail sale of wild growing materials including balata and other rubber-like gums; cork; lac; resins and balsams; rattan; vegetable hair and eel grass; acorns and horse-chestnuts; mosses, lichens, and cut evergreen trees used for festive occasions; saps; barks; herbs; wild fruits; flowers and plants; leaves; needles; reeds; roots; or other wild growing materials;
- Retail sale through stalls, tucker shops and markets;
- Wholesale and retail sale of secondhand clothing and footwear;
- Retail sale carried out from a motor vehicle or motorcycle;
- Wholesale and retail sale of handicraft and artifacts; and

- Repair of footwear when not done in combination with manufacture or wholesale or retail of these goods.

Other Cottage Business Activities

- Weaving: Includes, but is not limited to, weaving of cane products, textiles, baskets, nets, dishes, ropes, and bags that are saleable at home, street market or retail outlet on a fee;
- Bilum (string bag) Making: Making of string bags (bilums) from traditional bush ropes and cottons taking traditional and contemporary designs that are saleable at home, street market or retail outlet on a fee;
- Knitting: Includes knitting of textile, wearing apparel, cloth, garment, designs, fabrics, and decorations that are saleable at home, street market or retail outlet on a fee;
- Art & Craft Making: All sorts of handcraft and artistic designs that is saleable at home, street market or retail outlet on a fee;
- Carving: Wood carvings and sculptures on a fee (contract) or assorted carvings that are saleable at home, street market or retail outlet on a fee;
- Pottery Making: All sorts of pottery products including clay pots, cups, mugs, dishes, plates, sculptures, and other art forms that are saleable at home, street market or retail outlet on a fee;
- Painting: All sorts of paintings in any shape, type, and form including portrait paintings, screen paintings, sand paintings, and oil paintings, saleable at home, street market or retail outlet on a fee;
- Screen Printing: Screen printing of designs including emblems, logos, traditional and contemporary art forms, commemorations and special events on apparels including lap-laps, shirts, T-shirts, and other garments and textile materials, suited to the event, situation or purpose to which they relate, that are saleable at home, street market or retail outlet on a fee;
- Sewing: Sewing of garments, textile materials, wearing apparels, cloths, and fabrics that are saleable at home, street market or retail outlet for a fee;
- Jewelry Making: Making of simple jewelry products including necklaces, earrings, arm bands, primarily from sea shells, tusks, and beads for sale at home, street market or retail outlet on a fee;
- Baking: Baking of fresh bakery products including bread loaves, cakes, pies, cookies and scones, saleable at home, street market or retail outlet on a fee;
- Coffee Pulping: Coffee pulping using manual pulping machines with the beans saleable at buying points or at coffee depots;
- Crocodile Hunting/Processing of Skins: Hunting and processing of crocodile skins for sale at established market outlets; and
- Operation of Tire Repair Service: Operation of small tire repair shops, where not done as incidental to the core business of Maintenance and Repairs.

Following the 2011 Indigenous Business Summit in Kokopo and the 2013 SME Summit in Madang, the government has continued to encourage public consultations regarding the draft project for the new SME regulations. At the Indigenous Business Summit, the government set an ambitious goal, to create 500,000 locally owned businesses in the next 20 years. During an October 2014 roundtable on the SME policy draft held by the Papua New Guinea Women’s Chamber of Commerce and Industry, panelists identified a lack of support for women-owned businesses as a weakness in the policy.

As part of its SME policy, the government is considering adding additional closed sectors to the CABL. The government move seems to be in response to public pressure to increase the number of PNG-owned businesses. A noted concern is that as a direct result of closing these sectors to foreign investment, the services all altogether cease to exist, because local entrepreneurs may not step in to fill gaps, due to a lack of expertise, financing or knowledge.

Privatization Program

There is no formal privatization program in place and thus no guidelines or structure on when and how foreign investors are allowed to participate in privatization programs. The government has funding available for privatization and is currently using the Public Private Partnership (PPP) structure as a model for privatization.

Screening of FDI

The GOPNG screens foreign direct investment. When reviewing an FDI proposal, the Investment Promotion Authority (IPA) may consider a number of factors, including the:
- Potential for positive development of human and natural resources;
- Investor's past record in Papua New Guinea and elsewhere;
- Creation of additional employment and income-earning opportunities;
- Likelihood the proposal will generate additional government revenue and contribute to economic growth;
- Transfer of technologies and skills and the contribution to training citizens of Papua New Guinea; and

There is no specific investment level. The IPA may, however, pursuant to Section 28(7) of the Investment Promotion Act require an applicant for Certification to deposit the prescribed amount prior to a Certificate being issued. The prescribed amounts are per Section 6B of the Investment Promotion Regulation:
- Individual – PGK 50,000 (USD 21,739);
- Partnership – PGK 50,000 (USD 21,739) per partner; and
- Corporate Body – PGK 100,000 (USD 43,478).

The purpose of the screening mechanism is to assess the net economic benefit and consistency with national interest. The possible outcomes of a review are prohibition, divestiture, and imposition of additional requirements. The IPA and other regulatory bodies in particular sectors make the decision on the outcome.

Appeal processes differ among the sectors. For IPA specifically related matters, a company must submit their appeal to the Ministry of Commerce and Industry. An accompanying fee of PGK 200 (USD 87) is required. Appeals may be lodged in response to any decision made by the IPA, including rejection of an application or the cancellation of a registration.

The Bank of Papua New Guinea, PNG's Central Bank, has to approve all foreign investment proposals. Such proposals include the issue of equity capital to a non-resident, the borrowing of funds from a non-resident investor or financial intermediary, and the supply of goods and services on extended terms by a non-resident. In its review, the Bank is mostly concerned that the terms of the investment funds are reasonable in the context of prevailing commercial conditions and that full subscription of loan funds are promptly brought to Papua New Guinea. A debt/equity ratio of 5:1 is generally imposed with respect to overseas borrowings and a ratio of 3:1 with respect to local borrowings.

