

# PAPUA NEW GUINEA

# TOURISM INVESTMENT GUIDE

**Papua New Guinea Tourism Promotion Authority**



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# **FOREWORD**

Foreword by Minister for Culture and Tourism

# 1. EXECUTIVE SUMMARY

## Diverse Offerings for Discerning Travellers

Papua New Guinea's diverse natural landscape and tribal cultures provide niche tourist segments and adventure seekers unique experiences on the final frontier. A host of different activities are available including trekking, diving, surfing, cruising, culture/village stay, fishing and bird watching. With its abundant wildlife and unspoilt natural landscape, Papua New Guinea is well-positioned to take advantage of the global upsurge in demand for ecotourism.

## Growing Economy Attracts Business Travel

Political stability in recent years has removed a major impediment for businesses to invest in Papua New Guinea. Now, with the booming economies of Asia on its doorstep, Papua New Guinea has gained the region's attention as a source of resources, including minerals, gas, timber and fish. This has brought an influx of business travel into Papua New Guinea, with Port Moresby a hub of activity in the construction of business hotels. Aggressive promotion of Papua New Guinea as a regional centre for international meetings and conferences is likely to further boost business arrivals.

## Infrastructural and Security Challenges

Tourism infrastructure is sorely lacking, particularly in the area of transportation. International air connections only allow direct access to the capital Port Moresby, and scheduled domestic transfers are limited. Given the absence of major roads connecting the capital to other cities and provinces, both business travellers and holiday-makers have few options for efficient commuting to destinations outside of Port Moresby. Like many other countries around the world, personal safety and security is a key concern to the law and order authorities in Papua New Guinea, and stringent efforts are continuously employed particularly in the nation's capital, to ensure that our visitors and expatriate workers enjoy their stay in this country. There is however, an urgent need for Papua New Guinea to upgrade its transport facilities to establish itself as a tourist destination.

## Untapped Potential as a Tourism Destination

Whilst Papua New Guinea faces infrastructural problems and security issues, it certainly has the potential to be a major destination in the long term. Currently, it is one of few markets in close vicinity to Australia not to be a popular tourist destination. Given that its location – between Australia and Asia – positions Papua New Guinea in the middle of two high-growth source markets, it will be a matter of time Papua New Guinea reaps the benefits of its location.

## Strong Commitment to Tourism Development

Led by the Papua New Guinea Tourism Promotion Authority, government departments and agencies are engaged in a coordinated effort to boost arrivals and support the tourism industry development. This long-term commitment is articulated in the country's Tourism Master Plan and Medium Term Development Strategy (MTDS). On the broader scale, Papua New Guinea is seeking to diversify its economy, and has identified tourism as one of the key pillars of economic growth, alongside agriculture, forestry, fisheries, mining, petroleum and gas. As a result, various incentives and concessions have been introduced in the 2007 and 2009 National Budgets to promote business investments in the sector.

## Opportunities Abound for Tourism Investments

With unparalleled cultural and natural assets, a growing labour market and strong government support, Papua New Guinea is a land of opportunities for tourism investments across areas of hospitality, transport, food and beverages, tourist attractions, travel retail services and infrastructure. Investors can tap into prospects presented by the advent of ecotourism and develop products and services catering to promising tourist segments including

luxury tourism, inland adventure tourism, ocean marine adventure tourism, wildlife tourism and health and wellness tourism.

## **2. OVERVIEW OF PAPUA NEW GUINEA**

### **2.1 INTRODUCTION**

#### **Overview**

Papua New Guinea is situated just south of the equator and 160 kilometres north of Australia. The country occupies the eastern part of the world's second-largest island, New Guinea, which it shares with Indonesia. In addition, approximately 600 smaller islands and coral reefs contribute to a geographically diverse land area of nearly 463,000 square kilometres with topography inclusive of high mountains, heavily forested lowlands, savannah, swamps, coastal plains, picturesque islands, active volcanoes and coral reefs. A rugged mountain range with several peaks in excess of 4,000 metres runs the length of the mainland, forming the Papua New Guinea Highlands. Within the Highlands are fertile mountain valleys that are home to numerous communities each with their own language and customs. Major rivers include the Sepik in Northern New Guinea and the Fly in the South, both of which are navigable for more than 800 kilometres. The Sepik and the Fly, in addition to other rivers, have associated swamps and large areas of floodplains that are inundated seasonally.

The mountainous terrain and subsequent difficult access has served to preserve much of the natural environment, wildlife and cultural diversity. Many tribes in the isolated mountainous interior have traditionally had little contact with each other, let alone with the outside world, and are dependent on subsistence agriculture. Linguistically, Papua New Guinea is the world's most diverse country, with approximately 860 different languages. National languages Melanesian Pidgin and Motu are the mostly widely spoken of the native tongues, while English is the official business language.

Papua New Guinea consists of four regions, Highlands, Southern (Papuan), Momase and the New Guinea Islands with 19 provinces and the National Capital District, each governed by a provincial government with similar constitutional arrangements as the national government.

#### **Population**

The total population of Papua New Guinea was estimated at 6.5 million in 2008 and has been growing at an average rate of 2.2% annually since 2003. The capital of Port Moresby has the largest population, with approximately 255,000 people. The second-largest city is the industrial city of Lae in Morobe Province. Other major cities include Madang, Arawa and Mount Hagan.

Fewer than 14% of Papua New Guineans live in urban areas. The vast majority of the population live in rural communities based on the traditional village structure and they are dependent on subsistence farming supplemented by cash cropping and sometimes by tourism activities. The country has a relatively young demographic with 39.6% of its population aged 14 and under and 58% aged 15-64. The economically active population is estimated to be close to 3 million or 46% of the total population.

#### **Economy**

Papua New Guinea is richly endowed with natural resources, great natural beauty and abundant biodiversity, yet accessing these resources to benefit the nation's economy has been hampered by the high cost of developing infrastructure in a country dominated by rugged terrain, multiple indigenous cultures and a population that is largely steeped in traditions associated with semi-subsistence agriculture. The major economic sectors in Papua New Guinea are: Agriculture and Livestock, Forestry, Mining and Petroleum, Tourism and Hospitality, Fisheries and Marine Resources, Manufacturing, Retailing and Wholesaling, Building and Construction, Transport and Telecommunications, and Finance and Business Trade. An informal economy centred on semi-

subsistence agriculture provides a livelihood for an estimated 85% of the population. The formal sector employs about 15% of the workforce and is dominated by large-scale resource projects utilising the country's deposits of gold, silver, copper, natural gas and oil, as well as fisheries and timber stocks.

Papua New Guinea's major exports are gold, silver, copper, crude oil, logs and timber, coffee, palm oil, cocoa and copra. Major markets for Papua New Guinea's exports include Australia, Japan, the Philippines, Germany, South Korea, China, the United States, the United Kingdom, Singapore and Malaysia.

In 2008, Papua New Guinea's GDP was estimated at K22.2 billion or US\$8.2 billion, of which approximately 4.3% is accounted for by tourism receipts. The economy has been experiencing strong growth, particularly over 2007 and 2008, with real GDP growth reaching 6.5% and 7%, respectively.

Papua New Guinea's economy looks set to get a boost from an ambitious resource project. A consortium led by major American oil company Exxon Mobil Corporation signed a gas agreement with the Papua New Guinean government in May 2009 to unlock the extensive gas resources of the Southern Highlands Province and bring new supplies of Liquefied Natural Gas (LNG) to world markets by 2014. The PNG LNG Project is operated by Esso Highlands Limited, a subsidiary of Exxon Mobil Corporation, on behalf of the co-venturers which include Oil Search, Santos, Nippon Oil, Mineral Resource Development Company (MRDC) and Eda Oil. According to the ACIL Tasman (2008) PNG LNG Economic Impact Study, the project has the potential to double the GDP of Papua New Guinea as well as contribute to the development of human resource capacity. More long-term benefits are also anticipated as the project will provide much-needed funds for the government to invest in infrastructure and social programs such as healthcare and education services.

The LNG and other resource projects are contributing to healthy growth in business tourism. Given unspoiled and unique flora and fauna, along with a fascinating and intact cultural heritage, niche tourism in Papua New Guinea, along with the already thriving business tourism sector, is set to become increasingly important in Papua New Guinea's developing economy. The government has strived to ensure that major resource projects do not negatively impact Papua New Guinea's biodiversity, thus ensuring possibilities for ecotourism investors. In addition, the Papua New Guinea National Government has steadily increased resource allocation to tourism through the Papua New Guinea Tourism Promotion Authority (TPA) via the annual national budget, thereby promoting tourism as a prominent economic sector.

The Government of Papua New Guinea recognises that economic development requires extensive investment in infrastructure and is accordingly utilising natural resource rents, and the country's growing tax base, to increase Papua New Guinea's national budgetary expenditures in line with Medium Term Development Plan (MTDP) priorities. The MTDP 2011-2015 was developed after widespread consultation within Papua New Guinea and with development partners, and is focused on building the foundations for prosperity. Increased government spending will be focused on numerous infrastructure improvements programs. Work on the Highlands Highway rehabilitation project, maintenance and expansion of all major airports in the country has started and is expected to continue in the medium term. The establishment of industrial parks like the Pacific Marine Industrial Zone in Madang will also contribute significantly to the economy of PNG.

Human resource development has become a high priority for the government with the National Training Council tasked with the responsibility of ensuring training programmes are conducted within different employment sectors. Employers with an annual payroll exceeding K200,000 must contribute to training Papua New Guinea citizens through training levies, and foreign investors must include a plan for training local citizens when applying to set up business in Papua New Guinea. To promote and protect the livelihoods of local citizens, certain occupations – particularly those in cottage industries – are open only to Papua New Guineans.



**Table 1 Summary of Economic Indicators and Population Statistics**

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Inflation (% growth)	14.7	2.2	1.8	2.4	0.9	10.7
Annual lending rates (% interest rate)	13.4	13.3	11.5	10.6	9.8	9.2
GDP (% real growth)	2.2	2.7	3.6	2.6	6.5	7
GDP (Kina millions)	12,567.00	12,652.00	15,195.00	17,132.00	18,716.00	22,246.00
GDP (US\$ millions)	3,526.60	3,926.10	4,898.50	5,604.70	6,311.60	8,239.30
Exchange rate (per US\$)	3.56	3.22	3.1	3.06	2.97	2.7
Population: national estimates as of 1 January, 2009 ('000s)	5,798.0	5,935.0	6,069.7	6,201.7	6,331.0	6,458.1
Population, mid-year ('000s)	5,866.5	6,002.4	6,135.7	6,266.4	6,394.5	6,520.8
Total exports (US\$ millions)	2,206.80	2,551.90	3,273.50	4,165.80	4,681.20	5,807.60
Total imports (US\$ millions)	1,366.80	1,681.20	1,728.10	2,288.90	2,950.00	3,280.50
Urban population ('000s)	768.9	790.1	812.2	835	858.7	883.5
Urban population (%)	13.3	13.3	13.4	13.5	13.6	13.7
Rural population ('000s)	5029.1	5144.9	5257.5	5366.7	5472.3	5574.5
Rural population (%)	86.7	86.7	86.6	86.5	86.4	86.3
Population aged 0-14 (%)	41	40.8	40.6	40.3	40	39.6
Population aged 15-64 (%)	56.7	56.8	57	57.3	57.6	58
Population aged 65+ (%)	2.3	2.3	2.4	2.4	2.4	2.4
Economically active population (‘000s)	2598	2666	2741	2812.9	2893.3	2970.1
Male population (%)	50.9	50.8	50.8	50.8	50.7	50.7
Female population (%)	49.1	49.2	49.2	49.2	49.3	49.3
Adult literacy of population aged 15+ (%)	56.8	56.9	56.9	57.3	57.8	58.1

Source: Euromonitor International from national statistics, United Nations, International Monetary Fund (IMF), international financial statistics, World Economic Outlook

### 3. PAPUA NEW GUINEA TOURISM INDUSTRY

#### 3.1 OVERVIEW OF PAPUA NEW GUINEA TOURISM INDUSTRY

In the last 5 years, Papua New Guinea’s tourism industry has performed very well, in terms of international tourist arrivals. In 2005, a total of 69,251 short-term international visitors was recorded, which was an increase of 17.3% compared to the other year. In 2006, the arrivals figure maintained its upward trend by recording 77,730 international visitors, an increase of 12.2% compared to the 2005 arrivals.

The year 2007 was even better for tourism growth in Papua New Guinea, recording 104,123 arrivals, an excess of 26,000 new arrivals or 34% increase compared to the same period of the previous year.

In 2008, the arrivals figure continued its healthy upward trend by recording 120,139 short-term international visitors, an increase of 15.4% or 16,000 extra arrivals compared to the 2007 arrivals. Total international arrivals to Papua New Guinea in 2009 was recorded at 125,891, which was a slight increase of 4.8 percent compared to 2008 due to the fact that world tourism was affected by the global financial crisis. In 2010, short-term visitor arrivals to Papua New Guinea increased by 18%, recording more than 146,000 international tourists to Papua New Guinea.

**Table 2 Total Arrivals: 2005-2010**

'000s	2005	2006	2007	2008	2009	2010
Arrivals	69.3	77.7	104.1	120.1	124.0	146.3

Source: Papua New Guinea Tourism Promotion Authority

**Table 3 Forecast Arrivals: 2011-2014**

'000s	2011	2012	2013	2014
Arrivals	166.7	183.5	201.5	221.9

Source: Papua New Guinea Tourism Promotion Authority

**Chart 1 Total Annual Visitor Arrivals in Papua New Guinea: 2005-2010**



Source: Papua New Guinea Tourism Promotion Authority

## 3.2 GOVERNMENT TOURISM POLICY

The Papua New Guinea government's commitment to the development of tourism is fundamental to the industry's development. The country's Vision 2050, PNG Development Strategic Plan (PNG DSP) 2010 – 2030 and the Medium Term Development Plan (MTDP) 2011-2015 highlighted the tourism industry as a key economic sector of focus for economic development. The Vision 2050 is the overarching plan for PNG's economic and social advancement, whilst the MTDP is the medium term plan providing the guiding framework for the government's expenditure programme.

### Papua New Guinea Tourism Promotion Authority

The Papua New Guinea Tourism Promotion Authority (PNG TPA) is a statutory organisation established by the government. The TPA's main role is to work with industry players and communities to develop tourism products and to promote and market Papua New Guinea as a tourist destination.

The Tourism Promotion Authority's international marketing campaign tagline, *Papua New Guinea – like every place you've never been*, helped to capture the imagination of increasing numbers of tourists in 2008 with arrivals predominantly from Europe, Australia, Asia and North America increasing by 15% over 2007 figures. The TPA has increased its presence at trade shows in key markets such as Australia, Europe and Asia, receiving accolades from trade visitors. In 2008, Papua New Guinea's exhibition at the famous International Tourism Bourse in Germany was a crowd-pleaser, attracting more than 200,000 visitors, and it was honoured with the Best Ethno Destination of the Year Award. The increased numbers of tourists gained through such marketing efforts are most likely to choose destinations within the provinces of East New Britain, Eastern Highlands, Madang, Milne Bay and New Ireland. These five provinces have more advanced infrastructure and tourism facilities than other provinces and have the potential to be considered standalone destinations.

It is expected that over the next five years the TPA will further increase marketing initiatives abroad to attract both leisure and business visitors. A new tagline launched in June 2009 – *Papua New Guinea, a million different journeys* – provides excellent opportunities for imagery and diversity within marketing initiatives. Ecotourism, adventure tourism, cruise ship destinations and bird watching are but a taste of what to expect. Papua New Guinea will be promoted to the international business community and Pacific governments as a venue for meetings, conferences and special events as more hotels with full conference facilities come into being. Domestically, the government's approach will have a strong emphasis on practical measures to improve the experience of visitors through targeted product development as well as training programmes designed to permeate the entire tourist industry. Business visitors to Port Moresby will find increased opportunities to partake in leisure activities outside business hours with the development of an amphitheatre on the beach for staging large-scale events, and the recently opened Adventure Park at 15 mile outside Port Moresby. The country's first sea park and aquarium is currently under construction and this project is due for completion in 2012 or 2013.

### National Tourism Master Plan (2007-2017)

The government's 10-year National Tourism Master Plan, released in 2006, provides the roadmap for all relevant government departments and their partners in the development of the Papua New Guinea tourism industry. The vision is to increase the overall economic value of tourism in the nation by doubling the number of tourist arrivals in Papua New Guinea every five years and to maximise sustainable growth for the social and environmental benefit for all Papua New Guineans.

Inter-agency cooperation is a cornerstone of the National Tourism Master Plan. The plan acknowledges that infrastructure and social issues must be addressed to enable a thriving tourism industry and that cooperation and coordination throughout all levels of government is essential for success. In addition to a coordinated government approach, the plan emphasises partnership between government, industry and the people of Papua

New Guinea. The Tourist Promotion Authority is championing the inter-agency model when working on key aspects of the plan, including the marketing of Papua New Guinea as a destination, developing tourism products, encouraging investment, improving transport and infrastructure, and developing a professional workforce within the tourism industry.

### **3.3 TOURISM PRODUCTS**

Dense jungles, mountainous terrain and geographic isolation have helped preserve cultural traditions, stunning nature and World War II relics within Papua New Guinea. The country has avoided the rampages of indiscreet mass tourism and it is considered one of the world's great remote travel destinations. Huge national parks, dazzling scenery, pristine oceans and coastlines, exotic flora and fauna and remote villages with distinct and fascinating cultures ensure spectacular opportunities for an off-the-beaten-track travel experience. Papua New Guinea is an adventure tourism wonderland presenting a variety of options for independent travellers and tour groups alike.

#### **3.3.1 Primary Product Segments**

Papua New Guinea's primary tourism product segments are trekking, diving, culture/village stays, World War II history and surfing.

##### **Trekking**

Papua New Guinea offers breathtaking trekking opportunities ranging from demanding mountain climbs, jungle treks suitable for fitness enthusiasts and short-duration bush walks covering gentle terrain. Of the hundreds of tracks traversing Papua New Guinea, the most famous is the Kokoda Trail, the scene of bitter fighting during the Pacific campaign of World War II. Originally a route through the jungle to access gold fields, the Kokoda Trail is a challenging 96-kilometre hike through the mainland and is traversed annually by more than 6,000 tourists, mostly Australians. Other popular tracks include Black Cat, Bulldog, Sir Peter Lus and Baining tracks.

Papua New Guinea is a mountainous country with several high mountains like Mount Wilhelm, Mount Giluwe, Mount Ialibu, Mount Micheal and Mount Hagen are highly regarded climbs. Mount Wilhelm (4,509 metres) is considered Papua New Guinea's standout climbing experience.

Several tour companies offer organised treks and tours inclusive of equipment hire, village stays, food, cultural advice and expert commentary. Australia, New Zealand, Japan, Europe and Asia-Pacific countries are considered the target source markets for trekking.

##### **Diving**

The diversity of the marine life found in Papua New Guinea is considered by diving experts to be greater than anywhere else on Earth. Consistently rated by international diving publications as one of the top 10 dive spots in the world, Papua New Guinea's extensive marine life, barrier reefs, coral walls, coral gardens, patch reefs, fringing reefs, sea grass beds, coral atolls and wrecks attract an increasing number of international divers each year.

Some of the most popular diving locations include Walindi in West New Britain Province, Tufi in Northern Province, Loloata just off the capital city of Port Moresby, Nusa Island in Kavieng, New Ireland Province and Madang in Madang Province.

The Papua New Guinea Divers Association (DIA) coordinates and promotes industry activities and receives an annual grant from the Tourist Promotion Authority for promotional activities. Based on current estimates, the Papua New Guinea dive market consists of 4,000-6,000 international diving tourists annually from the United States, Australia and New Zealand as well as Japan and Europe. Despite the global economic downturn, some dive tourism operators in Papua New Guinea have reported record bookings for 2009.

### **Culture/village stays**

There are a range of festivals and spectacular shows (*sing sings*) peppered throughout the year in Papua New Guinea. The country's best-known cultural events are the Goroka and Mount Hagen cultural shows where competing tribes, each dressed in unique traditional attire, come together to perform. The Mount Hagen and Goroka shows command crowds in excess of 50,000, including international tourists who are captivated by the enthusiasm and vibrancy displayed. In addition to the famous *sing sings*, Papua New Guinea has a vast number of diverse festivals celebrating coffee cultivation, crocodiles, masks, the lunar New Year and many other aspects of life in this colourful, exhilarating land.

Several tour operators specialise in offering tour programmes incorporating one or more cultural events interspersed with river cruises, visits to traditional villages and the opportunity to learn about the history and ecology of the region. By staying for a few days at a village guesthouse or village home stay, visitors can also observe daily activities in the village from close quarters. Europe is the leading source market for travellers seeking a grassroots cultural experience. There is also interest in this product among visitors from Australia and New Zealand, the United States and various Asian countries.

### **World War II history**

World War II history is an important tourism feature of Papua New Guinea as descendants of those who fought in the country, along with those interested in World War II history, are drawn to Papua New Guinea to visit war relics, battlefields, war museums and tracks associated with escape and conflict.

Most visitors to World War II sites are Australian and Japanese, although New Zealanders and US personnel also served in the region. New Britain, Oro, East Sepik, Sandaun, Morobe and the Kokoda Trail are important sites, as are the sunken warships and aircraft in the waters around Madang and Rabaul. World War II history is of extreme importance for tourism within the region as the memories and relics add momentum and interest to other sectors of Papua New Guinea's tourism industry such as diving and trekking.

### **Surfing**

Papua New Guinea is quietly emerging as a surfing destination with considerable potential. The Surfing Association of Papua New Guinea (SAPNG) is working to ensure a sustainable surf tourism industry through the introduction of practices that conserve and improve coastal environments and protect surfing resources. In popular areas surf tourism operators require a license to operate and must work under strict operational guidelines.

The SAPNG has developed a number of special events and competitions providing significant media exposure for Papua New Guinea. In February 2009, the association, in cooperation with the Tourism Promotion Authority, welcomed a team of Japanese surfers with a film crew to tour three premier surfing destinations. The tour started in Vanimo in Sandaun Province, and then moved on to Madang and finally New Ireland. Currently, most surfing visitors come from Australia and Japan, and it is expected that the special interest Japanese documentary will further boost arrivals by Japanese visitors.

## **3.3.2 Secondary Product Segments**

Papua New Guinea's secondary tourism product segments are Meetings, Incentives, Conferences, Exhibitions and Special Events (MICE), cruising, fishing, bird watching and flora and fauna.

### **Meetings, Incentives, Conferences, Exhibitions (MICE) and Special Events**

Papua New Guinea is keen to take a greater role in hosting international conferences and exhibitions as well as regional Pacific events. A small but infrequent base of such events already exists, and Papua New Guinea has the facilities and expertise to build on this base. Examples of successful conferences to date include the 2008 hosting of the Australia/Papua New Guinea Ministerial Forum and the January 2009 Leaders of the Pacific Islands Forum gathering in Port Moresby. Papua New Guinea is well positioned to host international and regional (Pacific and APEC) conferences, particularly where Papua New Guinea is a member of the regional or international organisation in question.

The majority of conference facilities within Papua New Guinea are located in Port Moresby, followed by Madang and Lae. Papua New Guinea has a number of operators who target the corporate incentives market. The vast majority of these operators focus on the Kokoda Trail product and include other products and attractions such as resort stays and diving or adventure packages. Cruise ship companies operating from North Australia to ports in Papua New Guinea also service the corporate incentive market as part of their business.

The Tourism Promotion Authority has developed a MICE strategy aimed at expanding the number of international conferences and exhibitions held in Papua New Guinea. The strategy will also actively target overseas corporate organisations who offer incentive programmes to clients or employees. Neighbouring countries in Asia and Australia will be targeted first due to their proximity combined with existing infrastructure e.g. flight connections.

### **Cruising**

Cruising is the fastest-growing area of tourism in Papua New Guinea. The slow-paced and informal way of life in Papua New Guinea's coastal areas is befitting of the relaxed nature of cruising. International cruise ships tend to stop in the more remote areas of Papua New Guinea, providing a boost to local economies as visitors purchase local arts and crafts and participate in local activities and tours. Cruise passengers originate from widely diverse countries including Australia and New Zealand, European and Asian countries and the US.

In addition to increased numbers of international cruise liners frequenting Papua New Guinea waters, Papua New Guinea's own cruise operators offer opportunities for visitors to travel up the mighty Sepik River or enjoy island hopping around the country. Trans Nuigini Tours organises cruises into the middle Sepik region on the *Sepik Spirit*, which is a 'floating lodge' purpose-built for river cruising. Melanesian Tourist Services provides a luxury charter experience on *Kalibobo Spirit* with a speedboat providing excursions along the tributaries. Another local cruise line, Imajica Charters based in Kavieng in New Ireland, is known for dive, surf, exploratory and cultural expeditions.

### **Fishing**

Papua New Guinea boasts top-class facilities supporting serious game fishing. Game fishing in Papua New Guinea provides immense diversity with a choice of ocean or river fishing. The Sepik, Fly and Lower Ramu rivers are home to the famous black bass, one of the world's toughest fighting fish. There also specialised accommodations and facilities for fishing enthusiasts at places like Baia Fishing Lodge in West New Britain, Driftwood Resort in Milne Bay and Bensbach in Western Province.

Big game fishing in the seas surrounding Papua New Guinea promises serious game fishers with trophies such as blue and black marlin, sail fish, dog-tooth tuna and spot-tail bass among others. Wealthy anglers from around the globe are willing to travel anywhere for truly magnificent game fishing and Papua New Guinea's fishing

tourism industry is well positioned to leverage further on the quality of game fishing available. Currently Australia is the main source market for game fishing tourists.

### Bird watching

More than 750 species of birds are present in Papua New Guinea. It is home to approximately 13% of the world's exotic bird species, including 38 of the 43 known varieties of bird of paradise and the world's only known poisonous bird, the hooded pitohui. There are numerous other birds of distinction including magnificent cassowaries, standing up to 1.8 metres high and weighing up to 50 kilograms, and crowned pigeons, which are the size of turkeys. Papua New Guinea is the territorial home of Pesquet's Parrot, paradise-kingfishers, mound-building mega pods, amazing bowerbirds, hornbills, honeyeaters, tiny pigmy-parrots and lorries galore.

Birding is a fast-growing hobby worldwide among the well educated and affluent, fuelled by the trend to better understand and subsequently better protect nature. The significance of bird watching to Papua New Guinea's tourist industry should not be underestimated. On bird watching websites around the world, Papua New Guinea is considered a prime destination for bird watching tours.

### Flora and fauna

There are close to 9,000 species of plants in Papua New Guinea, most of them found in lowland rainforests. Approximately 250 species of mammals live in the islands and, although bats and rats make up the majority, marsupials such as the highly unusual tree kangaroo make for fascinating viewing. In addition, two species of the egg-laying mammal echidna, often referred to as the spiny anteater, are found in Papua New Guinea. The insect kingdom is also rich with highlighted species including the world's largest butterfly, Queen Alexandra's Birdwing, the first collected specimen of which was felled by a shotgun blast. Scarab beetles are plentiful in Papua New Guinea and are often used as a body decoration.

Papua New Guinea has two major national parks – Variarata National Park near Port Moresby, and McAdam National Park in the Morobe province. Although Papua New Guinea's rich and varied flora and fauna with magnificent scenery draw tourists keen to see diversity, there is the added potential for specialty groups to develop tourism products based on subsets of the flora and fauna. Tourists visiting Papua New Guinea primarily to view the varied landscape and nature are typically from Asian countries (predominantly Japan), Europe, the United States, Australia and New Zealand.

Summary 1 Summary of Tourism Products			
Tourism Products		Popular Destinations	Main Source Countries
<b>Primary</b>	Trekking	Kokoda Trail Highland Mountains (Mount Giluwe, Mount Lalibv, Mount Hagen, Mount Wilhelm)	Australia, New Zealand, Japan, Asia
	Diving	Madang, Walindi in West New Britain, Tufi in Oro Province, Loloata near Port Moresby Nusa Island in Kavieng, New Ireland	Australia, New Zealand, USA, Japan, Asia, Europe
	Culture/village stays	Goroka Mount Hagen	Europe, Japan, Asia
	World War II history	East New Britain, Oro, East Sepik, Sandaun, Morobe, and the Kokoda Trail	Australia, New Zealand, Japan, Asia
	Surfing	Kavieng in New Ireland Province, Vanimo in Sandaun Province, Madang and Port Moresby	Australia, New Zealand, Japan, Asia
<b>Secondary</b>	MICE	Port Moresby, Madang and Lae	Australia, New Zealand
	Cruising	Sepik River, Mount Hagan, Kavieng in New Ireland	Australia, New Zealand, USA, Japan, Asia, Europe

Fishing	Sepik, Fly and Lower Ramu rivers	Australia, New Zealand, Japan, Asia
Bird Watching	Tari Gap, Kiunga, Varirata National Park, and the Kumul Lodge in Enga Province	Australia, New Zealand, USA, Japan, Asia, Europe
Flora and Fauna	Varirata National Park, McAdam National Park and Gahavusuka National Park in EHP	Australia, New Zealand, Japan, Asia

Source: Papua New Guinea Tourism Promotion Authority and Euromonitor International based on interviews and secondary sources.

### 3.4 TRAVEL ACCOMMODATION

Accommodation in Papua New Guinea is typically segmented into four categories – luxury, upmarket, mid-range and budget. Large cities have accommodation covering all categories, with Port Moresby offering more upmarket and luxury options than other areas. As business travellers make up the bulk Port Moresby’s luxury and upmarket hotel clients, those establishments typically include business services and conference facilities. In provincial Papua New Guinea, it is possible to find accommodation encompassing secluded luxury resorts through to beach bungalows and budget guesthouses in remote villages.

#### Luxury

Luxury accommodation establishments in Port Moresby, Lae and other urban centres typically provide airport transfers, a secure environment, an outdoor garden area, a pool and leisure centre, satellite television, secure parking facilities and a comprehensive array of business facilities. Holiday Inn Port Moresby typifies the luxury accommodation available to business and leisure travellers in the capital, providing 160 guest rooms and 33 luxury suites conveniently located in the heart of the business district. A very different luxury experience awaits guests at Tawali Resort in Milne Bay. Tawali is accessible only by boat and provides luxury accommodation in a glorious setting overlooking the ocean. Tawali Resort’s guests are usually keen divers who have booked fully inclusive diving holidays, although other luxury packages are available for those who simply want to relax and be pampered. It is common for luxury resorts in Papua New Guinea to emphasise special interest tourism, and as such to provide diving or game fishing packages or cultural tours.

#### Upmarket

Upmarket hotels and resorts aim to provide quality accommodation and service. Although services and facilities may not be as indulgent as luxury establishments provide, upmarket hotels and resorts endeavour to provide high-quality, safe, comfortable accommodation with an extensive range of facilities. The Gateway Hotel & Apartments in Port Moresby is considered an upmarket establishment. This complex provides an airport shuttle bus for guests, 95 modern rooms, 20 serviced apartments, a foreign exchange desk, a choice of formal or casual dining, a pool, a beauty salon, conference facilities and access to tour and rental car companies.

The Walindi Plantation Resort in Northern New Britain is considered upmarket, yet the resort’s features differ greatly from the Gateway Hotel. Walindi offers a more atmospheric resort experience with guests accommodated in self-contained, fan-cooled, beachfront bungalows surrounded by rainforest gardens. A pool, tennis court, library and bar are available for the relaxation of guests and the restaurant boasts local seafood. Like many resorts in Papua New Guinea, diving holidays are a feature of the resort.

#### Mid-range

Accommodation fitting the mid-range category is available throughout Papua New Guinea although facilities, service and style differ considerably among establishments. Mid-range options include simple modern premises as well as older resorts, hotels, lodges and motels that aim to provide comfortable and unpretentious



accommodation. Mid-range accommodation in provincial areas tends to provide more facilities than mid-range options in the capital. Napatana Lodge is an ecotourism choice situated in Alotau, Milne Bay Province. In a beautiful setting close to the beach, the lodge is built in traditional pole house style providing a choice of standalone bungalow suite accommodation or rooms that open onto a common veranda. The accommodation is modest yet atmospheric.

### Budget/backpacker

Budget/backpacker accommodation in urban locations typically has shared ablution facilities, a communal kitchen and common dining area. Budget accommodation facilities are often run by church or community organisations. Mapang Missionary Home is a missionary-run guesthouse in Port Moresby offering dormitories, single and double rooms. Port Moresby’s Jessie Wyatt House, run by the Country Women’s Association, offers single and twin rooms. Budget accommodation in rural areas tends to have nominal facilities, yet the setting is often exquisite providing views of natural scenery. For those making their way to Mount Wilhelm in Simbu Province, the East Kegsugl Guesthouse is a budget option with three rooms available, meals provided and assistance provided to find guides for mountain climbs.

## 3.5 TRANSPORTATION

Air and sea transport options are available for both international and domestic travel. Air transport is the most prevalent form of transport in Papua New Guinea. This is mainly because the country’s harsh terrain limits the development of major roads to connect different cities and regions by land transport. Sea transport via cruises and ferries is growing in popularity, particularly because it allows access to Papua New Guinea’s numerous islands, and river and coastal communities.

### Air transport

Jackson’s International Airport is the gateway of Papua New Guinea, situated about 8 kilometres away from the main CBD area of Port Moresby. International travellers have a choice of two airlines. Air Niugini the national flag carrier is the largest air transport provider with flights between Papua New Guinea and key source markets such as Australia, the Philippines, Singapore, Hong Kong, Malaysia and Japan. Qantas accepts bookings from various destinations into and out of Papua New Guinea, although all flights are undertaken by code share partner Air Niugini. Airlines PNG offer an international schedule including Brisbane and Cairns, with code share partner Pacific Blue flying the Brisbane route.

**Table 4 Air Niugini’s International Destinations**

<b>Destination</b>	<b>Country</b>
Brisbane, Sydney, Cairns	Australia
Hong Kong	China
Honiara	Solomon Islands
Kuala Lumpur	Malaysia
Manila	Philippines
Nadi	Fiji
Tokyo	Japan
Singapore	Singapore

Source Papua New Guinea Tourism Promotion Authority

**Table 5 Airlines PNG's International Destinations**

<b>Destination</b>	<b>Country</b>
Brisbane, Cairns	Australia

Source Papua New Guinea Tourism Promotion Authority

The majority of domestic air transport is provided by Airlines PNG and Air Niugini. Air Niugini's passenger carrying capacity has increased with the arrival of an additional aircraft to its fleet-a Boeing 767 on the 19th April 2011. The new B767 has a capacity of 32 business and 187 economy class seats. Air Niugini has also recently introduced direct two weekly flights to Solomon Islands (Honiara) and Fiji (Nadi). This will definitely bring tourists who want to make round trips to the Pacific Island Countries instead going back to Australia to change-over.

Both Air Niugini and airlines PNG have reduced their domestic airfares with some on very low fares on special, and Air Niugini has also increased some of its overseas flights.

North Coast Aviation is a small player providing regular service between a limited number of destinations and a charter service. Mission Aviation Services provides access to very small and remote communities. There are also other smaller private chartered aircrafts available. Travel Air is another nationally owned company who have entered the market this year (2011) and will be providing both domestic and international air transport services.

### Sea transport

Sea cruise and ferry services are important transport alternatives for travel to the different islands and provinces. Lutheran Shipping operates passenger services between Lae and Finschhafen, stopping at villages en route. Harbour Star operates out of Lae, providing services from Morobe Province to West New Britain Province. Ports visited by Harbour Star passenger services include Lae, Finschhafen, Siassi Islands, Cape Gloucester, Kandrian, Amulut and Sauren. Rabaul Shipping has a weekly passenger ferry which operates between Rabaul and Kavieng. This ferry service also extends from Rabaul into other maritime areas of Papua New Guinea.

Smaller local boats travel Papua New Guinea's coast and rivers. These provide irregular service and include trade boats that accept passengers in addition to making deliveries to trading outlets. Banana boats and outrigger canoes are commonplace methods of transport for coastal communities.

Some international sea cruises begin at an Australian port and end at a Papua New Guinean port with tourists utilising domestic transport to return to Port Moresby for an airline departure. Other international cruises pass through Papua New Guinea's ports without dropping off or collecting passengers en route. The main ports for international passenger services are in Port Moresby, Lae, Madang, Rabaul and Kavieng. Smaller ports in Alotau and Kimbe also receive passenger liners.

The Papua New Guinea Tourism Promotion Authority is currently implementing its cruise-ship strategy to attract more cruise-ships and yachts to the country.

### Land transport

Most urban centres have a fixed price public transport system utilising minibuses and trucks commonly referred to as PMVs (Public Motor Vehicles). There are also rural PMVs that pick up and drop off passengers at any point along a pre-established route.

Taxis are only available in Port Moresby, but land transport can also be arranged with hotels and accommodation providers in cities like Madang and Alotau. Rental cars are available in all main centres.

There are very few long-distance roads linking cities in Papua New Guinea. The capital city of Port Moresby is linked by road to only one other centre, Kerema, via the Hiritano Highway. However, the road is in poor condition and is often closed. The most well known and frequently travelled land transport route in Papua New Guinea is the Highlands Highway (commonly known as Okuk Highway), which runs from Lae and Madang on the coast and connects the five highlands provinces of Eastern Highlands, Simbu, Western Highlands, Enga and Southern Highlands. Long-distance PMVs between centres tend to leave in the early morning from local marketplaces. Most Highlands Highway PMVs now tend to leave late in the evening so that they arrive at their destinations early in the morning. This trip is termed “tulit tulit” and its becoming popular.

## **3.6 TOURISM SEGMENTS**

With the available tourism products, travel accommodation and transportation options, Papua New Guinea is positioned to reach out to a distinct set of key tourism segments as identified here:

- Business tourism
- Cultural tourism
- War heritage tourism
- Inland adventure tourism
- Ocean marine adventure tourism
- Wildlife tourism
- Natural features tourism
- Voluntourism

### **Business tourism**

A business traveller’s primary reason for travelling is to attend an activity or event connected to the traveller’s business interests. The main components of business tourism are:

- Conferences
- Exhibitions and trade fairs
- Incentive travel
- Corporate events and meetings
- Individual business travel (commonly referred to as corporate travel).

Corporate travel underpins Papua New Guinea’s tourism industry and comprises the bulk of clients for the country’s hotels and the international and domestic airlines serving Papua New Guinea. In 2008, corporate travel arrivals of 53,648 made up nearly 45% of all visitor arrivals into Papua New Guinea, with many corporate travellers representing or advising companies involved in major resource projects. Large resource projects involving foreign investment are ongoing in Papua New Guinea and provide the tourism industry with a ready source of corporate travellers requiring upmarket accommodation and high-quality food and beverage service. Port Moresby caters to nearly all corporate travellers entering Papua New Guinea. Even when Port Moresby is not the final destination, most visitors need to overnight before catching their connection flight.

Opportunities also abound for conference delegates to participate in pre- or post-conference sightseeing and activities. Another slice of the MICE market involves incentive travellers. These are employees receiving a reward for high performance and are often young or middle-aged sales or marketing executives. Papua New Guinea offers a vast array of adventure tourism opportunities of enormous appeal to determined young and middle-aged executives. For executives who have experienced a little too much excitement at work, quiet time out in pure luxury is always an option at places such as Tawali Resort in Alotau, Milne Bay Province, or the Rondon Ridge in Mt Hagen Western Highlands Province.

## **Cultural tourism**

Cultural tourists to Papua New Guinea mainly look for opportunities to observe indigenous cultures and communities. Tourists interested in tribal cultures are attracted to Papua New Guinea as a destination because the experience is truly authentic with hundreds of communities living traditional lifestyles almost free of modern influence. Preserved cultural traditions are a way of life and tourists prepared to venture to remote villages are rewarded with authentic experiences and opportunities to observe and participate in village life. Some cultural tourists are motivated to visit by spectacular festivals that showcase tribal dress and performance.