Competition Law

The 2002 Independent Consumer and Competition Commission Act, is the law that governs in the area of competition. It also established the Independent Consumer & Competition Commission (ICCC), the country's premier economic regulatory body and consumer watchdog; introduced a new regime for the regulation of utilities, in particular in relation to prices and service standards; and allowed the ICCC to take over the price control tasks previously undertaken by the Prices Controller as well as the consumer protection tasks previously undertaken by the Consumer Affairs Council.

The Act’s competition laws, contained in Part VI of the Act, prohibit:

- Entering into, or giving effect to contracts, arrangements or understandings having the purpose, effect or likely effect of substantially lessening competition (Section 50);
- Arrangements between competitors that contain exclusionary provisions, which have the purpose of preventing, restricting or limiting dealings with any particular person or class of persons who are in competition with one or more of the parties to the arrangement;
- Price fixing agreements between competitors (but fixing prices of joint venture products, recommended prices and joint buying and promotion arrangements, are not absolutely prohibited, although they may still be subject to the prohibition on contracts, arrangements, and understandings that substantially lessen competition) (Sections 53-56);
- A person with a substantial degree of market power from taking advantage of that power for the purpose of restricting the entry of a new competitor into a market, preventing or deterring a competitor from engaging in competitive conduct, or eliminating a competitor from that market (Section 58);
- The practice of resale price maintenance, which occurs where a supplier tries to specify a price below which a reseller may not sell the supplier's product. This prohibition also applies to third parties seeking to insist that products not be resold below a specified price (Sections 59-64); and
- Mergers or acquisitions that would have the effect or likely effect of substantially lessening competition in a market (Section 69).

The ICCC’s website is http://www.iccc.gov.pg, but it is unclear whether it is being maintained. Interested parties may instead want to go to the ICCC’s Facebook page for information on changes in policies and regulations: https://www.facebook.com/pngiccc/timeline. A paper by the ICCC on competition law in PNG is available here: http://www.jftc.go.jp/eacpf/05/APECTrainingProgramAugust2004/png.wasina.pdf.

Investment Trends

Papua New Guinea has had 14 years of consecutive economic growth. Most of this growth has been driven by PNG’s extraction sector. Agriculture, forestry, and fisheries continue to play a central role in the country's economy. PNG has begun its new role as an exporter of liquefied natural gas (LNG).

Over the past few years, there has been increased investment in fish processing and cannery plants. With the closure of several prominent forestry zones, timber exports declined in 2014. Mining also slowed and construction contracted in 2014. Public funding for national infrastructure projects, such as the 2015 Pacific Games and facilities that are anticipated for PNG's APEC 2018 host year, is expected to help generate an uptick in the construction sector starting in 2015.

Since taking office in 2012, the President O'Neill has developed a series of LNG development initiatives based on projections from previous years. The PNG government plans to rely heavily on revenues from the LNG projects to driver economic growth, including infrastructure investments, increased law and order, improved education, and health indicators. The PNG government's allocations to infrastructure, education, health care, law and order, agriculture, and small business in its 2014 national budget total PGK 7.67 billion (USD 3.3 billion). This represents 40 percent of the government's annual budget, a 20 percent increase from 2013. A major challenge that the government faces is extending the benefits of development to a population that relies heavily on farming, and which, despite years of nominal growth, remains very poor. Less than 15 percent of those that are working are employed in the formal sector. Access to financial services is another challenge, and the Asian Development Bank estimates that 85 percent of the country's population of 7 million does not have access. The Bank of Papua New Guinea has undertaken a major financial inclusion initiative, which aims to ensure that 1 million citizens have bank accounts.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	145 of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	133 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	N/A	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 2010	data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a per capita gross national income (GNI) of USD 4,125 or less. A list of countries/economies with MCC scorecards and links to those scorecards is available here:

http://www.mcc.gov/pages/selection/scorecards. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015.

2. Conversion and Transfer Policies

Foreign Exchange

Until recently, there had been no difficulties in terms of policies governing the obtaining of foreign exchange, but conversion costs can be quite expensive. On June 4, 2014, the Central Bank introduced measures which have effectively pegged the kina at levels that reportedly have led to some foreign exchange shortages. Foreign exchange and capital transactions face various documentation requirements and government approvals. Under Papua New Guinea's tax clearance system, certain payments require approval from the central bank (Bank of Papua New Guinea) and the Internal Revenue Commission. The tax clearance period is between two to four weeks, and routine payments take about two weeks. Additional delays may be encountered if companies are not financially up to date with the Internal Revenue Commission.

Remittance Policies

Remittance is done only through direct bank transfers. All remittances overseas in excess of PGK 50,000 (USD 21,739) per year require a tax clearance certificate issued by the Internal Revenue Commission (IRC). In addition, approval of PNG's Central Bank – the Bank of Papua New Guinea – is required for annual remittances overseas in excess of PGK 500,000 (USD 217,390). Remittances related to the payment of trade-related goods are not taken into account. There are no specific restrictions on the repatriation of capital owned by or due to non-residents. The Central Bank's principal objectives in assessing applications for capital repayments are to ensure that the funds are due and payable to a non-resident and that Papua New Guinea assets are not sold at an artificial value.

In June of 2014, PNG's Central Bank pegged the kina (PGK) to the U.S. dollar (USD) at a fixed exchange rate of USD 0.4130. Commercial banks are only allowed to trade the PGK within 75 basis points at either side of this reference rate. The Bank's public statements said that its action was taken to curb excess margins enjoyed by local banks, but the action effectively pegs the kina, reversing a long-term policy of a floating rate and raising questions about the independence of the Bank.