Cultural tourists are typically well educated, usually over the age of 30, and they have above-average disposable income. Interest in Papua New Guinea's diverse cultural communities has often been sparked by studies in sociology, anthropology or previous travel experiences. Cultural tourists add to local economies by joining tours, employing the services of guides and by purchasing local arts and crafts.

Choice of accommodation ranges widely for such tourists, satisfying those who have a strong desire to stay in simple village accommodation as well as those who are keen to return to comfortable upmarket accommodation in the evenings.

## **War heritage tourism**

War Heritage Tourism involves visiting historic sites that engender an appreciation of the past. The majority of Papua New Guinea's heritage tourists visit as a mark of respect to those who fought in World War II and are predominantly Australian and Japanese with smaller numbers from the United States and New Zealand. During World War II approximately 202,100 Japanese military personnel died during the New Guinea campaign and Australia lost an estimated 7,000 soldiers, sailors and airmen.

Australia's main day of remembrance is ANZAC Day, celebrated on 25 April, and increasing numbers are choosing to travel to Papua New Guinea to remember sacrifice and bravery in the Pacific during World War II. In 2009, more than 1,000 people attended the ANZAC Day dawn ceremony in Port Moresby and in the weeks leading up to ANZAC Day thousands of Australians attempted to trek the gruelling Kokoda Trail, where fierce fighting occurred between Australian and Japanese soldiers during World War II. In 2001, fewer than 100 tourists walked the Kokoda Trail, but in line with growth in war heritage tourism, 5,600 tourists – mostly Australians – completed the trek in 2008.

Those walking the Kokoda Trail tend to be fit people below the age of 50. Tour companies recognise that many heritage tourists do not have the physical fitness required to walk the trail and are providing pilgrimage tours that incorporate visits to easily accessible battle sites, museum visits, war cemetery visits, charter flights and – if coincidental with ANZAC Day – attendance of the dawn service.

## **Inland adventure tourism**

Inland activity-based adventure tourism involves tourists participating in physically demanding and exciting outdoor activities, where the inland physical environment is enjoyed more for the setting of the activity than the scenery, plants or animals. Tourists visiting Papua New Guinea for inland adventures are attracted by a new frontier destination and by challenges presented via mountains, jungle treks, caving systems and expansive river ways.

Inland adventure tourists can purchase full adventure tour packages inclusive of transport, guides, accommodation, porters and food. Such expeditions can be booked before leaving home or through a tour

operator on arrival in Papua New Guinea. More independently minded tourists tend to make their way to a particular place, where a personal guide is hired who is capable of assisting the tourist's activity of choice.

Accommodation choices for inland adventure tourists are mixed. Those interested in day activities are likely to choose comfortable mid-range to upmarket accommodation in a nearby town. Tourists undertaking inland expeditions lasting several days are likely to enjoy simple village accommodation along the way. Pre-expedition and post-expedition accommodations are frequently mid-range to upmarket.

### **Ocean marine adventure tourism**

In Papua New Guinea, the most popular tourism activities within the ocean marine category are diving and snorkelling. Fishing and surfing are additional strong motivators for ocean marine tourists to visit Papua New Guinea, with sea kayaking, windsurfing and kite surfing emerging as complementary activities.

Papua New Guinea has an international reputation as one of the world's leading tropical dive destinations, yet because of the country's relative isolation dive sites remain uncluttered and pristine. Divers visiting Papua New Guinea tend to be experienced, and possess a high level of disposable income.

Among ocean marine adventure tourists are those lured to Papua New Guinea by outstanding fishing opportunities. Big game fishing is big business worldwide with affluent tourists, most of whom are males over the age of 30 who travel to any corner of the globe to experience the thrill of catching game fish.

Surfing, once the domain of young backpackers, has developed as a competitive sport and leisure activity appealing to the young and middle-aged. Surfers no longer conform to the young and poor stereotype, and those with discretionary income are willing to travel to beautiful, remote locations to catch a wave.

### **Wildlife tourism**

In Papua New Guinea, wildlife tourism refers to viewing indigenous species of wildlife in natural habitats and, less often, in purpose-built facilities. The largest group of wildlife tourists visiting Papua New Guinea consists of bird watchers although others are keen to spot turtles, crocodiles, butterflies, insects, giant monitor lizards, deer and the very unique tree kangaroo species. Papua New Guinea's wild geography and relative isolation provide serious wildlife tourists with the added excitement that previously unrecorded species may be spotted.

Bird watching is one of the Western world's fastest-growing leisure pastimes and is dominated by people over age 40 who are well educated and affluent. Almost 75% of birdwatchers in the United States have completed tertiary education, and birdwatchers from the United States, Europe and Australia frequently travel abroad in groups for birding.

General wildlife tourists within Papua New Guinea are keen to spot the wonderful bird life as well as other examples of the country's fauna. Between November and February Morobe Province draws wildlife tourists interested in turtles, as this is the season when leatherback turtles come ashore to lay eggs. Crocodile-spotting tours are available at various locations. Ambuti in the Sepik region is one of the most popular sites including the Wilderness Lodge at Nggatokae in Western Province.

### **Natural features tourism**

Natural features tourism entices tourists interested in natural geological features and natural landscapes. Papua New Guinea provides great diversity including towering mountains, active volcanoes, hot thermal springs, lakes, rivers, spectacular gorges, limestone caves, natural harbours and pristine coral. Tourists of all ages with variable tourist budgets and at all levels of fitness are attracted to natural features tourism.

Wealthy tourists tend to stay at upmarket and luxury accommodation where there is easy access to a number of features that can be explored or viewed, while those on a budget can usually find a guesthouse close to a feature of interest.

### **Voluntourism**

Volunteer tourism or 'voluntourism' is a rapidly growing travel segment driven by tourists of all ages keen to contribute positively to the destination community. European missionaries have contributed to Papua New Guinea's foreign visitor arrivals since missionary settlements were established along the New Guinea coast in the 1870s. These missionaries were probably Papua New Guinea's earliest voluntourists.

In the 1990s the face of volunteerism has broadened, with visitors to Papua New Guinea including predominantly young people on Volunteer Service Abroad placements, and volunteers assisting non-governmental organisations (NGOs) with work aimed to benefit Papua New Guinea's communities. Increasing numbers of commercial travel agents worldwide offering holiday packages to developing nations that combine some form of leisure holiday with a short period of volunteer service. These combination trips are sometimes referred to as 'hands up holidays'. With the exception of some long-term missionaries, voluntourists typically visited for periods lasting between one week and one year, depending on the nature of the visit.

Countries providing aid to Papua New Guinea provide another source of visitors as foreign affairs personnel from donor countries visit and at times send experts to assist with various development projects.

## 4. ANALYSIS OF TOURISM ARRIVALS

### 4.1 PURPOSE OF VISIT

There were 146,350 total visitor arrivals in Papua New Guinea in 2010. Of these arrivals, 45% were for business, 25% for employment, 21% for holiday, 6% for visiting friends and relatives (VFR), 0.1% for MICE, 0.1% for education and 0.1% for other purposes. Business and holiday arrivals grew at a compounded annual growth rate of 17.3% and 18.6%, respectively, from 2005 to 2010. In 2010, short-term visitor arrivals to Papua New Guinea increased by 18%, recording more than 146,000 international tourists to Papua New Guinea.

The outlook for PNG tourism remains positive. The number of overseas visitors is forecast to increase by 9.1 per cent a year over the next ten years, from 146 350 in 2010 to 350 000 in 2020. The growth will be stronger in the first half of the forecast period than in the second half. Most overseas visitors will come to PNG for business purposes.

The inbound market is presently dominated by business travel. Of the total visitor arrivals in 2010, 46 per cent were business arrivals, 23 per cent holiday arrivals, 25 percent employment, 5.6 per cent VFR arrivals and 0.4 percent other arrivals. On average, the number of business, holiday, VFR and Other arrivals is expected to grow respectively by 10.0, 6.8, 5.6 and 2.9 per cent a year over the next ten years. Business travel will remain the major segment of the inbound market, followed by holiday and VFR travel.

**Table 6 Arrivals by Purpose of Visit: 2005-2010**

'000s	2005	2006	2007	2008	2009	2010
Business	35.3	49.5	70.2	78.4	87.1	103.8
Holiday	14.8	22.9	27.7	34.7	30.4	32.8
VFR	5.4	5.0	5.9	6.6	7.5	8.3
Others	0.6	0.1	0.2	0.3	0.6	1.2
Total Arrivals	56.2	77.7	104.1	120.1	125.8	146.3

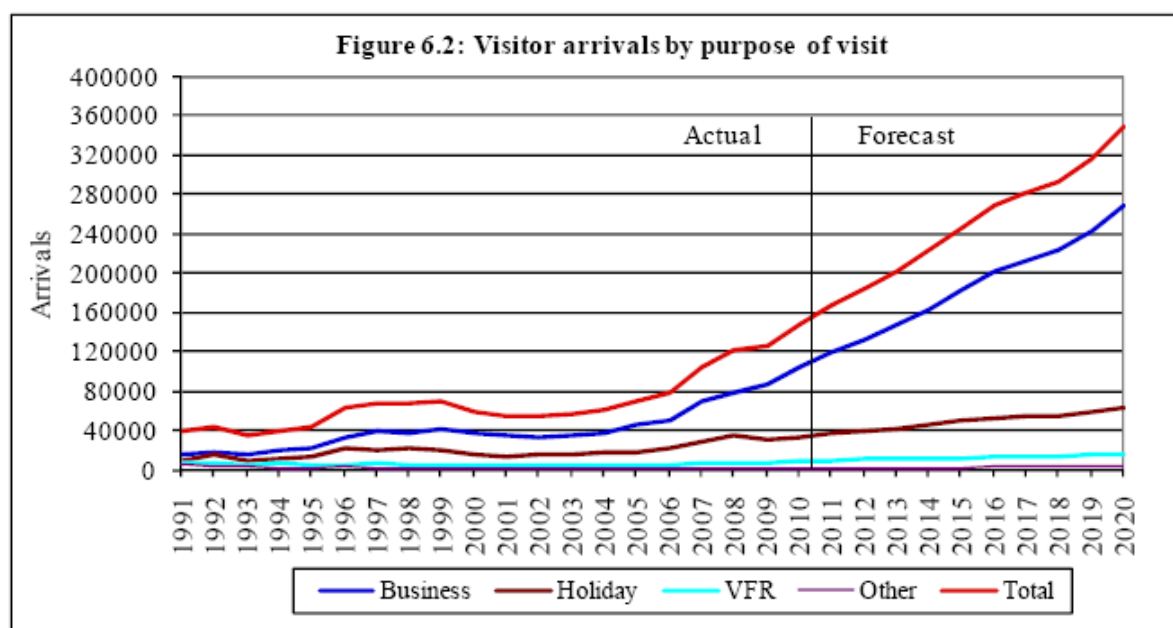
Source: Papua New Guinea Tourism Promotion Authority

**Table 7 Forecast Arrivals by Purpose of Visit: 2011-2014**

'000s	2011	2012	2013	2014
Business	119.3	132.9	147.4	163.8
Holiday	36.9	39.7	42.4	45.8
VFR	9.2	9.6	10.3	10.7
Others	1.2	1.3	1.3	1.4
Total Arrivals	166.8	183.5	201.6	221.9

Source: Papua New Guinea Tourism Promotion Authority and Euromonitor International estimates

**Chart 2 Arrivals by Purpose of Visit: 2010-2020**



Source: Papua New Guinea Tourism Promotion Authority

## Business

### Current performance

Visitor arrivals in 2010 were dominated by business travellers, who accounted for 45% of all visitor arrivals. Business travellers more than doubled as arrivals from 45,098 visitors in 2005 to 103,899 in 2010. This rapid increase is largely attributed to the impact of major resource projects. The emerging MICE sub-segment of business travellers contributed just 1.0% of business arrivals in 2010. The share of business arrivals rose by approximately 10.1 percentage points between 2005 and 2010.

### Future prospects

During the 2010-2015 forecast periods, total arrivals are expected to show strong growth of 10.9% on average. The recently approved multi-billion dollar LNG project in Papua New Guinea will bring in more international visitors, especially from the USA, Australia and the neighbouring Asian countries. Alongside the strong performance of corporate business travel, Papua New Guinea is committed to growing the MICE component. The country has the potential to increase its share of regional and international forums and conferences. Political stability, positive relationships with Pacific neighbours and a unique exotic setting should combine to see the goal of increased share realised. The increase in corporate visitors will create the synergy to spur growth in the MICE sector. Large-scale resource projects in Papua New Guinea are predicted to continue propelling business arrivals, enabling strong growth over the forecast period.

## Holiday

### Current performance

The second-largest group to visit Papua New Guinea in 2010 was holiday makers, who comprise the leisure arrivals. Holiday makers totalled 32,863, comprising 28.9% of total arrivals. The number of visitors travelling to Papua New Guinea on holiday grew at a rate of 18.6% annually, from 14,820 visitors in 2003 to 32,863 in 2010. The healthy level of growth reflects positive developments in the tourism industry including product development, increased government support and an active Tourism Promotion Authority. The share of leisure arrivals rose by approximately 7.6 percentage points between 2005 and 2010.



#### *Future prospects*

Further development of facilities and infrastructure to support Papua New Guinea's unique niche leisure products should see an increase in leisure visitor numbers. The number of holiday visitors to PNG is forecast to increase by an average annual rate of 8.6 percent in the short-term (five years) and 6.8 per cent in the long-term (ten years), from 32,863 in 2010 to 49,553 in 2015 and to 63,483 in 2020. Growth will be mainly contributed by an increase in the number of visitor arrivals from Oceania and Asia.

#### **VFR and Others**

##### *Current performance*

VFR (visiting friends and relatives) was represented by 8,341 arrivals in 2010, accounting for approximately 5.6%. The 'Others' category includes 1247 visitor arrivals (2.3%) for reasons other than those covered by business, holiday and VFR. Typically, these arrivals would include church missionaries, sports competition participants and transiting passengers. From 2005 to 2010, the VFR share of total arrivals dropped from 9.6% to 5.6%, largely due to the strong growth rates of business and holiday arrivals which outpaced the VFR category.

##### *Future prospects*

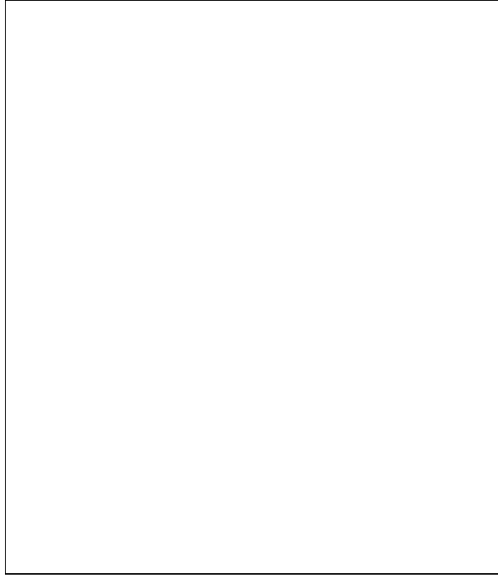
VFR arrivals can be influenced by variables such as air fare prices, large-scale family events and various types of reunions. Even though the source population is more limited than for business and leisure travel, there is a strong likelihood that the segment will grow if air fares become more competitive. Specific targeting of the expatriate population could also potentially grow VFR tourism through the development of special packages designed to lead friends and family to join expatriates in Papua New Guinea rather than vice versa. VFR arrivals are expected to reach almost 12,000 by 2015.

## **4.2 MODES OF TRANSPORT**

In 2010, air transport was by far the dominant mode of transport for entry into Papua New Guinea, accounting for 95% of tourist arrivals with the remaining 5% arriving by sea. The percentage arriving by sea has doubled since 2003 due to Papua New Guinea's inclusion on more cruise ship itineraries. Cruise ship travel is one of the most rapidly growing tourism products in the world and in 2008 was considered the single fastest-growing sector in Papua New Guinea's tourism industry. Provided that ports are marketed proactively and land infrastructure is put in place to support cruise tourism, it is expected that sea arrivals will continue to grow and gradually increase share of overall visitor arrivals. According to Euromonitor International's 2009 study *Travel and Tourism – Papua New Guinea*, by 2012 air travel is predicted to reach 93% and sea arrivals, 7%.



**Chart 3 Arrivals by Mode of Transport: Air and Sea transport, 2008 and 2012**



of serving remote communities. There is an open skies policy throughout Papua New Guinea's domestic aviation industry. As such, any registered carriers may compete against each other for all routes throughout the country.

Five airports in provincial Papua New Guinea have international airport certification. These include Gurney Airport in Milne Bay, Nazdab in Morobe Province, Kagamuga in the Western Highlands and Madang. Although international flights in mid-2009 were only utilising Jackson Airport in Port Moresby, a December 2008 announcement by the Minister for Transport and Civil Aviation stated that aviation company Skyworld had been granted permission to operate flights between Cairns and Gurney Airport. It is expected that the introduction of international flights into Milne Bay will help to further propel growth in air passenger arrivals.

Many of the country's provincial airports and airstrips are in need of upgrading. Fokker F100s have replaced older aircrafts, but many runways are still not capable of handling the Fokker F100s. Papua New Guinea's Civil Aviation Authority (CAA) estimates that US\$580 million is required to upgrade the nine airports singled out as having the most urgent requirements.

A restructure of Papua New Guinea's Civil Aviation Authority saw the organisation split into regulatory and non-regulatory functions in April 2009. One task facing the non-regulatory arm is airport infrastructure development and a plan to rejuvenate Port Moresby's Jackson International Airport which is currently on the authority's drawing board. The civil aviation reform suggests possibilities for forging public/private partnerships to develop aviation infrastructure while some pundits suggest full privatisation by 2030.

### **4.2.3 Sea Travel**

Cruise ship passenger arrivals numbered 5,957 in 2008, providing 5% of Papua New Guinea's arrivals. The United States was the largest source market with 1,918 visitors, comprising 32.2% of cruise ship arrivals in 2008. Japan represented the second-largest source market with 18.1% of sea arrivals. This is followed by Germany (15.1%), Australia (14.2%) and the United Kingdom (10.9%), with the remaining 9.5% of arrivals from a number of countries including New Zealand, Canada and other parts of Europe.

Papua New Guinea's cruise ship arrivals experienced a massive increase from just 3,356 in 2005 to 5,957 in 2008. This has mirrored the rapidly increasing popularity of cruise ship tourism globally. Japan and Australia have both experienced a surge in the popularity of cruising and Papua New Guinea is geographically close to these markets. Additionally, the Tourism Promotion Authority has amplified marketing efforts to increase the profile of Papua New Guinea as an exotic port of call.

Cruises originating in Australia typically last less than two weeks and are often one-way excursions, with passengers continuing on with an independent holiday or flying home. Coral Princess Cruises and Orion Expedition Cruises runs cruises from Cairns, Australia. P&O is perhaps the best-known company cruising into Papua New Guinea. Passengers from around the world typically join the 42-day P&O cruise from Sydney. These cruises mainly call on Rabaul.

Cruise tourism in Papua New Guinea is facing a bright future with increased international interest in cruising and increasing willingness of cruise shipping companies to include Papua New Guinea on Pacific itineraries. The Tourism Promotion Authority is currently working with experts from Chart Management Consultants in Australia to develop a cruise ship strategy to further drive growth in this sector.

With every bright prospect come parallel challenges and cruise ship tourism includes further development of wharf facilities, the provision of toilets at disembarkation points, training and quality control regarding on-shore tours operators and security for passengers on land visits. Providing well for cruise ships has implications for

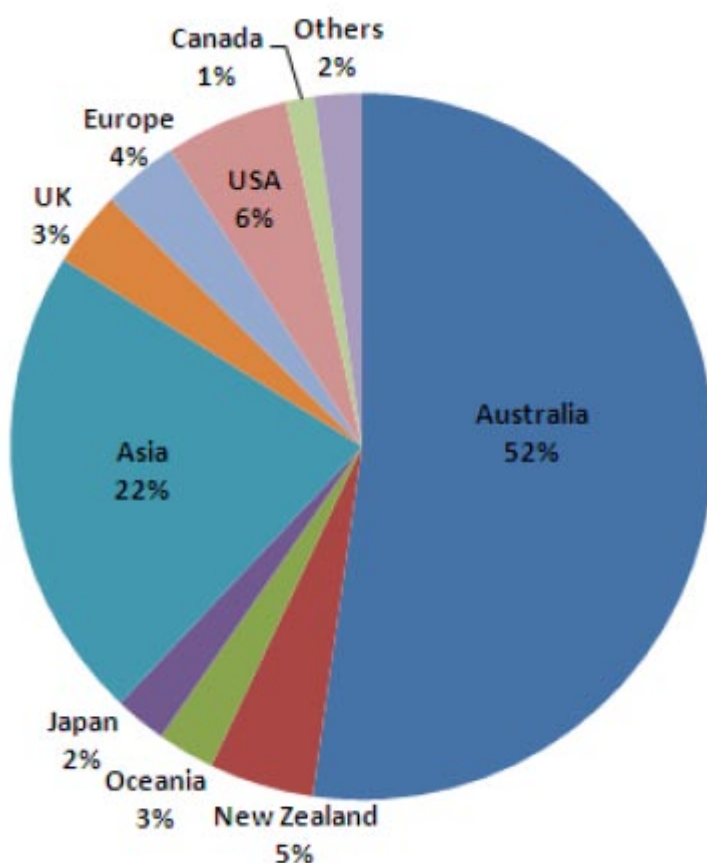
growth in the segment as international cruise ship companies are more likely to return when initial visits are smooth and feedback from visitors is positive.

A visa is required for a passenger to disembark and for short visits many passengers have made a conscious decision to stay on board rather than go through the inconvenience and expense of arranging a visa before leaving home or facing the expense of paying for one onboard. If visa requirements are waived for cruise-ship passengers in future, this could potentially encourage more cruise arrivals.

### 4.3 MAIN SOURCE MARKETS

Of the total 2010 visitor arrivals, 52% were from Australia, followed by the United States (6%), New Zealand (5%) and UK (3%). Australia has become well entrenched as the top source market for Papua New Guinea tourism over the years, largely due to major business and historical links as well as geographical proximity. Major emerging source markets include the Philippines, New Zealand and China. The United Kingdom and Japan, though out of the top five, remain key target markets for Papua New Guinea tourism because of their historical interests in the region.

**Chart 4 Arrivals by Country of Origin 2010**



Source: Papua New Guinea Tourism Promotion Authority

## Australia

The Australian market continues to remain the highest single source market (in all segments) for Papua New Guinea. It accounted for 52% (76,755) of total arrivals in 2010, recording an increase of 16.2 % over 2009 arrivals. Most of the visitors from Australia were visiting on business (69.6%), while 22.2% represented holiday/leisure visits. Both the holiday and business segments of the Australian market recorded increases, with holiday arrivals recording an increase of 4.8% while business increased by 20% over 2009. Drivers of the surge in Australian arrivals include Australian involvement in resource projects, aid and volunteer activities, and increased numbers visiting as a war heritage pilgrimage. The opening of a Papua New Guinea Tourist Promotion Office in Sydney has helped raise the profile of Papua New Guinea as a place to do business and as an exciting leisure destination. Australia is expected to continue being the main source market for Papua New Guinea for both business and leisure travel to Papua New Guinea.

## United States

The second-largest source of arrivals into Papua New Guinea in 2010 is the United States. The American market collectively generated about 8% (10,743) of the aggregate arrivals in 2010, reflecting an increase by 17% from 8,704 arrivals in 2009. Between 2003 and 2009, total arrivals from the US increased by around 88 percent, and in 2009 arrivals from the market declined by 14 per cent, with arrivals being slightly impacted by the financial crisis in the United States. In 2010 arrivals picked up well and recorded an increase of 26 percent after a slow growth in the first quarter. With the positive sign, Papua New Guinea remains well-positioned for growth with good air access and a favourable exchange rate. The TPA Los Angeles Office has been working hard to promote Papua New Guinea under the new brand 'A MILLION DIFFERENT JOURNEYS' in the North American Market. Visitors from the US rate PNG's environment and the activities we have on offer more highly than other markets, showing that PNG's offering as a destination fits well with Americans from our target market. In particular PNG has very strong appeal as a niche destination among North American travellers interested in the outdoors, adventure and culture. Despite being our second largest holiday market, New Papua New Guinea continues to attract only a tiny proportion of US outbound travellers and awareness remains low. In Canada, interest in Papua New Guinea was strong, but has slightly dropped back in the aftermath of the global economic downturn.

## New Zealand

New Zealand became the third largest market in 2010 after Australia and the United States and contributed about 4.5 percent (7,000) of the total arrivals in 2010, which was an increase of 25% compared to 2008. Both the holiday and business segments recorded increase with the holiday showing a significant increase by 1.3% compared to the 2009 holiday arrivals. The holiday market from New Zealand picked up slowly in 2004 and 2005, and in 2006 and 2007, the upward trend continued on a higher note, recording an increase of 34%, while in 2008 the performance continued the upward trend, which show an increase of 12% compared to the 2009 holiday arrivals.

## United Kingdom and Continental Europe

As PNG's fourth largest holiday markets, the United Kingdom and Germany are the key focus of Papua New Guinea Tourism Promotion Authority's international marketing, trade and public relations activity. However, the smaller European markets have shown their resilience over the past months, despite the global economic downturn, and many present good growth opportunities for the Papua New Guinea Tourism Industry. In 2010, visitor arrivals from Europe show an increase of 20 percent, with holiday arrivals posting a growth of 15 percent. The UK and Germany were the major contributing markets.

The collective European markets accounted for 7% percent (10,238) of the total arrivals. United Kingdom represented 49 percent (5,102) of arrivals from the market, Germany generated 15 percent (1,580) and France accounted for 8 percent (830), while the other European markets contributed 28 percent to the total Europe

arrivals. Even though there was a drop of 24 percent in the European markets in 2005 compared to 2004, it picked up exceptionally well in 2005, 2006 and 2007. In 2008, the healthy growth continued with UK, Germany and France recording an increase by 15%, 54% and 7% respectively. In 2009, visitor arrivals from the markets dropped due to the global financial crisis and picked up well in 2010.

## **Japan**

Japan is Papua New Guinea's fifth largest holiday market in 2010, and one of the highest spending markets for Papua New Guinea. Growth in visitor numbers has greatly improved in 2010 after performing poorly in 2009. The healthy growth in 2010 was a result of launching the addition flight by Air Niugini on the PNG/Japan route and the appointment of a new marketing manager for the PNG TPA Japan Office, who is coming up with new marketing initiative to grow the market share for Papua New Guinea. The Japan market recorded an increase of 17% in holiday arrivals, while the business sector also show an increase compared to 2009 arrivals.

## **China**

In the Asian region, China is a potential market for Papua New Guinea and represents 5% of the total arrivals. There was a drop in holiday visitors from the collective Asian market in 2009, but the Chinese market continued to maintain the upward trend that was developed since 2005. As it can be seen from the trend below, the steady growth which started in 2005 is expected to continue in the future due to the signing of the Approved Destination Status (ADS) between PNG and China, and also PNG TPA's future plan to develop marketing strategies in the Chinese market and carry out marketing activities in Chinese language will boost tourist arrivals from the market.

## **Other Asian markets**

The other Asian markets collectively represented 16 percent of the total arrivals (23,677), with an increase of 22 percent compared to the total arrivals in 2009. A higher number of the visitors were age between 30-39 and 40-49 years. Most of the visitors from the Asian markets visited for business and employment reasons. However China and other Asian markets recorded an increase in holiday arrivals in 2010 compared to 2009.

## **5. PAPUA NEW GUINEA INVESTMENT CLIMATE**

### **5.1 GENERAL INVESTMENT REQUIREMENTS**

Papua New Guinea's key business legislation includes the Companies Act 1997, Business Names Act 1963, Business Groups Incorporation Act 1974 and Associations Incorporation Act 1966.

The Companies Office of Papua New Guinea is responsible for the administration of these regulations. The office registers business names and incorporates companies, business groups and associations. It also maintains a national registry of all companies and other corporate bodies operating in Papua New Guinea, which is open to the public for the purpose of conducting searches on corporate bodies and obtaining copies of appropriate forms and other literature.

It is a requirement of the Companies Act that before a company can exist as a legal entity, it must first be registered with the Registrar of Companies. Foreign companies or any company which has foreign shareholding, directorship, management or control must apply for certification within 14 days of registration of the company in Papua New Guinea before conducting business operations.

A company can be registered within 24 hours if all documents are in order, the correct fees have been paid and there is no backlogged queue. Upon incorporation, the company is required to comply with all the requirements of the Companies Act.

A Papua New Guinea-registered company has Papua New Guinea as its place of incorporation and is subject to the laws of Papua New Guinea. A foreign company that is registered in Papua New Guinea but incorporated in a foreign jurisdiction is subject to the laws of that jurisdiction in addition to Papua New Guinea law.

#### **5.1.1 The Investment Promotion Authority**

The Investment Promotion Authority (IPA) is the main governmental regulatory body, point of contact and resource centre for business investors in Papua New Guinea. It was established by an Act of Parliament, the Investment Promotion Act 1992, to promote and facilitate investment in the country. The Companies Office of Papua New Guinea is part of the Business Registration and Regulation Division of the IPA. Below are the roles and functions of the key divisions of the IPA.

##### **Business Investment and Export Promotion Division**

The main functions of this division are as follows:

- To inform the business community about investment opportunities in Papua New Guinea as well as export markets available overseas for Papua New Guinea exports
- To facilitate business introductions through the growing database of domestic and overseas investors.

Companies investigating the investment potential of Papua New Guinea are encouraged to contact this division first to acquire information about the rules and regulations of conducting business in the country, obtain references for relevant business contacts, and receive any other assistance they may require.

##### **Business Information and Facilitation Division**

The primary function of this division is to administer the Investment Promotion Act and Regulation 1992. This includes the certification of foreign investors to conduct business in Papua New Guinea. This division is also responsible for conducting research into trade and investment opportunities in Papua New Guinea for support

work on policy formulation by the Ministry of Trade and Industry. In addition, it collects and disseminates business information to both private and governmental institutions.

The division administers a **one-stop licensing information centre** called the Business Licensing and Information Service (BLIS). It is intended to provide the investor with all the information about licences and approvals necessary for the conduct of business in all sectors of the Papua New Guinea economy.

### **Business Registration and Regulation Division**

The Companies Office, Intellectual Property Office and Securities Commission of Papua New Guinea make up this division.

- The Companies Office of Papua New Guinea is responsible for the administration of Papua New Guinea's key business regulations including the Companies Act governing business registration.
- The Intellectual Property Office of Papua New Guinea (IPOPapua New Guinea) ensures that the sovereign interest of Papua New Guinea and its citizens, as well as the interest of the investor or creator of intellectual property, are protected from unscrupulous exploitation. The IPOPapua New Guinea administers the Trade Marks Act 1978, the Copyright and Neighbouring Rights Act 2000 and the Patents and Industrial Design Act 2000.
- The Securities Commission of Papua New Guinea was established on 2 March, 1998, after the Securities Act 1997 was passed by the National Parliament in 1997. Its primary function is to regulate the establishment of stock markets and practices in the country relating to the offering of shares to the public.

#### **5.1.2 Types of Companies**

The Investment Promotion Act 1992 categorises business enterprises as follows:

**Citizen Enterprise:** An enterprise wholly owned by a Papua New Guinea citizen, including the state.

**National Enterprise:** An enterprise which is 50% or more owned by Papua New Guinea citizens unless the control exercisable in law or by any agreement between the shareholders, or by agreement between the shareholders or the enterprise and a third party, or in practice, is maintained by a person other than a citizen.

**Foreign Enterprise:** An enterprise which is 50% or more owned or controlled by non-citizens.

All forms of enterprise are subject to relevant legislation, such as the Companies Act 1997.

All foreign enterprises must be certified by the IPA prior to carrying on business in Papua New Guinea. Certain business activities are restricted to citizen and national enterprises. A list of reserved activities for citizen enterprises is included in Appendix I. To date, there are no activities reserved solely for national enterprises.

Enterprises carrying on business in Papua New Guinea may be operated by individuals, companies or branches of foreign corporations, trusts, joint ventures or partnerships. While only foreign enterprises need to obtain the IPA's certification, all companies must be registered with the Registrar of Companies Office (under the Business Registration and Regulation Division of the IPA). It is an offence for a company to engage in business in Papua New Guinea without registering with this office.



### 5.1.3 Incorporation of a Company

Any person, either alone or together with another person, may apply for the registration of a company in Papua New Guinea, by completing the following company registration forms, available from the IPA website, [www.ipa.gov.pg](http://www.ipa.gov.pg):

- Form 1 – Application to Register a Company
- Form 2 – Consent of Director of Proposed Company
- Form 3 – Consent of Secretary of Proposed Company
- Form 4 – Consent of Shareholder of Proposed Company
- Form 6 – Application for Reservation of a Company Name

A proposed company must have all of the following:

- A name ending with 'Limited' or 'Ltd'
- One or more shares
- One or more shareholders, and
- One or more directors (a company is not required to appoint a secretary).

#### Company constitution

Under the Companies Act 1997, a company is no longer required to have a memorandum and articles of association. However, a proposed company may opt to have a constitution upon incorporation or at a future date although it is not mandatory to have one.

#### Company names

A name must be reserved before a company can be registered under that name.

A proposed company name, depending on whether it is available for reservation, can be reserved for a period of three months by submitting Form 6 separately, within which the company must be registered by submitting Forms 1, 2, 3 and 4 (for new company incorporations) or Form 7 to change the name of an existing company.

The Registrar will not register a company – nor register a company's change of name – unless the name has been reserved beforehand or an application for reservation of the name is also attached. The Registrar can direct a company to change its registered name if the name is one which, in the opinion of the Registrar, should not have been registered in the first place, for instance, a name that is deemed undesirable, misleading, deceptive or offensive.

#### Overseas incorporated companies

An overseas company can be registered in Papua New Guinea using Form 46 – Application for Registration of an Overseas Company (available for download on the IPA website). The prescribed registration fee of an overseas company is the same as the fee for registering a non-citizen company, K560.

### 5.1.4 Taxes and Duties

Papua New Guinea's income tax laws are contained in the Income Tax Act 1959. The Act is administered by the Commissioner General of Internal Revenue, who heads the Internal Revenue Commission (IRC). The Papua New Guinea tax year is a calendar year running from 1 January to 31 December. All income tax returns are based on that income period unless approval has been obtained from the IRC to adopt a substituted tax year. For

salary or wage earners, who are not generally required to submit income tax returns, the tax period is a fortnight and tax is assessed by reference to the wage income derived in that fortnight. Each fortnightly withholding of tax is effectively deemed an income tax assessment.

### **Taxation of companies**

The worldwide income of resident companies and the Papua New Guinea source income of non-residents are taxed. A resident company is one which is incorporated in Papua New Guinea, or if not incorporated in Papua New Guinea: carries on business in Papua New Guinea and have its management and control located in Papua New Guinea or the majority of its shareholders resident in Papua New Guinea.

Papua New Guinea's tax laws define taxable income not as accounting profit but as 'assessable income less all allowable deductions'. All taxpayers must lodge their tax returns based on a 31 December year-end unless they have approval from the IRC to adopt a substituted balance date. There are differences in the tax rates of resident, non-resident, resident mining, non-resident mining and petroleum companies.

The rates of company tax are:

<b>Resident companies including Unincorporated Associations etc.</b>	
Not engaged in mining, petroleum and gas operations	30%
<b>Primary Production</b>	20%
(if incentive rate applies)	
<b>Authorised Superannuation Funds</b>	20%
<b>Non-resident companies</b>	
(Other than mining, petroleum and gas companies)	48%
<b>Mining companies</b>	
Resident	30%
Non-resident	40%
<b>Petroleum companies</b>	
New petroleum project	45%
(or 30% if an incentive rate applies)	
Existing projects that derived assessable income prior to 1 January 2001	50%
<b>Gas companies</b>	
Resident and non-resident	30%

### **Dividend Withholding Tax**

Whenever a Papua New Guinea resident company (other than a petroleum company) pays a dividend it must deduct a 17% Dividend Withholding Tax (DWT) and remit it to the IRC.

From 1 January, 2001, DWT payable by mining companies was reduced to 10%. Petroleum and Gas Companies are exempt The DWT is legally a tax on the recipient of the dividend. Its subsequent status therefore depends on the status of the recipient, as outlined in the following:

- Non-resident companies, non-resident individuals and resident individuals: The DWT is a final tax on the dividend.
- Resident companies: The DWT may be offset against a liability to deduct this tax when the recipient company pays a dividend itself.

### Taxation of individual income

Resident individuals are taxed on income from all sources (global income). Non-resident individuals are liable for tax only on income derived from sources in Papua New Guinea. The Income Tax Act 1959 defines a resident individual as anyone who has been in Papua New Guinea for more than six months during the year, whether continuously or intermittently, unless the person did not intend to become a resident (the person did not enter Papua New Guinea with the intention of staying for more than six months).

The progressive individual income tax regime is the same for resident and non-resident individuals, but only resident individuals enjoy a tax exemption on the first K7, 000 of their income.

**Table 8 Income Tax Rates for Resident Individuals effective since 1 January 2011**

Taxable income bracket		Tax rate on income in bracket (%)	Total tax on income below bracket (K)
Lower limit	Upper limit		
0	7,000	0	0
7,001	18,000	22	2,420
18,001	33,000	30	6,920
33,001	70,000	35	19,870
70,001	250,000	40	91,870
250,001	No limit	42	No limit

Source: Papua New Guinea Internal Revenue Commission

**Table 9 Income Tax Rates for Non-Resident Individuals effective since 1 January 2011**

Taxable income bracket		Tax rate on income in bracket (%)	Total tax on income below bracket (K)
Lower limit	Upper limit		
0	18,000	22	3,960
18,001	33,000	30	8,460
33,001	70,000	35	21,410
70,001	250,000	40	97,010
250,001	No limit	42	No limit

Source: Papua New Guinea Internal Revenue Commission

Salary or wages received by an employee have tax withheld on a fortnightly basis by the employer. The tax deducted from fortnightly salary and wages is the final tax and no refund is payable even if only one fortnight was worked during the year. As such, salary and wage earners who do not have other income (e.g. dividends, etc.) exceeding K100 do not have to lodge any form of tax returns.

However, if an employee incurred expenses in earning salary or wage income, and the expenses exceed K200 in any fiscal year, the employee may lodge an income tax return to claim a tax rebate calculated at 25% of the extent to which the expenses claimed exceed K200.

For tax purposes, salary or wages includes:

1. Salary, wages, commission, bonuses, remuneration of any kind or allowance (whether paid in case or otherwise) paid (whether at piece-work rates or otherwise) in respect of or in relation to the employment of that person as an employee, or
2. Any remuneration by way of fees or otherwise for professional services or services as an advisor, consultant or manager (whether at piece-work rates or otherwise) where such remuneration is paid wholly or substantially for personal services rendered by that person in Papua New Guinea, and without limiting the generality of the foregoing, including any payment made –
  - under a contract that is wholly or substantially for the labour of the person to whom the payments are made, or
  - by a company by way remuneration to a director of that company, or
  - by way of superannuation, pension, or retiring allowances, or
  - by way of commission to an insurance or time-payment canvasser or collector,
  - but does not include payments of exempt income.

### **Other taxes and duties**

Any business employing one or more employees in Papua New Guinea paid more than K110 per week must register as a 'group employer' with the Internal Revenue Commission.

The employer is provided with tax deduction schedules and remittance forms and is required to deduct the correct tax from his or her employees' wages and to remit it monthly to the Internal Revenue Commission. Employers liable for training levies must comply with the levy requirements described under the Training Levy Section.

#### *Training levy*

As of 1 January 2001, all employers whose annual payroll exceeds K200,000 are subject to a 2% training levy calculated on the annual payroll payable by each employer. Any qualifying expenses incurred by the employer shall reduce the amount of training levy payable. Training levy is not payable by any employer whose payroll in a year of income is less than K200,000.