It is not clear how long the government intends to peg the PGK. PNG is forecasted to see a record 21 percent economic growth in 2015, though some analysts fear this figure is inflated. The government expects its revenue will grow between USD 3 and 4 billion.

Papua New Guinea continues to face risks of money laundering activities derived from criminal enterprises, primarily with funds from public corruption. The Papua New Guinea's Financial Intelligence Unit (FIU) claims that close to half of the PNG Government's budget is lost to fraud and laundered through PNG's banks. Little is done to hide the source of the funds, many of these transactions are done through checks due to the perceived impunity. FIU has adopted a proactive approach to combating this, focusing its efforts on crime prevention using financial intelligence rather than simply crime detection, investigation, and prosecution. As part of this, the FIU has issued new guidelines on government checks and payments to prevent criminals from being able to process those checks at financial institutions.

The FIU reports show that criminals are increasingly using corporate entities to hide funds and move them offshore. PNG and the Solomon Islands have a MOU in place to share information on money laundering, transnational crime, and criminal/terrorist financing. PNG is consulting with Taiwan, the Philippines, Singapore, Japan, and Malaysia to develop similar arrangements. However, the FIU claims it is inadequately staffed and resourced to fully address money laundering in PNG. The World Bank and Asia/Pacific Group on Money Laundering concur that the FIU is under-resourced. Likewise the 2011 Mutual Evaluation Report noted that although the FIU is building its capacity, there was no clear political level commitment to follow the money.

Papua New Guinea is a member of the Asia/Pacific Group on Money Laundering, a Financial Action Task Force (FATF)-style regional body. Its most recent mutual evaluation report (July 2011) can be found here:
http://www.apgml.org/documents/docs/17/PNG%20MER_July%202011.pdf. Papua New Guinea is also a party to the UN Convention against Corruption (UNCAC).

3. Expropriation and Compensation

Although the judicial system upholds the sanctity of contracts, and the Investment Promotion Act of 1992 expressly prohibits expropriation of foreign assets, the PNG government's September 2013 nationalization of the country's largest taxpaying company, Ok Tedi Mining Limited, has raised concerns about the government's policy. Some observers saw this as a special case, given that much of the company's profits are held in trust for the people of PNG, and its effective ownership by a company – the PNG Sustainable Development Program's (PNGSDP) – would transfer benefits from the mine back to the people. By a unanimous vote in Parliament, the government annulled PNGSDP's share in the mine and issued new shares to the state. This vote also removed BHP Billiton's immunity from environmental liability and gave the state the right to restructure PNGSDP.

BHP Billiton exited PNG in 2001 following a major environmental disaster under an agreement that gave its majority shareholdings in Ok Tedi to the people of PNG in exchange for immunity from future prosecution for environmental damage. The 63.4 percent ownership in Ok Tedi has been held by PNGSDP, a Singapore-based entity whose mission is to provide infrastructure and development opportunities for Papua New Guineans. O'Neill argued that his government's acquisition of Ok Tedi was not an expropriation because the mine already belonged to the people of PNG, and the Western Province in particular. Former Prime Minister and PNGSDP chairman (until the takeover) Mekere Morauta said the PNG government's moves to restructure PNGSDP violated Singaporean laws and had no legal effect.

In early April 2014, after news that PNGSDP had sold some of its assets in order to secure funding to continue its community projects (and given others to the Fly River provincial government and village communities in Western Province), the PNG government filed an application in Singaporean court to stop PNGSDP from disposing of its assets, and called for the court to appoint independent receivers to manage these assets. On May 12, 2014, O'Neill announced that the government would set up a Commission of Inquiry to investigate the sale of PNGSDP's assets, calling the sale illegal and criminal. O'Neill continues to say that PNGSDP's proceedings before the Singapore High Court and the court in Washington, DC are without merit and has vowed to contest them.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The legal system is based on English common law. The Supreme Court is the nation's highest judicial authority and final court of appeal. Other courts are the National Court; district courts, which deal with summary and non-indictable offenses; and local courts, established to deal with minor offenses, including matters regulated by local customs.

Contract law in Papua New Guinea is very similar to and applies in much the same way as in other common law countries such as Great Britain, Australia, Canada, and New Zealand. There is, however, considerably less statutory regulation of the application and operation of contracts in Papua New Guinea than in those other countries.

The Supreme Court is the ultimate appeal court in Papua New Guinea. It has original jurisdiction in matters of constitutional interpretation and enforcement and has appellate jurisdiction in appeals from the National Court, certain decisions of the Land Titles Commission, and those of other regulatory entities as prescribed in their own Acts. The National Court also has original jurisdiction for certain constitutional matters and has unlimited original jurisdiction for criminal and civil matters. The National Court has jurisdiction under the Land Act in proceedings involving land in Papua New Guinea other than customary land.

In addition to the courts mentioned above, there is also a system of Village Courts established under the Constitution and the Village Courts Act. Matters involving customary law claims are likely to arise at the Village Court level. There is no jury system in Papua New Guinea. Lawyers operating in Papua New Guinea are governed by the Papua New Guinea Law Society, and only lawyers registered with the Society should be used.

Under the Reciprocal Enforcement of Judgments Act, certain judgments of certain foreign courts are recognized and are able to be enforced in PNG by a process of registration. The Act establishes a system of reciprocity of recognition and enforcement of foreign judgments of designated courts within the prescribed countries, including the United States, Australia, the United Kingdom, and New Zealand. Even if a foreign money judgment is not from a designated court, it may still be recognized and enforced in PNG by commencing a separate action in the National Court to sue on the judgment under local rules of private international law.