#### *Compulsory payments to the National Provident Fund*

An employer of 20 or more people must be register with the National Provident Fund, unless operating in an exempt industry (currently certain agricultural sectors). Membership is compulsory for Papua New Guinea citizens who work for more than 59 days in any three-month period and voluntary for non-citizens. The employer – at the following rates as a percentage of gross basic salary (excluding overtime, bonuses and allowances) – deducts contributions:

- Employees: 5% (plus voluntary contributions up to 10% maximum).
- Employer: 7 % contribution (tax-deductible and non-refundable).

#### *Goods and Services Tax (GST)*

A 10% Goods and Services Tax (GST) is added to the selling price of goods sold by a business. A business or individual whose annual turnover exceeds or is likely to exceed K100,000 per annum must register for GST.

A registered business may claim as an input tax credit the GST it has paid on the purchase of supplies and services for use within the business (not personal goods or services consumed). The input tax credit will be deducted from the output tax (GST on sales collected) and the difference will result in a payment to the IRC or a refund if expenses exceed income for the month. An unregistered business cannot claim back any GST paid on its purchases.

### 5.1.5 General Investment Incentives

Investors exploring business opportunities in Papua New Guinea have available to them a range of direct and indirect taxation-based incentives. Certain international treaties, agreements and pacts give products manufactured in Papua New Guinea preferential access to various export markets, including duty-free and reduced-tariff entry to some of the largest markets in the world. For example, the Cotonou Agreement signed on 23 June 2000 grants such access for Papua New Guinea's goods to the European Union (EU), an arrangement which adds incentives for investment in downstream processing and service sectors.

#### Tax incentives

The Internal Revenue Commission (IRC) administers a number of different tax incentives. Most of these are available to any businessperson and take the form of exemptions from company income tax or deferment of income tax liabilities.

The incentives that involve some form of exemption from company income tax include:

- Export income exemption
- Rural development incentive
- Double deduction for export market development costs
- Staff training double deduction

In addition to aiding investment, these incentives have the effect of addressing a number of different objectives including export promotion, employment growth, aiding the development of new industries and influencing the spatial distribution of economic activity in favour of the less-developed areas of the country.

#### *Exemption of Income from Sale of Exports*

This incentive allows income from export sales of qualifying goods to be exempted from company tax for the first for three years. For the following four years, an exemption is provided for that portion of export sales income that exceeds the average over the preceding three years.

#### *Rural development incentive*

This scheme was designed to allow income tax exemption on the net income of new businesses set up in specifically designated, underdeveloped areas that are not dependent on the exploitation of natural resources. It provides tax exemption to businesses in a rural development industry for up to 10 years after the first year of commencement of business. Losses arising from the newly exempt activities are deductible against taxable income from other activities.

#### *Double deduction for export market development costs*

This scheme applies to expenditures on export market development for goods manufactured in Papua New Guinea. These expenditures qualify for double deduction, provided the tax savings are less than 75% of the cost of the expenditures. Expenditures which qualify include overseas publicity, sample provisions, market research, trade fair expenses, preparation of tenders, certain travel expenses, technical information, provision expenses, sales office and expenses incurred in bringing buyers to PAPUA NEW GUINEA. Reimbursements are not included.

### *Double deduction for staff training costs*

Double deduction is allowed to companies who sponsor their citizen staff to undertake full time professional training at a Government Training Institute or at a prescribed tertiary place of education. Double deduction is also provided on salary and wages of full time training officers, who are not engaged directly in derivation of assessable income, and of bona fide registered apprentices.

Since 1 January 2007, a double deduction is also available for all tourism staff training costs.

### *Depreciation and other incentives*

The incentives that involve a deferment of tax liability are the provisions that relate to the tax treatment of depreciation and include:

- An initial-year accelerated depreciation provision
- Flexible depreciation for agriculture and fishing
- Additional depreciation on industrial plant facilities
- A solar heating deduction
- A depreciation allowance for improvements made to existing plants for the purposes of fuel conservation
- A depreciation allowance for the cost of conversion of existing oil-fuelled plants into non oil-fuelled plants
- A depreciation allowance for the acquisition of non oil-fuelled plants.

Other current incentives include:

- Wage subsidies for new manufactured products
- Training levies (aimed at promoting employment)
- A deduction of capital expenses by primary industry
- Concessional tax rate for new or substantially improved large-scale tourist accommodation facility (detailed in Section 5.4 Incentives for Tourism Investments)

## **Double tax treaties**

Papua New Guinea imposes withholding taxes on various types of income (such as interest or management fees) which are earned in Papua New Guinea by non-residents. In addition, the Papua New Guinea Internal Revenue Commission taxes business income of non-residents at a higher tax rate than the lower rate paid by Papua New Guinea residents. For instance, when a royalty is paid by a resident to an overseas recipient, it is subject to a withholding tax of varying rates depending on how the royalty is paid. These rates may be modified by double tax treaties.

The aim of the Double Tax Agreement is to avoid imposing double taxation on the taxpayers of both countries on the same income. At the same time, it allows a tax credit to the other country's taxpayer when taxes are paid in the treaty partner country. This is to prevent discrimination between taxpayers operating in both countries and to provide a reasonable element of legal and fiscal certainty.

Papua New Guinea has double tax treaties with Australia, Canada, China, Fiji, Germany, Malaysia, Singapore, South Korea and the United Kingdom. Currently, double taxation agreements are under consideration with the Philippines and Solomon Islands.

## **5.2 LEGISLATION ON LABOUR AND EMPLOYMENT**

Employment relations in Papua New Guinea are governed by the *Employment Act 1978* and the *Employment of Non-citizens Act 2007*, which are mandates of the Papua New Guinea Department of Labour and Industrial Relations (DLIR). The *Employment of Non-citizens Act 2007* and *Employment of Non-citizens Regulation 2008* came into operation on 1 January 2009, with the purpose of providing a balance between the needs of the economy for foreign labour and the employment aspirations of Papua New Guineans by:

- (a) assisting business to attract and retain the services of qualified, skilled and experienced non-citizens without unnecessary impediments; and
- (b) promoting a work permit system that contributes to the creation of employment, training and skills-acquisition opportunities for all Papua New Guineans.

The Employment of Non-citizens Act 2007 and Employment of Non-citizens Regulation 2008 can be downloaded from [www.paclii.org](http://www.paclii.org).

## 5.2.1 Residency and Employment Visas

Employment and multiple-entry business visas must be obtained from Papua New Guinea missions and posts abroad, with prior approval from the Department of Foreign Affairs and Trade. Nationals of various countries (including Australia, New Zealand, EU, US and Canada) can obtain multiple-entry business visas on arrival.

The Department of Foreign Affairs and Trade will not issue residency or employment visas:

- to foreign company directors or shareholders unless they can produce an IPA certificate in the name of the company concerned, or
- to foreign owners of a business unless they can produce an IPA certificate in their own name, and
- that they can produce proof of the registration of a company or business name, as the case may be.

If a foreign individual trading in his/her own right applies for a residency or employment visa, he/she should supply a certified copy of the Business Name Certificate and the application form.

The obligation to satisfy the Department of Foreign Affairs requirements rests with the applicant for the visa. Applicants who cannot supply the necessary details will not be issued a visa.

## 5.2.2 Work

## Permits

All non-citizens who seek employment in the private sector in Papua New Guinea must possess a valid work permit granted by the Department of Labour and Industrial Relations before they can commence employment.

### Work Permit Guidelines

The Department of Labour and Industrial Relations has issued two (2) Work Permit Guidelines – *A General Guide to the Foreign Employment System in Papua New Guinea* and *Guide to the Foreign Employment Industrial Divisions and Classification of Occupations* –in accordance with Section 55 of the Employment of Non-citizens Act 2007. These documents contain all the requirements of the work permit system in Papua New Guinea and can be purchased at K25 each from the Department of Labour and Industrial Relations Head Office, Level 9, Pacific Place, Port Moresby, Papua New Guinea, or downloaded for free from [www.workpermits.gov.pg](http://www.workpermits.gov.pg).

### Work Permit Application Fees

The various fees charged under the Act are contained in Schedule 7 to the Regulation. Fees must be paid by way of a bank cheque made out to the Department of Labour and Industrial Relations. You must retain the receipt as proof of payment. Payment will be taken to be made only when the cheque is honoured on presentation.

At the time of publication of these Guidelines, the fees are as follows:

Application for General Work Permit	K1000.00 for each year of work permit
Application for Volunteer Work Permit	K100.00 for each year of work permit
Application for Bridging Work Permit	K100.00
Application for General Short Term Work Permit	K500.00
Application for Volunteer Short Term Work Permit	K50.00
Application for Renewal of General Work Permit	K1000.00 for each year of work permit
Application for Renewal of Volunteer Work Permit	K100.00 for each year of work permit
Duplicate Work Permit	K100.00 for each copy
Duplicate Work Permit Card	K100.00 for each copy
Lodging an Appeal	K50.00
Copy of the Employment of Non-citizens Guidelines	K25.00 for each copy

## Business Visas

Employment is strictly prohibited for those who enter Papua New Guinea on business visas, tourist visas or any other visa types except for employment visas.

Non-citizen consultants who provide consultancy services to organisations in Papua New Guinea must also possess a valid work permit.

## Penalty

It is an offence to work in Papua New Guinea without a valid work permit. An employer who employs a non-citizen without a valid work permit can be fined up to K20, 000. A non-citizen employee who is employed without a valid work permit can be fined up to K10, 000.

## Training Report for Renewal for Work Permit Applications

Under the Employment of Non-citizens Act, employers are required to provide appropriate evidence of training and human resource development provided to their Papua New Guinean workers as part of an application to renew a work permit. Employers must submit a training report detailing the scope of national citizen workers up-skilling and training, capacity building and general staff development undertaken over the previous one to two years. This is to encourage non-citizens to transfer skills and know-how to their Papua New Guinea counterparts. Without an appropriate and detailed training report as outlined in Section 26 of the Act, the work permit renewal will be refused.

For more information on work permit requirements, log on to [www.workpermits.gov.pg](http://www.workpermits.gov.pg). For queries on work permit issues, contact [enquiries@workpermits.gov.pg](mailto:enquiries@workpermits.gov.pg), telephone +675 325 2911 or fax +675 325 6655.

## 5.2.3 Wages

The national minimum wage is set by the Minimum Wages Board, which was first set up in 1972. In 1992, the Minimum Wages Board revamped the wage system as a precondition to stimulate growth in investment and employment opportunities. The landmark wages policy in Papua New Guinea facilitated deregulation of all wages above the minimum and set a uniform minimum wage for all new employees throughout the country.



As of 2009, the national minimum wage for all new employees irrespective of location is K22.96 per week. The national minimum youth wage for all new entrants to wage employment who are both unskilled and under 21 years of age is K17.22 per week, which is 75% of the national minimum.

## **5.3 REGULATIONS FOR FOREIGN COMPANIES**

### **5.3.1 Registration and Certification**

All foreign enterprises wishing to conduct business in Papua New Guinea must apply for a formal IPA certificate. Section 28 of the Investment Promotion Act stipulates the requirements for application. The IPA Certification Unit accepts applications for certification by foreign enterprises, processes them and makes recommendations to the Board for the Investment Promotion Authority (“Board”) for approval. It is crucial to note that the certification of foreign enterprises by the IPA does not relieve a company of meeting the requirements of other agencies nor does it override their approvals.

To obtain certification, a foreign enterprise must first register under the Companies Act 1997, which is administered by the Business Registration and Regulation Division (BRRD) of the IPA.

A foreign company has two options when registering with the IPA:

1. It may incorporate a new company in Papua New Guinea. The relevant forms to complete are Forms 1, 2, 3, 4 and 6. The lodgement fee is K560. (Refer to Section 5.1.3: Incorporation of a Company.)
2. It may register as an overseas company under the Companies Act 1997. For this option, an overseas company that commences business in Papua New Guinea must apply for registration within one month of commencing operations. The prescribed application form is Form 46 – Application for Registration of Overseas Company. The form must be signed by or on behalf of the overseas company, and accompanied by all required documents and a fee of K560 payable to the Registrar on lodgement.

#### **Certification**

All foreign companies incorporated or registered under the Companies Act 1997 must apply within 14 days for certification under the Investment Promotion Act 1992. The prescribed form is Form 3 - Application for Certification by a Foreign Enterprise, and the prescribed fee is K2,000 payable by bank cheque to the Investment Promotion Authority.

The IPA is required to make a decision on a complete and correct application within 35 working days. Upon approval, a formal IPA Certificate will be issued displaying the name of the foreign enterprise, the nature of business activity, the principal location of business and other terms and conditions of certification.

### **5.3.2 Foreign Exchange Control**

The foreign exchange controls in Papua New Guinea are derived from the Central Banking (Foreign Exchange and Gold) Regulations, which have been in place in Papua New Guinea since prior to independence in 1975.

Exchange controls were designed to support the balance of payments and to manage the foreign exchange reserves under the fixed exchange rate regime that was adopted by Papua New Guinea.

In implementing the exchange controls, only *bona fide* Kina and foreign exchange and gold transactions between residents and non-residents are approved. Most of the exchange controls were liberalised on 1 June, 2005.

The Exchange Control Department (ECD) of the Bank of Papua New Guinea (the Central Bank) administers and enforces the exchange controls. In regulating and monitoring the foreign exchange transactions, the Central Bank conducts thorough assessments of applications for remittance of funds or any transactions, dealings or matters that will have an implication on foreign exchange, before the exchange control approval is granted.

### **Authorised dealers**

To assist in the administration of the exchange controls, the Central Bank has licensed the following commercial banks operating in Papua New Guinea as authorised dealers in foreign exchange:

- Australia and New Zealand Banking Group (Papua New Guinea) Ltd
- Bank South Pacific Ltd
- Westpac Bank (Papua New Guinea) Ltd
- Maybank (Papua New Guinea) Ltd

Applications for remittance of foreign exchange or Kina overseas should be made using the Central Bank-issued Balance of Payment Forms (BOP Forms) and submitted to an authorised dealer who can verify and endorse the foreign exchange remittance, except where an exchange control approval is required from the Central Bank.

Exchange control approval is not required to open and operate a foreign currency account with an authorised dealer in Papua New Guinea. Authorised dealers can also verify and endorse all types of current remittances overseas either in foreign currency or Kina. The Exchange Control Department's approval is not required. Any amount of foreign currency or Kina can be remitted overseas or received from overseas without limit.

However, prior exchange control approval of the Central Bank must be obtained in the following circumstances:

- when taking physical cash in notes and coins in excess of K20,000 (or foreign currency equivalent) out of Papua New Guinea
- when opening for operation either a Kina or a foreign currency account outside Papua New Guinea
- in order to obtain a written guarantee (the Guarantee Contract) to acquire or deal with an asset within or outside Papua New Guinea, or to undertake any other transaction in favour of (or on behalf of) non-residents
- in order to obtain a written contract in foreign currency between resident individuals and/or entities in Papua New Guinea. The settlement of the contract must be done in Kina, regardless of whether the resident parties operate foreign currency accounts within or outside Papua New Guinea.

### **Taxation surveillance**

Section 81 of the Central Banking Act 2000 and Division 2 of Part IX of the Income Tax Act 1959 form the legal basis for taxation surveillance by the Central Bank. As of 1 June, 2005, taxation surveillance was transferred to the authorised dealers, who assist in the taxation surveillance.

The following transactions require an original Tax Clearance Certificate (TCC):

- A transfer of funds in which those funds have the nature of capital in the hands of the person in Papua New Guinea from whom it is being transferred
- A transfer of funds as a result of borrowing or lending money or the assignment of a debt

- A transfer of funds resulting from the sale, purchase (including the option to purchase), acquisition or disposition of securities, land or other property, including the transfer of shares of a Papua New Guinea register
- A transfer of funds which constitutes a royalty (as defined in Section 4 of the Income Tax Act 1959), licence or management fee or similar payment
- A transfer of funds into a trust fund created or established in a place domiciled outside of Papua New Guinea
- A transfer of funds arising from the declaration of any dividend to a person (or group of persons) who is in, or is a resident of, a place outside of Papua New Guinea
- A transfer of funds under a court order to a person who is in, or is a resident of, a place outside of Papua New Guinea
- A transfer of funds which constitute interest on a loan to a person who is in, or is a resident of, a place outside of Papua New Guinea
- A transfer of funds which are not trade-related involving the physical movement of goods.

An original TCC is required prior to the transfer of funds (as transactions detailed above) to the following countries: the Bahamas, Bermuda, the British Channel Islands, the British Virgin Islands, the Cook Islands, Gibraltar, Grenada, Hong Kong, the Isle of Man, Liberia, Liechtenstein, Luxembourg, Nauru, Netherlands Antilles, Norfolk Island, Panama, the Solomon Islands, Switzerland, Tonga and Vanuatu.

For all other countries, an original TCC is only required prior to a transfer of funds in excess of K50,000 (or its foreign currency equivalent), if one of the transactions listed above.

Detailed information and guidance can be obtained by contacting the Central Bank at [www.bankpng.gov.pg](http://www.bankpng.gov.pg) or by contacting authorised commercial banks.

## 6. LAND DEALINGS AND IMPLICATIONS FOR INVESTORS

In Papua New Guinea legitimate land ownership is vested with the people of Papua New Guinea and mainly governed by traditional laws. This customary land ownership system in Papua New Guinea is of immense importance to the country's people. Customary land tenure recognises the traditional users and their personal and clan arrangements for land use; these vary considerably throughout the country and are largely undocumented. As a general rule, however, the systems of customary ownership give all members of a family or clan access to land. About 97% of the total land area remains in the hands of customary landowners.

The remaining 3% is alienated land which has been acquired from customary landowners by the government, either for its own use or private development requiring a mortgage or other forms of guarantees. The stock of alienated land is estimated at 600,000 hectares (about 3% of the total land area). Of this, only 30,000 hectares is freehold and 60,000 hectares for public purposes. About 200,000 hectares are leased to the private sector. Most alienated land is in urban areas or on plantations.

To encourage investment, the PNG government through the MTDP has sort to unlocking land for investment. Industrial centres have been established by the government to provide easier and more accessible areas for businesses to operate. To assist investors, in particular those in export-oriented businesses, the government has implemented the Free Trade Zone Act No.18 from 2000 granting free access to land in the Free Trade Zone areas as well as other export enticements. Land taxes are imposed by a number of provincial governments on state land at fairly nominal levels. There is no capital gains tax in Papua New Guinea.

A foreign company wanting to use land that is in customary ownership may negotiate directly with the local landowners. However, under the Land Act 1996, a person shall not, without the approval of the Minister for Lands and Physical Planning:

- transfer land
- give a mortgage or encumbrance over land
- grant a lease, easement, right, power or privilege of, over, in or in connection with, land.

Until ministerial approval is obtained, any dealing of the type referred to above is null and void.

### 6.1.1 Investment Protection and Guarantees

Foreign investment in Papua New Guinea is facilitated, regulated and monitored by the Investment Promotion Act and is subject to guarantees under the Multilateral Investment Guarantee Agency and other international agreements.

#### *Investment Promotion Act*

Section 37 of the Act guarantees that the property of a foreign investor shall not be nationalised or expropriated except in accordance with law, for a public purpose defined by law and with payment of compensation as defined by law.

#### *Multilateral Investment Guarantee Agency*

The Multilateral Investment Guarantee Agency's (MIGA) principal responsibility is the promotion of investment for economic development in its member countries through:

- guarantees to foreign investors against losses caused by non-commercial risks, and
- advisory and consultative services to member countries to assist them in creating a responsive investment climate and information base to guide and encourage capital flow.

### *APEC and WTO*

Papua New Guinea is a member of the Asia-Pacific Economic Cooperation (APEC) and the World Trade Organisation (WTO), and therefore party to a number of agreements and understandings related to trade and investment liberalisation.

### *International Centre for Settlement of Investment Disputes*

Section 39 of the Investment Promotion Authority Act seeks to encourage greater flow of international investment by providing facilities for the conciliation and arbitration of disputes between the government and foreign investors.

### *Other agreements*

Separate investment protection agreements have been entered into by Papua New Guinea with several individual countries, notably Australia and Malaysia. The Department of Foreign Affairs has more information on the bilateral and multilateral agreements into which Papua New Guinea has entered and which any interested investor can reference.

## **6.2 INCENTIVES FOR TOURISM INVESTMENT**

The Papua New Guinea government has targeted tourism as a priority area for the economic development of the country and for the creation of both rural and urban employment opportunities. The national government's Medium Term Development Strategy (MTDS) has called for tourism to be a significant driver of the economy. The MTDS supports the use of fiscal policy tools to promote Papua New Guinea's tourism industry, particularly the extension of existing tax concessions to the industry, provided a comprehensive appraisal of these incentives is conducted to make sure that the increased benefits from tourism are outweighing the costs of reduced tax revenue from tourism operators.

The development and expansion of tourism in Papua New Guinea is spearheaded by the Papua New Guinea Tourism Promotion Authority, with the support of government agencies and industry partners such as the Investment Promotion Authority, Internal Revenue Commission and Papua New Guinea Tourism Industry Association.

### **Tax incentives**

The Internal Revenue Commission (IRC) administers a number of different tax incentives. Most of these are available to any businessperson and take the form of exemptions from company income tax or the deferment of income tax liabilities discussed under Section 5.1.5 of this report. This guide gives a snapshot on available tax incentives specifically for the tourism sector.

There are two types of tax incentives available for the tourism industry. They are:

1. Double tax deduction
2. Accelerated depreciation

Double tax deduction applies to tourism operators promoting services in overseas markets, while accelerated depreciation applies to capital investments in hotels, restaurants and other big investments.

#### **1. Double tax deductions**

The deduction offered under this incentive is an expense incurred by the taxpayer that can be offset against his or her assessable income and, therefore, reduces overall taxable income. When an expense qualifies for double deduction under the Income Tax Act, it means that, first, the amount of that expense will be deducted from the

assessable income and, second, that the taxable income will be further reduced by the same amount, allowing additional and significant tax savings. Double deduction, therefore, directly diminishes the amount of tax payable and will act as a 'subsidy' to tourism operators promoting their services in overseas markets. The tax savings arising from the double deduction should, however, not be confused with either cash subsidies or cash reimbursements.

#### *Double tax deductions for export market development costs*

The following are examples of some of the expenses incurred by tourism industry operators that qualify for double deduction, including all overseas marketing and promotional costs:

- Publicity and advertisements in any media outside Papua New Guinea
- Expenses incurred in the provision of samples, including the cost of delivering the samples outside of Papua New Guinea
- Market research costs
- Costs of preparation of business tenders for supply of goods outside of Papua New Guinea
- Travel fares (costs) to a country outside of Papua New Guinea, necessarily undertaken for the purpose of negotiating or concluding contracts for the sale of goods on behalf of the company or for the purposes of participating in trade fairs, industrial exhibitions or tourism fairs, and actual expenses – subject to a maximum of K400 per day – for accommodation and sustenance
- Costs related to provision of tourism-related fairs and expositions
- Expenses for services rendered for public relations work connected with tourism
- Expenses for the cost of maintaining sales offices overseas for the promotion of tourism within Papua New Guinea
- Expenses incurred by local tourism operators which are directly attributable to costs incurred in bringing travel agents or other tourism-related sales representatives to Papua New Guinea for the purpose of promoting tourism within Papua New Guinea.

#### *Double deduction for tourism staff training costs*

This incentive is designed to boost the proficiency of staff engaged directly in the promotion of tourism within Papua New Guinea. It is designed to do so by giving a double deduction for the costs of relevant training courses provided (including course enrolment and associated costs but excluding salary and wages).

This incentive is not restricted to citizens of Papua New Guinea alone. In administering this provision, IRC proposes to broadly adapt certain of the criteria (but not all) which are applied for training levy purposes. Accordingly, the following types of training courses would qualify:

- training provided at a government training institution, a recognised university or a prescribed place of tertiary training
- training through an approved business training course – these have to be approved by the IRC and are expected to be formal training courses conducted in a classroom or workshop environment (although correspondence courses will also be considered)
- 'on-the-job' training will also be considered, but only where conducted in a structured and classroom-type environment.

All such training would need to be immediately relevant to core tourism functions, but can be conducted within Papua New Guinea or overseas.

The limitation applicable is that the tax savings resulting from the allowance of the double deduction cannot exceed 75% of the cost actually incurred.

## 2. Accelerated depreciation

This tax incentive is extended to the tourism industry mostly in the areas of capital investments. It has been available to many sectors and has recently been extended to the tourism industry in the Income Tax (2006 Budget Amendment) Act 2005 for hotels, restaurants and recreational tourism facilities (such as sport fishing).

### *Increased accelerated depreciation*

Increased initial-year depreciation of 55% is available on 'eligible property' of tourism businesses falling within the International Standard Industrial Classification of All Economic Activities (ISIC) code for hotels, camping sites and other commercial accommodation and that for restaurants, bars and canteens.

The term 'eligible property' in the context of the tourism industry essentially means new items of plant or capital equipment with an effective life of more than five years.

Under this incentive, qualifying capital items can be depreciated by up to 70% in the year of acquisition and fully depreciated after four years. Consider the example of an ecotourism or dive resort which purchases a new backup generator at the start of 2007. In that year it can elect, under Section 75 of the Income Tax Act, to use the diminishing value depreciation rate of 15%. They may then add the additional 55% depreciation available under this incentive, which produces a total allowable depreciation claim of 70% that year.

The resort could then exercise the option to revert to the prime cost or straight line rate of 10% for succeeding years. That election, under Section 76 of the Act, would have had to be made in writing on the 2008 income tax return. With an allowable depreciation claim of 10% of the original cost each year, the generator is then fully depreciated by the end of the 2010 income year.

For all tourism operators who intend to take advantage of this incentive, it is important that they clearly identify such claims to IRC in the depreciation schedule lodged with their income tax return for the relevant year.

## Concessions

Furthermore, there are several tax concessions available to tourism investors, including the following:

1. Concessional 20% tax rate for large-scale tourist accommodation facilities
2. Prescribed infrastructure tax credit of 1.5%

### *Concessional 20% tax rate for large-scale tourist accommodation facilities*

This special tax rate represents a reduction by one-third of the normal company tax rate of 30%. It applies in the initial year when income is first derived from the new facility and then for the following nine years.

This measure is designed to benefit taxpayers who build new large-scale tourist accommodation facilities in Papua New Guinea or who improve existing (smaller) such facilities to the point that they become large-scale undertakings. Importantly, only facilities which satisfy the definitional terms will be considered here.

Based on the 2009 national budget, new or substantially improved accommodation facilities qualify for the 20% concessional tax rate if they satisfy the following:

- begin construction between January 2007 and December 2021
- involve expenditures of at least US\$7 million
- upon completion provide at least 100 rooms for the purposes of temporary accommodation for people.

Also, to be eligible for consideration as a 'qualifying taxpayer', businesses must:

- ‘derive all of their income solely from the operation of’ the relevant new or newly improved large-scale tourist accommodation facility
- be registered with the IRC before being able to access this reduced tax rate.

There are certain practical effects that flow from these limitations, which will be specifically addressed at the time of registration with the IRC. One example is in relation to owners of existing tourism or other business operations who wish to build a new large-scale facility. To qualify for the 20% tax rate, they will need to set the new venture up as a separate legal (corporate) entity, otherwise all their income would not be derived from the large-scale facility.

The IRC proposes a commercial realistic approach to determine what constitutes income ‘solely from the operation of’ such tourist accommodation facilities. For example, a large-scale tourism facility would normally be expected to have a range of facilities as an integral or ancillary part of its temporary accommodation business. These could include a bar, restaurant, poker machine, boutique, gift shop, other entertainment and conference facilities. It is likely that all such income will be considered as being solely from such tourist accommodation facility operations.

One the other hand, where a taxpayer undertaking is too distinctly different from its core operations and can be clearly differentiated from a primary function of providing temporary accommodation, then the condition for income source would be breached.

It is also important to note that this concession rate only applies in cases in which the accommodation to be provided is ‘temporary’ in nature, as one would expect is appropriate to the needs of a genuine tourist. The measure is not designed to give relief to long-term rental undertakings, for which the prevailing market conditions in Papua New Guinea already provide quite a profitable outcome for business.

As a general guide, only when accommodation is available to the same person for a continuous period not exceeding three months will the IRC consider it ‘temporary’ in nature. Tourism operators who believe they have a genuine case for consideration outside of this period are advised to seek separate approval from the IRC.

Prospective applicants under this concession should be aware that commercial reality and arms-length principles will also be applied by the IRC in considering the incorporation and structure of entities which propose large-scale tourist accommodation facilities. Accordingly, transactions or arrangements which appear contrived or artificial when contrasted with normal third-party business dealings would be immediately disqualified.

#### *Prescribed infrastructure tax credit of 1.5%*

Taxpayers who qualify and are registered for the large-scale tourist accommodation facility rate – that is, the 20% concession tax rate – will also be eligible for this concession.

The prescribed infrastructure tax credit regime provides that taxpayer expenditures on prescribed infrastructure developments will count as tax credits toward their income tax liabilities. For qualifying tourism operators, that credit is limited to a maximum of 1.5% of assessable income derived in the relevant year.

There are certain other conditions associated with the operation of the section 219C provisions, which potential claimants should explore further with the IRC or their own taxation advisers. One notable requirement is that such infrastructure projects are only ‘prescribed’ in cases in which they have prior approval from the Department of National Monitoring and Planning.

Other additional incentives available to the tourism sector (details in Appendix II) include the following:

- Zero-rating custom tariff duties on products imported by the tourism sector
- Zero-rating duties on products imported by the tourism sector or consumed by tourists



- Zero-rated airfares
- Duty-free shops
- GST-free shopping from retailers
- Tax-free importation of goods by tourists
- GST-exempt status for any purchase made by foreign tourists prior to their arrival to Papua New Guinea
- Tax concessions for ship stores and aircraft stores
- Special concessions for boats imported by visiting yacht owners
- Special concessions for cruise vessels and charter flights

## 7. INVESTMENT OPPORTUNITIES IN PAPUA NEW GUINEA TOURISM

### 7.1 ANALYSIS OF KEY TRENDS AND DEVELOPMENTS IN PAPUA NEW GUINEA TOURISM INDUSTRY

In this section, we will seek to provide an analysis of the recent developments, trends and current outlook for five main areas of tourism development in Papua New Guinea:

- Hospitality
- Transport
- Food and beverages
- Tourist attractions
- Travel retail services and infrastructure

#### 7.1.1 Hospitality

##### *Recent Developments*

- Recent developments in tourism hospitality included refurbishment and expansion of several well known Port Moresby hotels. The Airways Hotel is adding 63 new suites and providing retail space, a day spa, coffee shops and conference facilities. The Gateway Hotel and the Ela Beach hotel have indicated plans for expansion and refurbishment in 2009-2010 and more than US\$50 million has already been invested in upgrading the Holiday Inn and Crowne Plaza hotels.
- An upsurge in business tourists requiring accommodation in Port Moresby has meant good quality hotel rooms are often in short supply. Several new hotels are in the wind to ease this shortage including a luxury hotel planned by the Kumul Group which owns the existing Crowne Plaza and Holiday Inn complexes. The Coral Seas Hotel Group, which operates the largest chain of hotels in Papua New Guinea, has a 12-storey complex under construction in Port Moresby to add to Coral Seas' growing chain. Coral Seas' new complex on Mary Street combines residential and short-term apartment accommodation. The combination of short- and long-term accommodation is also favoured by the developers of the Kingfisher Apartments and Reef Apartments.
- Extra rooms provided by refurbishments, extensions and new developments underway in 2009 are expected to be available in 2010. Although easing the accommodation shortfall, these are unlikely to fully satisfy the growing demand for high-standard accommodation in the country's capital.

The capital city is not alone in attracting new hotel developments. Major cities like Madang, Kokopo and Lae also have new hotels under construction or existing ones undergoing expansion to add new rooms and apartments in 2009.

##### *Trends*

- An upsurge of interest in apartment-style accommodation has been evident in Port Moresby. New serviced and unserviced apartments are coming on stream and, although advertised for short- or long-term stays, apartments are likely to be snapped up by foreign companies on medium- or long-term rental arrangements to ensure ongoing availability of comfortable, high-standard accommodation for employees and advisers visiting on business.

- As personal safety is a concern for many visitors in Port Moresby, security within tourist accommodation is an important consideration. Tourists are demanding accommodation that is well protected and secure. Hotels that provide safe, comfortable airport transfers are also preferred.
- Hospitality providers and tourism advisers in Port Moresby and Madang have noticed an increasing need for hotels with associated conference facilities. Although this is mainly driven by private sector and Papua New Guinea government sectors requiring conference facilities, organisers of conferences within the Pacific region are increasingly choosing Papua New Guinea as a destination. This may partially be due to improved access to conference facilities, such as those available in Madang and Port Moresby, and partially due to the political climate within the Pacific region.
- Ecotourism has become a buzz word in Papua New Guinea. With world-class biodiversity on offer and ecotourism now a worldwide trend, the development of ecotourism resorts has added yet another dimension to Papua New Guinea's tourist offerings. Well equipped, comfortable eco-resorts have emerged in the provinces to suit the needs of wealthy environmentally conscious tourists of all ages. Ambua Lodge, situated in the Southern Highlands at an altitude of 2,100 metres, was a pioneer of ecotourism in Papua New Guinea, receiving the Pacific Asia Travel Association's Pacific Heritage Award in 1991 as a 'superb example of culturally sensitive and ecologically responsible tourism'. Nearly two decades later, ecotourism resorts can be found dotted throughout the provinces. It is important that ecotourism resorts are monitored to ensure authenticity so as to preserve the excellent reputation of those following strict ecotourism protocols.
- Special-interest resorts are a phenomenon in Papua New Guinea. These resorts are a one-stop holiday destination, enabling the visitor to enjoy a particular activity such as diving, fishing or trekking, using the resort as a base. Visitors meet like-minded enthusiasts and enjoy relaxing back at the resort together in the evenings.
- Within provincial centres and towns there is a rapidly increasing trend toward segmentation in relation to accommodation requirements. Older and middle-aged travellers on tours expect upmarket accommodation, luxurious rooms and excellent service. Independent travellers who visit Papua New Guinea primarily to see the natural environment and village cultures often request modest accommodation where observation and even participation in village life is a possibility.
- Not all adventure tourists want to stay in luxury accommodation. Increasing numbers of adventure tourists prefer to economise on accommodation in favour of significant spending on activities such as diving and hiring guides to access remote areas.
- Budget accommodation is expected to be friendly and clean. Intense competition for the backpacker dollar in nearby Asian and Pacific nations has taught backpackers that even the most basic of accommodation can be clean, comfortable and welcoming.

### *Outlook*

- All indications point to increased need for hotel beds in Port Moresby throughout the forecast period. Business tourist numbers are trending up and with the massive PNG LNG project, business arrivals could grow at a faster rate.
- Significant tax incentives announced in the 2007 national budget and modified in 2009 aim to attract large-scale investment in tourist accommodation facilities. To qualify for a 20% reduced tax rate, expenditures must exceed US\$7 million and the facility must provide 100 rooms. A requirement for the complex to be

built within five years from 1 January, 2007, was extended to 15 years in the 2009 national budget.

- Expect an accommodation standardisation or rating system to be developed and put in place before 2012. International travellers are used to such standardisation and countries that rely on an operator's own ratings are coming under increasing consumer pressure to conform to international expectations.
- The industry has at times struggled to provide an appropriate level of service to hotel guests due to staffing issues. With the number of tourist beds rapidly rising in Port Moresby, the industry will need to pay careful attention to staff recruitment and training to ensure that skilled personnel are available for vacant positions. The Papua New Guinea government has introduced a tax incentive designed to boost the proficiency of staff engaged directly in the promotion of tourism within Papua New Guinea. It is designed to do so by giving a double deduction for the costs of relevant training courses, including course enrolment and associated costs but excluding salary and wages. All such training must be immediately relevant to core tourism functions but can be conducted both within Papua New Guinea and overseas.

## **7.1.2 Transportation**

### *Recent developments*

- There remain few opportunities for long-distance road travel in Papua New Guinea with the notable exception of the Highland Highway connecting Lae and Madang. An upgrade programme is underway and already improved feeder roads have impacted positively on previously isolated communities and tourist destinations such as Mount Hagan.
- A series of accidents in June 2009 has led community leaders in Gulf Province to call for an urgent upgrade of the Hiritano Highway, which once provided a road link between Port Moresby and Kerema in the Gulf Province. The road is in such disrepair that locals regularly abandon the 70-kilometre stretch of the highway between Malalaua and Kerema in favour of dinghy transport.
- In September 2008, Virgin Blue entered into a code-share arrangement with Airlines PNG for services between Brisbane and Port Moresby. Airlines PNG considers that the capacity-sharing arrangement with Pacific Blue will allow for further expansion of international services. Consumers, including regular business travellers flying between Brisbane and Port Moresby, benefit from this arrangement, as Pacific Blue can provide economical connections to other parts of Australia.
- In 2007, Madang-based airline Airlink ceased operation. Airlink had been providing scheduled and charter services to outlying regions of Papua New Guinea, and the loss of service continues to be felt strongly in Madang in 2009.
- Internet bookings have been a new development for airlines and with more people booking online Air Niugini implemented additional identification control in December 2008 to halt a rise in fraudulent activities concerning e-tickets and to protect genuine customers.
- Air Niugini announced sizable reductions in fuel surcharges for both domestic and international passengers in January 2009. On most international routes the savings are US\$65, with a savings of US\$98 on flights between Port Moresby and Honiara.
- Air Niugini has Paradise Lounges for the airline's executive club members operating in Port Moresby, Lae, Madang, Mount Hagen, Goroka, Tokua and Wewak. Code-share agreements allow Air Niugini green card members access to lounges at eight different international airports.

- In 2008 Airlines PNG was listed on the Port Moresby Stock Exchange (POMaX). Shares were priced at PGK1.00 per share.
- Amid an increasing consumer trend for tourists arriving in Port Moresby to avoid using taxis due to the unprofessional behaviour displayed by some drivers and perceived fear that personal safety may be at risk, two companies have lifted the game. Scarlet Taxis and Red Dot Taxis are reported to have hired security guards to travel with drivers at night to help alleviate security concerns.
- Harbour Star, a new sea transport company operating out of Lae, has broken the monopoly of Lutheran Shipping. Harbour Star is providing services from Morobe Province to West New Britain Province.
- Travel Air Limited a nationally owned airline company enters the airlines industry and will be provided both international and domestic services. It will be based in Madang province.

#### *Trends*

- The public transport system is underdeveloped in Papua New Guinea. Taxis are currently only available in Port Moresby, which leaves tourists with limited options for safe and efficient land transport.
- Many tourists and provincial tourism operators have expressed frustration regarding airline schedules for flight from Port Moresby. Tourists are often forced to stay overnight in Port Moresby before catching connecting flights to and from the capital city, which incurs extra costs at the beginning and end of their holiday.

Tourists visiting all but the largest provincial centres must carefully construct holiday plans around limited flights. There is much room for the expansion of flight services as more airstrips undergo upgrading, alongside the tourism and business developments in various parts of Papua New Guinea.

- High-end tourism product providers operating in the provinces are increasingly utilising air charters to transport pre-booked tour groups.
- For international cruise shipping routes, the Caribbean is the main destination during winter months and Alaska and Europe are popular in the summer months. From late November to early March, the cruise season peaks for Australia and New Zealand, and Papua New Guinea is well within reach to capitalise on this.