Bankruptcy

Papua New Guinea's bankruptcy laws are included in chapter 253 of the Insolvency Act of 1951 and sections 254 through 362 of the Companies Act of 1997, which covers receivership and liquidation. Bankruptcy and litigation searches can only be conducted in person at the National Court in Port Moresby.

According to the World Bank's Doing Business Report, resolving insolvency in Papua New Guinea takes an average of three years, and typically costs 23 percent of the debtor's estate. The average recovery rate is 23.5 cents on the dollar. Globally, Papua New Guinea stands at 128 out of 189 economies on the Ease of Resolving Insolvency.

Investment Disputes

Investment disputes can be settled through diplomatic channels or through the use of local remedies before having such matters adjudicated at the International Centre for the Settlement of Investment Disputes or through another appropriate tribunal of which Papua New Guinea is a member. The Investment Promotion Act 1992 that is administered by the IPA also protects against expropriation, cancellation of contracts, and discrimination through the granting of most favored nation treatment to investors.

International Arbitration

Under the Reciprocal Enforcement of Judgments Act, judgments from foreign courts are recognized and can able to be enforced. The Act establishes a system of reciprocity of recognition and enforcement of foreign judgments of designated courts within prescribed countries including Australia, the United States, the United Kingdom, and New Zealand. Even if a foreign money judgment is not from a designated court, it may still be recognized and enforced in Papua New Guinea by commencing a separate action in the National Court to sue on the judgment under the local rules of private international law.

ICSID Convention and New York Convention

Since 1978, Papua New Guinea has been a member of the International Centre for Settlement of Investment Disputes (ICSID Convention). In agreements with foreign investors, the GOPNG traditionally adopts the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL model law).

Duration of Dispute Resolution

Information not available.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Papua New Guinea has been a member of WTO since June 9, 1996. Post does not have any information at this time on measures that the PNG government has notified to the WTO as inconsistent with Trade Related Investment Measures (TRIMs) requirements.

Investment Incentives

Performance requirements/incentives are applied uniformly to both domestic and foreign investors. The investment incentives currently available are designed primarily to encourage the development of industries that are considered desirable for the long-term economic development of Papua New Guinea or specific underdeveloped regions within the country and are as follows.

The Investment Promotion Act contains guarantees that there will be no nationalization or expropriation of foreign investors' property except in accordance with law, for a public purposes defined by law or in payment of compensation as defined by law.

Accelerated depreciation rates are available for new manufacturing and agricultural plants, generous deductions are available for capital expenditure on land used for primary production, and accelerated deductions are available for mining and petroleum companies. For more details, see Price Waterhouse Cooper's Global Tax Solutions page (http://www.pwc.com/gx/en/tax/index.jhtml).

A 10-year exemption from tax is available where certain new businesses are established in specified rural development areas. Businesses, resident or non-resident, engaged in the following activities qualify for this exemption:
- Agricultural production of any kind;
- Manufacturing of any kind;
- Construction;
- Transport, storage and communications;
- Real estate;
- Business services; and
- Provision of accommodation, motels or hotels.

The following have been specified as rural development areas:
- Central province – Goilala;
- Enga province – Kandep, Lagalp, Wabag, Wapenamunda;
- Gulf province – Kaintiba, Kikori;
- Eastern Highlands province – Henganofi, Lufa, Okapa, Wonenave;
- Southern Highlands province – Jimi, Tambal;
- Madang province – Bogia, Rai Coast, Ramu;
- Milne Bay province – Losula, Rabaraba;
- Morobe province – Finschaffen, Kabwum, Kaiapit, Menyamya, Mumeng;
- East New Britain province – Pomio;
- West New Britain province – Kandrian;
- East Sepik province – Ambuti, Angoram, Lumi, Maprik;
- West Sepik province – Amanab, Nuku, Telefomin; and
- Simbu province – Gumine, Karimui.

The exemption does not apply to businesses in areas in which a special mining lease or a petroleum development license is granted.

Businesses that commence exporting qualifying goods manufactured by them in Papua New Guinea are exempt from income tax on the profits derived from those sales for the first three complete years. For the following four years, the profit derived from the excess of export sales over the average export sales of the three previous years is exempt from income tax. The list of qualifying goods include, among other items, motor vehicles, matches, paint, refined petroleum, soaps, wooden furniture, dairy products, flour, chopsticks, artifacts, clothing and manufactured textiles, and jewelry.

A wage subsidy is payable to new businesses that manufacture new manufactured products. The business will receive a prescribed percentage of the value of the minimum wage paid by the business, multiplied by the number of Papua New Guineans permanently employed by the business.

The relevant percentages are as follows:
- Year 1 – 40 percent
- Year 2 – 30 percent
- Year 3 – 20 percent
- Year 4 – 15 percent
- Year 5 – 10 percent

Eligible products are, broadly, all products listed under division D of the International Standard Classification of All Economic Activities (Third Revision), provided the products are not subject to quota pricing without import pricing or to tariff protection.

Registered foreign companies must file an annual certification with the Registrar of Companies accompanied by audited financial statements. A foreign company must apply for Certification under the Investment Promotion Act 1992 within 14 days of registering. Any foreign company automatically falls under this category and therefore must complete the same process.

However, a company may apply to be exempted from certain requirements. A company which chooses to conduct business through a branch registered in Papua New Guinea can repatriate its profits without being subject to withholding tax. On the other hand, the dividends of a Papua New Guinea incorporated subsidiary may attract dividend withholding tax. A higher rate of income tax is imposed on non-resident companies. If a foreign company merely wishes to have a representative office in Papua New Guinea, it may be exempt from lodging tax returns if it derives no income in Papua New Guinea. The Companies Act adopts similar principles and standards of corporate regulation to those in place in New Zealand. Companies registered in Papua New Guinea must lodge an annual return every year with the Registrar of Companies within six months of the end of its financial year. Currently, the Papua New Guinea government is reviewing its structure.