#### *Outlook*

- According to Papua New Guinea's Civil Aviation Authority, upgrades are urgently needed at nine of the country's airports to better equip them for Fokker F100 aircraft. To bring these nine airports up to standard will require funding of approximately US\$580 million.
- The Tourist Promotion Authority is working on the development of a cruise strategy in collaboration with Chart Management Consultants from Australia to provide a clear working framework to better target and provide for cruise ship tourism in Papua New Guinea. The cruise strategy is expected to be ready by the end of 2009 and rolled out in 2010.
- The Papua New Guinea Tourism Promotion Authority model province strategy includes the upgrading of East New Britain and Milne Bay airports to an international standard.
- The rapid growth of the Australian cruise industry looks set to impact positively on Papua New Guinea's cruise arrival statistics well into the forecast period. Cruising is the new Australian craze, with 330,949 Australians taking a cruise holiday in 2008. Australians have identified Australia, New Zealand and South Pacific cruises as the most-favoured destinations and, with increased marketing focus available through

TPA's Australian-based representative, Papua New Guinea should be incorporated onto the itineraries of more Australian-owned cruising vessels.

### 7.1.3 Food and Beverages

#### *Recent developments*

- In many smaller cities, restaurant options are mostly associated with hotels and guesthouses. In the bigger cities, a growing number of independent restaurants have opened. In Port Moresby independent restaurants cover a range of cuisines including Western, Chinese, Thai, Japanese, Korean and Indian.
- Hotel and resort restaurants are highly regarded for quality food and beverages utilising fresh produce. Service is improving as staff training programmes are put in place. There is a high demand from tourists for local seafood.
- Papua New Guinea's local South Pacific Brewery provides South Pacific Lager, South Pacific Export Lager and Niugini Ice Beer. Niugini Ice is the premium label and, since its launch back in 1995, it has picked up various international awards including a silver medal in the prestigious 2006 Monde Selection of World Beers.
- Arabica and Elimbari coffee beans are widely grown in the Papua New Guinea highlands and premises serving fresh coffee within Papua New Guinea often use local beans. Tourists are often surprised by the excellent coffee available in hotels and cafes.
- Australia's Big Rooster chain has expanded into Papua New Guinea with most towns sporting a Big Rooster outlet. Big Rooster, owned by Coles Myers Ltd, is Australia's largest roast chicken operator. KMC Kenmighty Chicken opened chain of outlets in Port Moresby. The BON CAFE also opened in 2010 a chain of outlets around the city.

#### *Trends*

- As Papua New Guinea continues to draw curious tourists for cultural festivals and tours, an opportunity exists for traditional restaurants to showcase local food culture like the traditional *mumu*, a feast cooked in an underground oven.
- Although tipping is discouraged in Papua New Guinea, increasing numbers of restaurants are adding a 10% service charge to the bill to cover the premises' GST obligations.
- Tourist operators are responding to tourists' requests to sample local-style food and cultural tours incorporating a traditional earth oven feast are becoming increasingly popular.
- Training programmes for existing and potential food and beverage employees are strongly promoted by the Tourism Promotion Authority. There is a trend for food and beverage providers to provide professional training courses for staff in addition to on-the-job training.

#### *Outlook*

- With food and beverage providers embracing staff training programmes, it is likely that there will be an overall improvement to service throughout Papua New Guinea.
- Unless security standards improve markedly, there is little chance of Papua New Guinea's local evening nightlife drawing large numbers of tourists. Tourists are more likely to stick with traditional safe options such as the Yacht Club in Port Moresby and bars located inside tourist-grade hotels.

- Restaurants offering local cuisine tied with strong cultural themes could supplement the Asian and European fare already available for tourists.

#### **7.1.4 Tourist Attractions**

##### *Recent Developments*

- Whereas many birding tours focus on inland locations, a coastal bird watching charter is now available out of Milne Bay offering an air-conditioned, live-aboard experience.
- On 13 October, 2008, the Lark Force Wilderness Trail was officially opened, providing another trekking opportunity near Rabaul. This development was initiated to create a viable and sustainable enterprise for local people and to develop awareness around the history and experiences of Lark Force. Lark Force was the name given to approximately 1,400 military personnel sent to defend Rabaul in 1941 who were outnumbered by Japanese invaders 20:1 in January 1942. There remains strong emotion in Australia regarding the treatment of Lark Force by Australia's own military commanders and government and the track may well become another pilgrimage activity for war heritage tourists.
- The popularity of the Mount Hagan cultural show has led to small-scale cruise ship operators offering cruises up the Sepik River to coincide with crowds drawn by the Mount Hagan event. The luxury vessel Kalibobo Spirit, operated by Melanesian Tourist Services, is offering three Sepik River cruises in August 2009.
- April 2008 saw the opening of Madang Province's Ulingen Surf Club. The Madang project was a joint initiative between the Surfing Association of Papua New Guinea and the Tourism Promotion Authority, and it has involved the local people on a commercial basis.
- In 2009 Sydney-based Southern Sea Ventures offered Papua New Guinea as a new destination for the company's sea kayaking tours. Graded 'easy to moderate', two itineraries were offered, both in April. One tour featured the Bismarck Archipelago and the other, Eastern New Guinea.
- In March 2009 Papua New Guinea created the country's first national conservation area in order to protect an area of pristine tropical forest nearly the same size as Singapore. The YUS Conservation Area stretches from the North Coast of the mainland to interior mountains and will provide a safe zone for the biodiversity within. In time, this move is likely to attract conservationists from around the world.
- The National Fisheries Authority has assisted the National Capital District Commission with a funding contribution toward the repair and renovation of the Sea Park Observatory at Ela Beach and along Koki Bay in Port Moresby. Work is underway and will include the building of a jetty, an underwater observatory, a pier, a parking lot, sitting area and sea wall. It is expected that the aquarium will be fully operational by 2011.
- A sound shell making up an outdoor stage is to be built on the beach in Port Moresby to act as a future venue for outdoor entertainment.

##### *Trends*

- Papua New Guinea has abundant tourist attractions that include some of the world's best tropical diving, uncluttered surf waves, sea and river fishing, spectacular cultural extravaganzas, wildlife spotting, dramatic scenery, World War II heritage sites and numerous trekking possibilities.

- Prime tourist attractions are aimed at niche travellers rather than mass tourism as attractions can be geographically difficult to reach. The already-lucrative business tourism segment is being further targeted to attract more international conferences and events. The voluntourism segment is moving beyond missionary visitors to capture additional tourists keen to assist with community and wildlife programmes. Other tourism sectors being actively targeted include cultural, heritage, inland adventure, ocean marine, wildlife and natural features.
- Ecotourism is the new buzz word in Papua New Guinea. With scenery and wildlife already attracting ecologically minded tourists, several tourism ventures are emerging or rebranding as 'eco-friendly'.
- Australian tourist arrivals into Papua New Guinea have been rising markedly every year in the weeks leading up to the country's war remembrance day, 25 April. Known as ANZAC Day, it has become popular for Australians to travel to places with wartime significance to pay respects on, or during the lead-up to, this day. Papua New Guinea has seen an increase of Australians walking the Kokoda Trail in April. In 2009, approximately 1,000 people, mostly Australian tourists, attended the ANZAC Day dawn service in Port Moresby.
- Business travellers visiting Port Moresby have suggested that there are insufficient attractions and activities for after-hours relaxation and recreation. This frustration is particularly acute for business visitors who make repeat journeys to Port Moresby.
- Increasing numbers of tourists are keen to learn more about the indigenous cultures of Papua New Guinea. This is opening the way for small communities to welcome tourists and it is important that communities willing to provide for this market are guided regarding standards and appropriate fees.
- Tourists enjoying a diving holiday are advised not to fly for 24 hours after diving. This situation offers opportunities for dive resorts to extend offerings to occupy visitors on this non-diving day. There is an emerging trend for dive resorts to collaborate with inland tour providers to offer sightseeing trips.
- Realising the worldwide growth in the popularity of mountain biking, some companies specialising in adventure tours are incorporating mountain biking into tour packages. Kokoda Spirit is a company offering three- to four-day combination tours incorporating trekking, canoeing and mountain biking along the North Coast of Papua New Guinea.

#### *Outlook*

- The 2008 opening of the Ulingan Surf Club in Madang has seen potential ecotourism investors considering eco-resort developments, capitalising on the new surfing destination, in conjunction with the people of Ulingan.
- Papua New Guinea is well positioned to attract eco-tourists by presenting the country as an ecotourism destination. It is critical that those developing ecotourism products understand the principles behind the movement and adhere rigidly to ecotourism practices.
- ANZAC pilgrimages by Australian heritage tourists look set to increase and with the Kokoda Trail at capacity during the weeks leading up to ANZAC Day, opportunities exist to develop and market other significant sites throughout Papua New Guinea.
- Kayaking and mountain biking are popular sports in source countries such as New Zealand, Australia, Germany, France and the United States, with participants often travelling overseas to explore new territory.



Given the popularity of kayaking and mountain biking in so many source countries, there is considerable potential for further development within Papua New Guinea.

- There remains room for further niche tourism products to be developed either independently or in conjunction with aligned attractions. For example, people attracted to the sea are often interested in more than one ocean-based activity, yet opportunities for sea kayaking, wind surfing, kite surfing and sailing remain limited.

## **7.1.5 Travel Retail Services and Infrastructure**

### *Recent developments*

- In September 2007 it became possible for non-bank licensed financial institutions to apply and participate as foreign exchange dealers. This move was a result of financial sector reform to liberalise the foreign exchange market through removal of foreign exchange controls.
- The Papua New Guinea Business and Tourism website ([www.pngbd.com](http://www.pngbd.com)) has introduced a Papua New Guinea Exchange Rates Centre for those online to quickly check conversion rates. The three-way system allows entry of currency, format such as telegraphic transfer, notes or travellers cheques, and bank: Australia and New Zealand Banking Group (ANZ Papua New Guinea), Bank South Pacific (BSP) or Westpac Bank Papua New Guinea Ltd.
- Retail products that are coming into view are extensions of already-popular activities. These include treks opening up for tour groups that may take some pressure off the popular Kokoda Trail, and birding tours that are taking in new areas. Queensland-based Kirrama Wildlife Tours has years of experience operating land-based birding tours in Papua New Guinea, and in 2009 the company added a 17-day boat-based birding tour.
- Tour operators and accommodation providers in Papua New Guinea have become increasingly Internet-savvy, with all but the smallest operators having an Internet presence. Most advertise accommodation, tours or complete travel packages that can be booked directly online. Airlines also provide Internet bookings, making it possible for confident travellers to completely bypass their home country travel agents.
- Mobile company Digicel entered Papua New Guinea in 2007, providing competition for government-owned B Mobile. Digicel increased the population's mobile phone usage by close to 70% within one month of entry by offering broader network coverage and more economical calling rates than had previously been available in Papua New Guinea.
- On 26 June, 2008, mobile phone company Digicel secured full network interconnection with Telikom, allowing mobile consumers to communicate without restrictions.
- Telikom Papua New Guinea's first wireless broadband network was launched in Port Moresby in May 2009 and it is predicted that approximately 1,500 users will connect. Lae is planned to go live in the second quarter of 2009. Further expansion is planned for late 2009, extending the network to all regional cities providing coverage for 55,000 end-users.
- On 2 June, 2009, Alvarion Ltd, a world leader providing WiMAX and wireless broadband solutions, announced it had been contracted to set up the first Mobile WiMAX network in Papua New Guinea for Telikom Papua New Guinea. Telikom Papua New Guinea plans to provide nationwide coverage using Alvarion's end-to-end Mobile WiMAX 4Motion solution at the 2.3 GHz frequency band. Alvarion's local partner for this project is Telrad Networks.

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### *Trends*

- Most leisure travellers do not expect to visit a bank while on holiday. Should leisure travellers require extra cash, an ATM is sought for quick and easy access to Papua New Guinea's currency.
- Tour operators dealing with niche products are endeavouring to find ways to attract repeat customers. Some are providing alternative itineraries and others are looking to combination packages where two or more niche offerings can complement each other.
- Keen divers and fishers sometimes travel to land-based resorts with a non-diving or non-fishing partner. Resorts are beginning to see potential for developing alternative activities specifically catering to these other partners.
- Growing Internet sales of transport, accommodation and specific tourist products are expected to continue as, worldwide, more people become confident booking travel online.
- International business travellers expect to be able to connect to the Internet anywhere in the world.

### *Outlook*

- A gradual increase in non-bank players dealing with foreign exchange is expected as a result of financial sector reforms liberalising the foreign exchange market. The increased competition should improve financial services and provide increased levels of convenience for those needing to access foreign exchange services.
- Banks are expected to further extend ATM networks throughout Papua New Guinea and increasingly install ATM machines in hotel lobbies.
- As specific tourist products grow in popularity, operators may extend a successful formula to a new location or add to the product range to entice repeat customers. Already the pressure of numbers on the Kokoda Trail has encouraged tour operators to look for alternatives that may have similar war heritage appeal.
- In the future, resorts catering to an established niche such as diving will increasingly develop products to occupy a more sedentary partner during the day. Spa facilities, art classes and gentle exercise opportunities such as yoga may feature more prominently.
- At the end of 2009 Telikom Papua New Guinea's mobile network is planned to extend to all regional centres, substantially increasing mobile broadband coverage. This will enable business and leisure tourists to check exchange rates online and partake in other travel-related communications.
- Mobile company Digicel is likely to advance the company's share of the mobile phone market with the proposed 2009 introduction of low-cost solar-charged mobile phones. These phones are likely to have high penetration within a short time frame due to the difficulties of charging battery phones in rural areas. Business and leisure tourists may well consider the small outlay for a handset a good investment.
- The increase in online booking of Internet travel is unlikely to have negative impact on inbound tour operators. The rugged terrain, concerns regarding safety and limited public transport options mean that nearly all travellers require a helping hand to ensure time spent in Papua New Guinea is optimised.

- With fewer international travellers visiting travel agents to book holidays, the Internet will become the key source of travel information for people researching possible destinations. Papua New Guinea’s attractions are not well known, even within Pacific region countries such as New Zealand. It is therefore important that tourism marketing efforts keep up with Internet trends and have the technical expertise at hand to jump on the wave of each new trend as it emerges.

## 7.2 ANALYSIS OF INVESTMENT OPPORTUNITIES IN PAPUA NEW GUINEA TOURISM

### 7.2.1 Macro-environmental Analysis (PESTEL Framework)

The PESTEL Framework below identifies the major strengths and weaknesses in the macro-environment (political, economic, social, technological, environmental and legal) of Papua New Guinea affecting the prospects for potential investors in its tourism industry.

Factors	Strengths	Weaknesses
<b>Political</b>	<ul style="list-style-type: none"> <li>▪ Papua New Guinea currently has a stable parliamentary democracy. Prime Minister Michael Somare was elected to his second term in 2007.</li> <li>▪ Between 2003 and the end of 2007, net assets of state-owned enterprises reporting to Papua New Guinea’s Independent Public Business Corporation rose more than three-fold to K1.7 billion.</li> <li>▪ State-owned enterprises are undertaking capital expenditure programmes in line with the country’s Medium Term Development Strategy (MTDP) to improve infrastructure.</li> <li>▪ The government has targeted tourism as a priority area for the economic development of the country.</li> <li>▪ The government is proactive in working toward public/private partnerships in telecommunications, transport infrastructure and energy development.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The prime minister has no clear successor, thus political instability may return at the end of his current tenure.</li> <li>▪ The investment climate remains uncertain and corruption is reportedly a problem.</li> <li>▪ Infrastructure development has been slow, partially due to the rugged terrain of the country and partially due to past political instabilities.</li> <li>▪ In Papua New Guinea’s scattered provinces, loyalties are often more tribally based than evident to the Parliament in far-away Port Moresby.</li> </ul>
<b>Economic</b>	<ul style="list-style-type: none"> <li>▪ Extensive mineral deposits (gas, oil, gold, copper) and other natural resources (forests, fisheries) provide the foundation for potential prosperity.</li> <li>▪ Resurgent commodity prices saw real GDP growth jump from 2.6% in 2006 to 7% in 2008.</li> <li>▪ In late 2007, international ratings agency Standard and Poors, increased Papua New Guinea’s long-term currency rating to ‘B+’ due to improvements in macroeconomic</li> </ul>	<ul style="list-style-type: none"> <li>▪ About 85% of Papua New Guinea citizens rely on subsistence agriculture and fishing in remote and isolated communities such as those in the Highland provinces and those living on the D’Entrecasteaux Islands. These communities receive few trickle-down benefits from commodity exports.</li> <li>▪ The economy is vulnerable to external forces, such as declines in world export commodity prices.</li> </ul>

	<p>and political stability.</p> <ul style="list-style-type: none"> <li>▪ Despite global economic recession, early 2009 saw stable macroeconomic conditions including low inflation and interest rates, a stable kina, a budget surplus and a reduction in the level of public debt.</li> <li>▪ Papua New Guinea has some major resource projects in the offing which, although not signed and sealed, are in 2009 stimulating the local economy through the investigative work underway.</li> <li>▪ The ExxonMobil-led US\$11 billion Papua New Guinea LNG project receives the go-ahead as expected in late 2009. The project became the largest foreign direct investment ever made in Papua New Guinea. This single project will double Papua New Guinea's GDP over the next 30 years.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The country is highly dependent on the imports of manufactured goods with Australia, Singapore, China and Japan the main source countries for imports.</li> <li>▪ Substantial foreign aid helps support the economy.</li> <li>▪ Visa and work permits for expat workers often face delays.</li> <li>▪ Businesses are faced with major expenditures to ensure the security of people and property.</li> <li>▪ Papua New Guinea's literacy rate for people over the age of 15 is approximately 58%. The small numbers of people continuing to secondary education, tertiary education and trade training have led to a business community struggling to find skilled workers.</li> <li>▪ The final quarter of 2008 saw the Port Moresby stock exchange experience a decline in line with the global downturn.</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>▪ Distinctly different cultural communities exist, with each community or clan having a strong sense of kinship.</li> <li>▪ There is an expectation that members of a clan will look after each other in a variety of circumstances including the provision of food and shelter as necessary.</li> <li>▪ Rich cultural diversity is a major draw for tourists.</li> <li>▪ There is freedom of religious belief.</li> <li>▪ There is freedom of the press.</li> <li>▪ English is spoken widely in the business community.</li> </ul>	<ul style="list-style-type: none"> <li>▪ In 2008, the United Nation's Development Program ranked Papua New Guinea 145 of the 177 countries surveyed on the Human Development Index – lower than any other country in the Pacific.</li> <li>▪ Life expectancy at birth is 55.3 years.</li> <li>▪ The infant mortality rate is 69 per 1,000 live births, and maternal mortality 300 per 100,000 live births.</li> <li>▪ 57.3% of adults are literate and only half of all children have access to primary school education.</li> <li>▪ Health, education, transport and public utilities infrastructures require substantial development.</li> <li>▪ There has been a rapid spread of HIV/AIDS, with 2% of the population infected.</li> </ul>
<b>Technological</b>	<ul style="list-style-type: none"> <li>▪ The arrival of Digicel in 2007 revolutionised telecommunications with increased coverage and reduced pricing. By 2009 Digicel had introduced the Blackberry to consumers and in late 2009 will introduce solar-chargeable mobile phones.</li> <li>▪ A 2009 public/private partnership to improve service delivery saw a private consortium take up 50% equity in state-owned mobile telecommunications</li> </ul>	<ul style="list-style-type: none"> <li>▪ Prior to 2007 Papua New Guinea was plagued with telecommunications reliability issues. Although these have largely disappeared, there remains a fear that these problems may return.</li> <li>▪ The cost of making international calls to Papua New Guinea remains expensive.</li> </ul>

	<p>provider B Mobile.</p> <ul style="list-style-type: none"> <li>IT market leader Daltron is demonstrating strong growth with an additional retail outlet planned for Port Moresby in late 2009.</li> </ul>	
<b>Environmental</b>	<ul style="list-style-type: none"> <li>The Papua New Guinea sustainable development programme uses commercial models to stimulate social gains. For example, royalties from the OK Tedi copper mine in Western Province are developing the region's infrastructure and business possibilities to minimise displacement when OK Tedi closes in 2013.</li> <li>Papua New Guinea harbours nearly 5% of the world's biodiversity within some of the planet's most biologically diverse ecosystems.</li> <li>The outstanding diversity of landscape in Papua New Guinea attracts tourists.</li> </ul>	<ul style="list-style-type: none"> <li>Environmentalists express concerns regarding environmental degradation and unsustainable resource management by both domestic and foreign operators.</li> <li>Non-indigenous species pose an ecological and economic threat with the potential to reduce populations of native species directly or through damaging habitats.</li> <li>Should climate change raise sea levels, some coastal settlements may be at risk.</li> <li>Papua New Guinea is a volatile volcanic region predisposing the country to eruptions and tsunamis.</li> </ul>
<b>Legal</b>	<ul style="list-style-type: none"> <li>The government has cut income tax rates, given tax incentives for tourism and raised infrastructure tax credits for agriculture.</li> <li>Tariff rates were also lowered. Papua New Guinea presently has a very liberal trading system.</li> <li>The Investment Promotion Authority (IPA) acts as a one-stop resource centre for business investors in Papua New Guinea, working collaboratively with relevant government departments and agencies such as the Internal Revenue Commission, Department of Labour and Industrial Relations and Tourism Promotion Authority.</li> <li>An open skies policy introduced in 2006 has fostered greater competition in the aviation sector.</li> </ul>	<ul style="list-style-type: none"> <li>The customary land ownership system limits available land for private developers.</li> <li>Certain business activities are restricted to citizens and/or national enterprises.</li> <li>Law and order is a problem, but currently the government is instituting appropriate strategies to manage this problem.</li> </ul>

## 7.2.2 Sources of Comparative Advantage

### Cultural and natural assets

Current sources of comparative advantage for Papua New Guinea's tourism industry inevitably include cultural and natural assets, ideal for niche market tourism and for the country's development as an ecotourism haven. The country is rich in land and sea-based biodiversity, stunning landscapes inclusive of mountains, jungle and ocean, outstanding geological features, and hundreds of different indigenous cultural groups. The exoticness and isolation of Papua New Guinea's scenic and cultural attractions promise leverage to further develop lucrative, special-interest tourism.