There are no discriminatory or preferential export and import policies affecting foreign investors, and there are low levels of import taxes.

Research and Development

There are several government/authority financed and/or subsidized research and development programs available to U.S. and other foreign firms:

- Feasibility contribution scheme: The government, through the Investment Promotion Authority, is prepared to assist with the preparation of feasibility studies by contributing up to half the cost of such an exercise;

- Infrastructure: Where considered appropriate, the government is sometimes prepared to provide or finance infrastructure needed for a particular project in exchange for a negotiable user charge; and

- Assistance to Papua New Guineans: The government offers a number of forms of financial assistance to Papua New Guineans to assist with the establishment of small-scale business operations, primarily through the Small Business Development Division of the Department of Trade and Industry.

Performance Requirements

All non-citizens seeking employment in PNG must have a valid work permit before they can be hired. The work permit must be granted by the Secretary of the Department of Labor and Industrial Relations (DLIR) in accordance with the Employment of Non-Citizens Act of 2007. It can take up to six weeks to obtain both a work permit and visa for non-citizens to work in Papua New Guinea, and delays are common due to a lengthy bureaucratic clearance process. In the past, the government has used its immigration powers to block visas for personnel to come to Papua New Guinea to fill positions that it believes can be filled by Papua New Guineans.

Data Storage

Papua New Guinea does not follow forced localization.

Post is not aware of any requirements for foreign IT providers to turn over source code and/or provide access to surveillance. Likewise, Post is not aware of any rules on maintaining a certain amount of data storage within the country.

6. Right to Private Ownership and Establishment

There is a right of foreign and domestic private entities to establish and own business enterprises and engage in all forms of remunerative activity and a right of private entities to freely establish, acquire, and dispose of interests in business enterprises.

7. Protection of Property Rights

Real Property

PNG's legal system does not allow direct foreign ownership of land. To get around this limitation, long-term government leases are used. The legal system protects and facilitates acquisition and disposition of all property rights, but there are substantial delays particularly within the Department of Lands.

Intellectual Property Rights

Protections for intellectual property rights relating to the reproduction and sale of counterfeit and pirated products, particularly music and movies, are insufficient. Such counterfeit products are openly sold on the streets and in shops. Sales persist despite sporadic law enforcement action. Other counterfeit products that infringe on copyrights, patents, and/or trademarks are often imported from Asian countries and sold in Papua New Guinea. Customs periodically seizes such shipments, but there are significant gaps in their enforcement regime. Adequate protection for trade secrets and semiconductor chip layout design exist in law, and minimal infringements appear to occur. For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Resources for Rights Holders

Susan May
Economic Officer
U.S. Embassy Port Moresby
P.O. Box 1492
Douglas Street
Tel: +675-321-1455, ext. 2116
Fax: +675-321-1593
maysm@state.gov
econportmoresby@state.gov
(Please cc the econportmoresy@state.gov email address on all inquiries)

Papua New Guinea Chamber of Commerce (PNGWCCI)
Lot 4, Section 139 Matorogo Street
Express Freight Management Compound, Scratchley Road, Badili
P.O. Box 1621, Port Moresby
Papua New Guinea
Tel: +675-321-3057/321-0966
Fax: +675-321-7145
pngcci@global.net.pg
http://www.pngcci.org.pg/

Port Moresby Chamber of Commerce (POMCCI)
POMCCI Bizcentre Level 3 United Church Building Douglas Street Port Moresby CBD
(Opposite Grand Papua Hotel)
PO Box 75
Port Moresby
Papua New Guinea
Tel: +675 321 3077 or +675 7100 3077 or +675 7200 3077
Fax: +675 321 4203
POMCCI Bizcentre bizcentre@pomcci.org.pg
http://www.pomcci.com/

8. Transparency of the Regulatory System

The ICCC (Independent Consumer and Competition Commission) is charged with fostering competition. While there are transparent policies in place, the competition regime works more towards the regulation of existing monopolies and does little to foster competition. Tax, labor, environment, health, and safety and other laws do not distort or impede investment. However, the lack of implementation of existing laws by some government entities frustrates some investors. For example there are long bureaucratic delays in the processing of work permits and frequent complaints about corruption and bribery in government departments.

The IPA and the Government are moving, with the assistance of the International Finance Corporation, towards more investment promotion and a much more streamlined regulatory framework to encourage foreign investment. The IPA's move toward an online registration process for businesses is evidence of this.

There are informal regulatory processes managed by nongovernmental organizations and private sector associations. There are impediments to the licensing of skilled foreign labor that are imposed by local professional associations, such as the Papua New Guinea Institute of Engineers and the Law Society, both of which have their own regulatory processes, that foreigners must go through before they can work/practice in the country.

Proposed laws and regulations are made available for public comment, but comments are not always taken into consideration or acted on by lawmakers. Legal, regulatory, and accounting systems are transparent and consistent with international norms, but there are delays in the dispute resolution system due to a lack of human resources in the judiciary. The Government has tried to address this by appointing more judges in recent years.

There are no private sector and/or government efforts to restrict foreign participation in industry standards-setting consortia or organizations.

9. Efficient Capital Markets and Portfolio Investment

There is no factor market, but there is free flow of remission of funds offshore subject to approval by the Central Bank (Bank of Papua New Guinea) and the International Revenue Commission. Credit is allocated on market terms, and foreign investors are able to get credit on the local market, much more so than in previous years due to the liberalization of policies, provided that foreign investors have a good credit history. Credit instruments are limited to leasing and bank finance.

Money and Banking System, Hostile Takeovers

There is no private bond market. Portfolio investments are unregulated and limited to the availability of stocks. In terms of sufficient liquidity in the markets, there is a considerable money supply but a limited pool of borrowers. Bank South Pacific is Papua New Guinea's only nationally owned bank and is the largest in the country with total assets of K10 billion (USD 4.7 billion) at year's end in 2010. Branches/subsidiaries of two Australian banks represent the other financial institutions operating in the country. The Australia and New Zealand (ANZ) Bank had total assets of USD 544 billion at year's end 2010, and Westpac Bank had USD 618 billion in total assets at the end of 2010. The banking system in Papua New Guinea is sound.

There is no cross-shareholding and stable shareholder arrangements used by private firms to restrict foreign investment through mergers and acquisitions.

10. Competition from State-Owned Enterprises

State-owned enterprises (SOEs) are active in the airline, telecommunications, port facilities/management, power generation and transmission, water and sewerage facilities/management, and motor vehicle insurance industries/sectors. Papua New Guinea's SOEs are: Air Niugini, Eda Ranu (water/sewage company for Port Moresby), Motor Vehicle Insurance Ltd, PNG Ports Corporation, PNG Power, PNG Post, PNG Water Board, BeMobile and Telikom PNG. A list of these entities is publically available through the Independent Public Business Corporation (IPBC), which manages Papua New Guinea's SOEs.

OECD Guidelines on Corporate Governance of SOEs

Since 2002, State Owned Enterprises (SOEs) have been regulated by the Independent Public Business Corporation, a 100 percent state-owned statutory corporation governed by the IPBC Act. The IPBC Board reports to the Minister for Public Enterprises, and members of the IPBC Board are appointed by the National Executive Council/Cabinet. SOEs are required by law to publish annual reports.

The PNG government is in the process of introducing legislation to bring all SOEs under a "Kumul Trust" arrangement whereby all would be centrally managed by three organizations responsible for the government's mining investments, liquefied natural gas investments, and SOEs.

Sovereign Wealth Funds

In 2012, the PNG government passed legislation to establish a Sovereign Wealth Fund to manage resource revenues. This fund was supposed to be held offshore and managed on-shore by an independent Board of Directors. However, in 2014, the government re-opened this draft, citing an error in how it was introduced and passed in Parliament. As of mid-2014, the government had also introduced new methods of managing the SWF, which deviates substantially from the original draft. Parliament was scheduled to debate this topic when it convened in August and November 2014. However, delays and revisions in its preparation pushed the SWF announcement to just before the November 2014 session, meaning it must wait to be passed in 2015. As of March 31, 2015, Parliament had not taken action on the draft SWF legislation.

11. Corporate Social Responsibility

There is a general awareness of the concept of corporate social responsibility among both producers and consumers. CSR is practiced principally by larger domestic and international firms who have had exposure to CSR in international markets. Larger companies and multinational corporations are more inclined to follow generally accepted CSR principles, but these are generally absent among smaller businesses and in the sizeable informal sector. Firms who pursue CSR are viewed favorably by the local populace. The PNG government also offers tax incentives for extractive companies that engage in social infrastructure projects (must be approved in advance of construction).

OECD Guidelines for Multinational Enterprises

There is little coordination from the PNG government on CSR activities within the country. In recent months, the Department of National Planning has taken measures to try to centralize control of all assistance funding under its umbrella, with the ultimate end goal being to ensure that it can coordinate and approve this assistance. While CSR activities have not been discussed in this context, this would seem a logical follow-on. There has been concern raised at the sectoral level about a lack of coordination between donor, PNG government, and private sector activities, but little has been done to improve coordination.

12. Political Violence

Incidents of damage to projects and/or installations over the past few years have not been specifically politically motivated. The majority of disruption and damage caused to projects is due to disputes between landowners and the central government, which are fueled by a perception in certain cases that the central government has failed to uphold its financial commitments to landowners. Landowners in these disputes have taken out their frustration with the central government by damaging the infrastructure or disrupting the operations of foreign investments in their regions. Periodic tribal conflicts occur, particularly in the Highlands and Sepik regions of the country. While foreign investors/interests are not the target of these often violent confrontations, their project infrastructure can occasionally be inadvertently damaged or their operations disrupted due to the prevailing security situation.

The central bureaucracy is increasingly politicized, which has eroded the capacity of government departments and allowed nepotism/political cronyism to thrive in parts the public service. Civil disturbances have been triggered by the government’s failure to deliver financial and development commitments, particularly to landowners in the resource project areas. They have also occurred in major urban areas based on disputes between long-term residents and newly arrived migrants and/or between competing criminal networks.

High levels of crime persist in Papua New Guinea’s cities. These are generally crimes of opportunity and are often violent. Urban civil disturbances have resulted in looting and retail property destruction, which often targets Asian-owned retail businesses. Papua New Guinea’s police, the Royal Papua New Guinea Constabulary, lack the capacity to prevent and respond to these incidents, and companies therefore have to devote significant resources to private security.

In addition to a lack of overall capacity, Papua New Guinea’s capacity to respond to crime and other threats is also hindered by longstanding tensions between the police and military. For example, in early December 2014, police and military were involved in several armed clashes against each other in Port Moresby. Originating after police encountered a group of drunken soldiers and arrested them, several shots were exchanged and four soldiers were hospitalized with gunshot injuries on the first day of the conflict. On the second day, police and military troops set up defensive roadblocks against each other around the police station and barracks while opportunists took advantage of the tension and looted several supermarkets and other local stores. Tensions continued with roadblocks and sporadic fighting between the forces for another two days before a reconciliation ceremony was held to cool tempers. A joint task force of police and army officials was formed to investigate the violence but did not release their report on the specified deadline.

The situation in the Autonomous Region of Bougainville has improved dramatically since the signing of a peace agreement between the central government and separatists in 2001. Despite improvements, there remain regions of Bougainville that are essentially closed to outsiders, and foreign investment in the region's mineral resources is viewed with suspicion by many. As the region approaches a possible referendum on its future, there is a possibility of renewed violence. There are no nascent insurrections, belligerent neighbors, or other politically motivated activities in Papua New Guinea.

13. Corruption

Corruption is widespread in Papua New Guinea, particularly the misappropriation of public funds and nepotism. The risk of domestic corruption is likely to be enhanced as PNG's rapid economic growth continues, fueled by large-scale foreign investment in the mining and petroleum sectors.

U.S. firms have identified corruption as a challenge to foreign direct investment. Some critical areas in which corruption is pervasive include budget management, forestry, fisheries and public procurement. Giving or accepting a bribe is a criminal act. Penalties differ for Members of Parliament (MPs), public officials, and ordinary citizens. For MPs the penalty is imprisonment for no more than seven years; for public officials the penalty is imprisonment for no more than seven years and a fine at the discretion of the court; for ordinary citizens the penalty is a fine not exceeding K400 (USD 190) or imprisonment of no more than one year. A bribe by a local company or individual to a foreign official is a criminal act. A local company cannot deduct a bribe to a foreign official from taxes.

There are adequate laws, regulations and penalties for corruption, but enforcement and implementation are weak due to a lack of political will and the limited financial and human capacity to effectively address corruption of relevant agencies such as the Ombudsman Commission, the Police, the Auditor General's office, the Audit Inspections Division of the Treasury Department, the Finance and Provincial Affairs Department, and the Public Prosecutor's office. The Asian Development Bank (ADB) has repeatedly highlighted some critical areas of concern including budget management, forestry, fisheries, and public procurement. Some foreign investors, particularly in the forestry and fisheries sectors, have been known to contribute to government corruption by bribing public officials either to fast track paperwork, award discretionary concessions, or ignore illegal activities occurring at project sites.

The Ombudsman Commission, the Police, the Auditor General's office, the Audit Inspections Division of the Department of Treasury, the Finance and Provincial Affairs Departments, and the

Public Prosecutor's office are responsible for combating corruption. Transparency International has a local Papua New Guinean branch – Transparency International Papua New Guinea.

Prime Minister O'Neill initially made combating corruption a central focus of his administration following years of mismanaged public funds and failing services in PNG. Since its inception in August 2011, his Task Force Sweep has led to arrests for the misuse of government funds, including current and former government officials. However, O'Neill disbanded the task force for investigating his own allegedly corrupt activities and seeking a warrant for his arrest. As of July 2014, O'Neill had fired or suspended for their roles in pursuing the investigation into allegations of corruption against him, the Attorney General, Solicitor General, Deputy and Assistant Police Commissioners, and the chairman of Task Force Sweep. The former head of this task force has complained that recovering stolen government funds is complicated by the fact that tens of millions of dollars are transferred to Australian bank accounts or invested in Australian real estate, principally in Cairns.

The government encourages companies to establish internal codes of conduct that, among other things, prohibit bribery of public officials. Most of the larger domestic companies and international firms from Europe, North America, Japan, Australia, and New Zealand have effective internal controls, ethics, and compliance programs to detect and prevent bribery. Many firms from elsewhere in East and Southeast Asia, particularly those in the resource extraction sectors, lack such programs.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Papua New Guinea has signed and ratified the UN Convention against Corruption. Papua New Guinea is not a party to the UN Convention against Transnational Organized Crime or the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Resources to Report Corruption

Resources to report corruption:

Contact at government agency or agencies responsible for combating corruption.

Dickson Morehari
Director of Corporate Services
Ombudsman Commission
1st Floor, Deloitte Tower
+675 308 2618
Dickson.morehari@ombudsman.gov.pg

Contact at "watchdog" organization (international, regional, local or nongovernmental organization operating in the country/economy that monitors corruption, such as Transparency International)

Jerry Bagita
Director of Operations
Transparency International
2nd Floor, IPA Haus, Konedobu, NCD
P.O. Box 591, Port Moresby, NCD
+675 320 2182
opmtipng@gmail.com

14. Bilateral Investment Agreements

Papua New Guinea does not have a bilateral investment treaty with the United States.

Papua New Guinea has bilateral investment treaties with Australia, China, Germany, Japan, Malaysia, and the United Kingdom. Papua New Guinea also has bilateral taxation treaties with a number of countries, including ones just completed in 2014 with Japan and New Zealand.

Bilateral Taxation Treaties

Papua New Guinea does not have a bilateral taxation treaty with the United States.

15. OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) has an ongoing project worth USD 10.2 million to expand cellular phone service in Papua New Guinea. Previously, OPIC had a USD 100 million project to help the company develop its Gulf LNG project.

On June 4, 2014, PNG's Central Bank – the Bank of Papua New Guinea (BPNG) – pegged the kina at USD 0.4130. Commercial banks are only allowed to trade the kina within 75 basis points at either side of this reference rate. The Bank said that this move was intended to stabilize the kina, which had been declining in value following the end of the construction phase of the PNG LNG project. Starting in early 2014, the kina began to depreciate, moving from USD 0.47 in 2013 (and higher at the peak of PNG LNG construction) to USD 0.32 in early June 2014. Commercial bank contacts say that this lower exchange rate reflects pre-PNG LNG levels and brings it back in alignment with historic trend trajectories.

On the day of the announcement, O'Neill said that PNG had to "take control of what was happening, so we give confidence to the economy and confidence to the businesses that trade in foreign currency." He claimed that the change in the exchange rate was also intended to decrease the "substantial" profits that commercial banks were making with the kina's depreciation. Since the kina began to slide in late 2013, op-eds and blogs have called for the PNG government to protect the country's citizens against the banks' alleged greed by pegging the currency.

16. Labor

Papua New Guinea has a severe skilled labor shortage, which presents a major constraint to business and investment, as investors are forced to recruit from abroad. Such recruitment is expensive given the very high cost of living in Papua New Guinea. The country spends up to PGK 750 million (USD 326 million) a year to bring in foreign consultants to fill gaps in the workforce. This figure represents 3.6 percent of the gross domestic product (GDP). The government generally adheres to the ILO conventions protecting worker rights, and labor unions are very active in the country. Problem areas that persist, however, include child labor and trafficking in persons.

In late June 2014, the PNG government raised the minimum wage from PGK 2.29 (USD 0.99) to PGK 3.50 (USD 1.52) per hour.

17. Foreign Trade Zones/Free Ports/Trade Facilitation

Papua New Guinea has not established geographically defined duty-free export zones.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	**Year**	**Amount**	**Year**	**Amount**	
Host Country Gross Domestic Product (GDP) ($M USD)	2014	n/a	2013	15,413	www.worldbank.org/en/country
Foreign Direct Investment	**Host Country Statistical source***		**USG or international statistical source**		**USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other**
U.S. FDI in partner country ($M USD, stock positions)	2014	n/a	2013	259	http://bea.gov/international/factsheet/factsheet.cfm?Area=619
Host country's FDI in the United States ($M USD, stock positions)	2014	n/a	2013	-3	http://bea.gov/international/factsheet/factsheet.cfm?Area=619
Total inbound stock of FDI as % host GDP	2014	n/a	2013	-.01%	

*No official statistics are available for Papua New Guinea.

Table 3: Sources and Destination of FDI

Foreign Direct Investment in Papua New Guinea has grown from USD 1.45 billion in 2004 to USD 2.67 billion in 2012, according to the Investment Promotion Authority (IPA). The IPA reports that 60 percent of all investment in 2012 was in oil and gas exploration, production of associated services, followed by engineering and construction, which stood at around 10 percent. Oil palm attracted 4.6 percent of investment, mining received less than three percent, and non-resource investments accounted for 4.5 percent, with wholesale distribution at 2.8 percent. While Australia has historically been Papua New Guinea's largest foreign investor, the United

States surpassed Australia as the country's largest source of investment when Exxon Mobil PNG entered the market in the late 2000s with its USD 19 billion liquefied natural gas project. Australia remains Papua New Guinea's largest trading partner.

The below chart reflects 2012 figures, which was what was available at the time this report was produced. Papua New Guinea is not included in the metadata search provided by the IMF at http://cdis.imf.org, so the chart below was compiled using data available at the following link: http://elibrary-data.imf.org/public/FrameReport.aspx?v=3&c=11666797&pars=Country,853.

These figures may not be an accurate depiction of major foreign investment in Papua New Guinea. In the data in the above link, Papua New Guinea reported inward and outward investments by several countries simply as "c." These include inward and outward investments by Australia; Belgium; Canada; China, PR: Hong Kong; China, PR: Mainland; Finland; France; Germany; Japan; Malaysia; New Zealand; Portugal; Switzerland; and Spain.

Since inward and outward investment by these countries was reported as "c," the above figures do not match the foreign investment data reported by the Investment Promotion Authority, as detailed in the table below.

According to data from ANZ bank and printed by Oxford Business Group for its 2014 publication on Papua New Guinea (http://www.oxfordbusinessgroup.com/), the country's main export destinations in 2012 were Australia (32 percent of exports), Japan (7 percent), and China (6 percent). Papua New Guinea's main import destinations that same year were Australia (37 percent of imports), Singapore (14.1 percent), and Malaysia (9.1 percent). According to 2012 data from the Bank of Papua New Guinea, 78.2 percent of PNG's exports were natural resources, 15.6 percent agriculture, 4.5 percent forestry, and 1.7 percent other.

Percentage of Foreign Investment in Papua New Guinea by Country (2012)

United States	38.7 percent
Japan	10.1 percent
Malaysia	8.4 percent
Australia	8.2 percent
New Zealand	7.4 percent
British Virgin Islands	7.0 percent
Singapore	5.7 percent
Others	5.0 percent
Isle of Man	3.8 percent
UK	3.2 percent
China	2.4 percent

Source: Investment Promotion Authority, as reported to Oxford Business Group for its 2013 publication on Papua New Guinea (http://www.oxfordbusinessgroup.com/). No 2013 or 2014 figures were available.

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations ***(US Dollars, Millions)***					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	872	100%	Total Outward	27	100%
United Kingdom	609	69.8%	Singapore	22	81%
United States	194	22.2%	Italy	1	3.7%
Korea	29	3.3%	Netherlands	1	3.7%
Italy	20	2.2%	Thailand	1	3.7%
Netherlands	20	2.2%	United States	1	3.7%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: IMF Coordinated Direct Investment Survey

Table 4: Sources of Portfolio Investment

Portfolio investment data for PNG are not available.

19. Contact for More Information

Susan May (Until October 2015)
Economic Officer
U.S. Embassy Port Moresby
P.O. Box 1492
Douglas Street
Tel: +675-321-1455, ext. 2116
Fax: +675-321-1593
maysm@state.gov
econportmoresby@state.gov
(Please cc the econportmoresy@state.gov email address on all inquiries)

Alternate contact:
Jacob Surface (Until March 2016)
Political Officer
U.S. Embassy Port Moresby
P.O. Box 1492
Douglas Street
Tel: +675-321-1455, ext. 2136
Fax: +675-321-1593
surfacejd@state.gov
econportmoresby@state.gov
(Please cc the econportmoresy@state.gov email address on all inquiries)