## Government focus on tourism development

Papua New Guinea's Vision 2050 and the Medium Term Development Plan (MTDP) 2011-2015 sees tourism rising to become a significant driver of the economy. This government recognition is supported by tax incentives such as double deductions for costs associated with export market development, and double deductions for tourism staff training costs. Accelerated depreciation is yet another form of tax incentive whereby capital investment in eligible tourism facilities qualifies for 55% increased initial-year depreciation. Investors in large-scale tourist accommodation facilities may be eligible for a concessional tax rate of 20%.

## Strong ties with Australia

Papua New Guinea's long and increasingly positive relationship with Australia is certainly advantageous for the development of Papua New Guinea's tourism. At the 19<sup>th</sup> annual Australia-Papua New Guinea Ministerial Forum held on 10 June, 2009, Australia's minister for foreign affairs, the Honourable Stephen Smith, emphasised, that the two countries are close neighbours, close friends and strong partners. He considered the relationship between Australia and Papua New Guinea to be at an all-time high and, despite the global economic downturn, believed there were many trade and investment opportunities. The minister stressed that Australia valued Papua New Guinea as a development partner and welcomed the continued close cooperation and partnership on regional issues.

## Growing labour market

A growing pool of labour and low labour costs provide other sources of comparative advantage. In 2009 tourism industry representatives indicate there is no shortage of applicants for entry-level occupations, including cleaners, gardeners, porters, drivers, wait staff and kitchen hands. In February 2009 Papua New Guinea's Minimum Wage Board announced a stepped rise in the minimum wage that will take the minimum wage from a weekly rate of K37.20 (US\$13, based on K0.85 per hour), to an hourly rate of K2.29 (US\$0.84) or K100.80 (US\$37) per week by the end of 2009. While the Papua New Guinea Chamber of Commerce has expressed concern regarding the extent of this rise, the pay rate remains low by Pacific standards and continues to provide a comparative advantage for Papua New Guinea's tourist industry.

## Untapped potential in expatriate community

A potential source of comparative advantage for Papua New Guinea's tourism industry includes the large expatriate community on both short- and long-term stays. Should the massive LNG resource project proceed as expected, the expatriate workforce is likely to increase markedly, providing tourist operators with opportunities to cater to the leisure requirements of workers and visiting friends and relatives.

## 7.2.3 Development Prospects for Tourism Products

### *Current*

- Papua New Guinea is in an excellent position to become known as an ecotourism destination provided operators genuinely understand and operate businesses in a true ecotourism model. Current products such as bird watching, wildlife spotting, diving, surfing, cultural tourism and trekking are all able to leverage upon the eco-friendly image.
- Dramatic and beautiful natural settings play host to active tourism products including diving, trekking and fishing. The remarkably diverse geographic locations available for every one of these tourism products provide a strong point of distinction relative to other international destinations.

- Cultural tourism is able to capitalise on the level of cultural diversity that has led to more than 800 languages being spoken in the one country. Additionally, that tribes living in the Highlands remained undiscovered by the rest of the world until the 1930s and subsequently have had little outside contact makes for some of the most intact and intriguing indigenous cultures in the world.
- Although all tourism products benefit by the close relationship between Papua New Guinea and Australia, the product which gains the most leverage from the relationship is war heritage tourism and, in particular, tourism products associated with World War II history. Increasing numbers of Australian tourists travel to Papua New Guinea to visit World War II relics and battle sites. Many choose to walk the famous Kokoda Trail as a mark of respect for Australians who fought in World War II. Not only is Australia the main source of Kokoda Trail tourists, the Australian government has provided considerable funding to assist with trekking infrastructure and the provision of services to local communities in the vicinity of the Kokoda Trail. New tracks recently opened in the Rabaul area have strong significance for Australians and it is expected that these tracks will draw many Australian tourists in future years.
- Business products such as conference facilities are increasingly in demand in Port Moresby and Madang. This is largely due to an increase in resource projects and associated business meetings and conferences.

#### *Potential*

- It is likely that in a country with so much volcanic activity that a commercial hot springs complex could be developed. Although thermal springs are popular with visitors from all countries, the Japanese in particular seek out opportunities to bathe in hot springs when visiting other thermal areas in the Pacific, such as Rotorua in New Zealand. Hot springs complexes in New Zealand, Taiwan and Japan are popular as standalone attractions. In Papua New Guinea it is likely that a thermal hot springs complex could be popular as a standalone attraction and as a welcome place to relax after an active day of trekking, diving or sightseeing.
- In most current tourist literature concerning Papua New Guinea the term ‘trekking’ includes substantial climbs that in many other countries would be categorised as mountaineering or climbing. Papua New Guinea is not well known internationally as a climbing destination, yet at least four peaks rise above 4,000 metres with Mount Wilhelm reaching 4,509. Clearer differentiation between trekking and mountaineering may help bring serious climbers to Papua New Guinea.
- Given the mountainous terrain of Papua New Guinea, it is likely that sites exist that could support the adventure tourism activity of rock climbing.
- Deep river gorges may lend themselves to bungee jumping.
- Few mountain biking tours exist in Papua New Guinea yet the country is crisscrossed with tracks, some of which may be suitable for serious mountain bikers. Worldwide, extreme mountain bikers seek out new and exotic locations to enjoy and to challenge themselves.
- Caving is a specialised adventure travel area that has remained untapped in Papua New Guinea. Caving expeditions from overseas countries have undertaken some exploration of caving systems and National Geographic published stunning photographs of underground river caves in 2006. With further exploration and input from experts it may be possible to locate areas safe enough to run underground black water rafting trips.
- Ocean marine adventure tourism has a focus on ocean-based activities and, in the Papua New Guinea context, diving, surfing and game fishing are legendary. Other exciting ocean marine activities with a small

presence in Papua New Guinea have the potential to develop further, capitalising on the natural beauty and outstanding conditions for ocean-based adventure. Sea kayaking is an emerging ocean marine adventure activity with a small number of operators offering occasional guided kayaking holidays. Sea kayaking has the potential to attract dedicated sea kayakers keen for extensive tours with a high level of difficulty, through to social groups keen to enjoy a less strenuous, scenic kayaking tour.

Sailing, windsurfing and kite surfing are additional ocean marine tourism activities that have the potential for further development in Papua New Guinea. Yachts sail into Papua New Guinea for rallies such as the October 2008 rally from Cairns to the Lousiades as the area is considered superb for yachting. With the exception of yacht charters operating in New Ireland, yachting experiences available for tourists in 2009 appear minimal. Given the supposed excellent conditions and spectacular coastal scenery, there may be possibilities to offer charters from more locations. There may also be opportunities for the development of a sailing school where sailing lessons, kite surfing lessons and windsurfing lessons are made available to tourists.

- Given the large-scale resource projects that in mid-2009 look set to proceed, there could be openings for tourism products aimed directly at expat workers. The challenge for Papua New Guinea tourism is to encourage expat workers to spend recreation time in Papua New Guinea rather than flying home, and wherever possible, to have friends and relatives join them. Special deals making the decision to stay 'easy' should be considered, such as discounted package offers to suit families, couples, friendship groups or individuals. Market research within the expat communities could assist in tailoring packages appropriately.

Expats currently residing in Port Moresby, VFR tourists, visitors in transit and visitors attending the capital on business report that there is little to do there during recreational hours. Suggested products for Port Moresby include a movie theatre, a cultural centre showcasing the different cultural communities in Papua New Guinea, boat rental and tours that showcase swimming with dolphins.

## **7.2.4 Potential Target Tourism Segments**

The most promising tourism segments for Papua New Guinea are those where existing niche products enjoyed by the segment can be further expanded and new niche products introduced. Papua New Guinea's unique environment provides the opportunity for ecotourism to become the modus operandi for tourism in Papua New Guinea. Existing operations could be encouraged to adapt to the principles of ecotourism and new operations expected to adhere. A previously untapped segment is health and wellness tourism, and research on the viability of developing a comprehensive thermal spa complex to attract health and wellness tourists may be prudent.

### **Ecotourism**

The International Ecotourism Society (TIES) defines ecotourism as 'responsible travel to natural areas that conserves the environment and improves the well-being of local people'. TIES has outlined six principles of ecotourism that should be adhered to by those implementing and participating in ecotourism activities:

1. Minimise impact
2. Build environmental and cultural awareness and respect
3. Provide positive experiences for both visitors and hosts
4. Provide direct financial benefits for conservation
5. Provide financial benefits and empowerment for local people
6. Raise sensitivity to host countries' political, environmental and social climates.

The trend toward ecotourism cuts across every segment and with every product that can legitimately be categorised 'ecotourism' the comparative edge is heightened. Ecotourism providers are expected to run operations that have minimal negative impact on local environments and communities, embracing both



biodiversity and local cultures. Local participation in decision-making is valued, and ecotourism operations actively support local conservation measures and provide sustainable benefits to local communities. As Papua New Guinea's tourism providers meet ecotourism standards, many adventure tourism products may be rebranded to gain further leverage from the ecotourism status.

### **Inland adventure tourism**

With stunning backdrops for physical activity, the inland adventure tourism segment is expected to refine current offerings and expand the range of activities available. In 2009 trekking is the most well known inland adventure tourism activity, yet emerging products have the possibility to attract even more adventurers. Canoe safaris, river rafting, river fishing, and lake and river kayaking are all currently available, and with savvy marketing these have the potential to draw more adventurers to Papua New Guinea. Mountain biking, rock climbing, bungee jumping, caving and underground rafting are further activities worth exploring in order to capture more of the adventure tourism segment. The popular trekking product could be further segmented in tourist literature to include the category of mountaineering, thus heightening international awareness of Papua New Guinea's mountain ranges and high peaks.

### **Ocean marine adventure tourism**

Diving and snorkelling will continue to be stand-out attractions, with magnificent coral, diversity of fish and the most-developed infrastructure of any existing tourism product in Papua New Guinea. Surfing and fishing are additional key products that will continue to grow as the quality of fishing and surfing in Papua New Guinea becomes more well known internationally. Guided sea kayaking is an emerging product with immense potential. Sea kayaking has the ability to attract serious expedition kayakers as well as novices wanting an activity-based holiday amid spectacular coastal scenery. At a more fundamental level, rental kayaks could be made available in coastal settlements for day trips. Yachting, wind surfing and kite surfing are further activities that have the potential to strengthen ocean marine adventure tourism.

### **Wildlife tourism**

Bird watching is a growing leisure activity in the large source markets of the United Kingdom, Europe, the United States and Australia. This niche product is showing steady growth as committed bird watchers become aware of the possibilities Papua New Guinea holds to see exotic species within their natural habitat. Nearly 650 species have been identified in Papua New Guinea including 86 endemic species. Birds of paradise and huge cassowaries make for spectacular birding trips and birding as a niche market could see equally spectacular growth. Other less well known wildlife experiences in Papua New Guinea could also be further developed. An ecotourism approach to spotting leatherback turtles has the potential to prove popular given that Australian and New Zealand tourists travel as far as the Galapagos Islands for a similar experience. Some tourists will venture to Papua New Guinea to see a range of wildlife and it is important that packages are offered to suit those wanting a diverse wildlife tourism experience including reptiles, butterflies, mammals, birds and sea life.

### **Health and wellness tourism**

Many countries around the world have well developed facilities catering to thermal spa tourists. If the development of a thermal spa facility is realistic in Papua New Guinea, such a facility could potentially become a significant health and wellness tourism product within the Pacific. While it attracts health and wellness tourists, thermal spa tourism also has the advantage of complementing active tourism segments by providing a relaxing counterpoint.

### **VFR (visiting friends and relatives)**

Travellers entering Papua New Guinea to visit friends and relatives tend to blend into the environment and are not necessarily well targeted as potential consumers of tourism products. There are two kinds of VFR arrivals in Papua New Guinea: those visiting friends and relatives who are Papua New Guineans and those visiting members of the expatriate community. There is considerable room for tourism providers to better cater to VFR visitors and there is also the potential to attract far greater numbers of VFR tourists through targeted marketing. Products that are sometimes considered mass tourism products could well suit this group, which is crying out for things to do in Port Moresby. In addition, tourism providers could develop special packages to tempt expatriate workers and their families to spend leisure time in Papua New Guinea.

### Business tourism

Business tourism comprises the largest segment of arrivals in Papua New Guinea, accounting for more than 65% of total arrivals in 2010. While most arrivals are considered private sector corporate business travellers, Papua New Guinea has the potential to attract more regional conferences, especially those involving political leaders and government officials. The demand on existing meeting spaces and conference facilities is high.

### Luxury tourism

Papua New Guinea has the potential to become a luxury tourist destination utilising beautiful locations that provide the utmost privacy for guests searching for a secluded retreat. Such retreats are likely to be accessed via air charter and, although self-contained, would be able to accommodate special interests such as diving or game fishing if required. Secluded luxury retreats are not only used by individuals and couples seeking quiet time out, this level of privacy in conjunction with this style of accommodation is sought out for special events such as celebrity weddings.

## 7.2.5 Papua New Guinea Tourism Investment Opportunities

By looking at the gaps in meeting the potential demand from target tourism segments, a number of key investment opportunities have been identified. The table below details the key investment opportunities in each of the five areas:

- Hospitality
- Transport
- Food and beverages
- Tourist attractions
- Travel retail services and infrastructure

In the table, a score is provided in the last column to evaluate the strength of each investment opportunity: **1 for least attractive, 5 for most attractive**. The top opportunities, with a score of 5, are listed first.

Opportunity	Area of Investment	Tourism Segment(s)	Description	Score
<b>Cultural centre in Port Moresby</b>	Tourist attractions	All segments	A multi-purpose cultural centre at the heart of Port Moresby for cultural events and performances, a communal marketplace for local arts and crafts, and a tourist information centre. The design of the cultural centre can be used to showcase local architectural styles and act as a memorable landmark for visitors to Port Moresby.	<b>5</b>
<b>Develop thermal spa complex</b>	Tourist attractions	Health and wellness	In a volcanic region it is likely that an area exists suitable to thermal spa development. Such a facility would attract wealthy health	<b>5</b>

			and wellness tourists and in addition would provide a relaxing counterpoint for other visitors such as business and adventure tourists.	
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Opportunity	Area of Investment	Tourism Segment(s)	Description	Score
<b>Build up market/luxury hotel with full conference facilities in Port Moresby</b>	Hospitality	Business tourism	Port Moresby's shortage of upmarket accommodation for business travellers is not expected to be remedied by hotel projects under development in 2009. Investors could develop an additional hotel with conference facilities to help alleviate shortages of both accommodation and conference facilities.	<b>5</b>
<b>Provide highly professional, modern taxi service/fleet</b>	Transport	All segments	Although a few of Port Moresby's taxi outfits have lifted the game, many visitors remain too afraid to use taxis in Port Moresby. No taxis exist in Lae, Wewak, Madang, Goroka, Mount Hagan and Popondetta yet tourists feel insecure walking from a venue to accommodation. Starting with Port Moresby, an investor could provide a modern fleet of clean, well maintained taxis. There would need to be substantial advertising and networking with potential client groups to break through the fear barrier that exists regarding taxi use.	<b>5</b>
<b>Open chain of 'bean to cup' coffee houses</b>	F & B  Tourist attraction	All segments	Investors have the opportunity to capitalise on the superb Arabica and Elimbari beans grown in Papua New Guinea to set up coffee houses that not only serve superb coffee, but roast and blend Papua New Guinea-grown coffee on premises. Such coffee houses could also feature detailed information and photographic images of the source plantations.	<b>5</b>
<b>Develop a luxury resort themed around the mystique of coffee</b>	Hospitality  F & B  Tourist attraction	Luxury travel  Ecotourism	In other coffee-producing countries including Guatemala and Indonesia, luxury resorts have been developed within coffee plantations. This opportunity also exists in Papua New Guinea where such a resort could focus on gastronomy and fine coffee, providing plantation tours and comparative coffee tastings. Depending on location, such an enterprise could partner with local tour operators to incorporate bird watching, fishing or other activities to expand activity choices for guests.	<b>5</b>
<b>Upgrade key regional airports to international standards</b>	Transport	All segments	Tourists wishing to enjoy a holiday in the provinces find the forced stay in Port Moresby (caused by flight schedules) inconvenient and expensive. Provincial tour operators indicate that tourists would prefer to fly directly to a provincial airport rather than transit via Port Moresby. Civil aviation reform in 2009 suggests that the door may soon open for investors to enter into partnership with the government to develop the country's airports and surrounding facilities. There may also be opportunity for full privatisation.	<b>5</b>

Opportunity	Area of Investment	Tourism Segment(s)	Description	Score
<b>Upgrade wharf facilities for cruise ship passengers</b>	Transport	Luxury travel	Opportunities exist for investors to develop high-quality wharf facilities including attractive docks and reception areas to cater to growing cruise arrivals. In conjunction with physical developments, related retail travel packages could be developed for cruise passengers to maximise the experience of Papua New Guinea scenery and culture.	<b>5</b>
<b>Develop private tourist industry training school</b>	Travel infrastructure	All segments	A need exists for improved customer service across hospitality, transport, F&B and the delivery of tourist products. Investors could negotiate with private sector tourism providers and government to run high-quality, professional courses for all sectors of the tourism industry.	<b>4</b>
<b>Develop guided rock climbing adventure package</b>	Tourist attractions	Inland adventure tourism	It appears that despite the geographic features of Papua New Guinea, no rock climbing tourism venture exists. A rock climbing enterprise would require expertly staffed and certified instructors and would require link-ups with accommodation and transport providers. Given that trekking is so popular in Papua New Guinea it is likely that rock climbing could also add value before or after a trek.	<b>4</b>
<b>Build conference facility in Port Moresby</b>	Infrastructure	Business	Port Moresby does not have a purpose-built conference facility and existing facilities within hotels are heavily utilised. Investors could develop a conference facility capable of accommodating meetings and conferences of varying sizes, with overall capacity for at least 500 delegates. The facility would target public and private sector business meetings, domestic conferences, international conferences, displays and exhibitions.	<b>4</b>
<b>Develop ecotourism resort in Busama, Labu Tali or north of Labu Tali</b>	Hospitality Tourist attraction	Wildlife tourism Ecotourism Natural features Ocean marine	Investors willing to work with local communities and turtle-monitoring programme scientists could investigate the development of an ecotourism resort with a focus on observing leatherback turtles. As the season is limited to four months, the resort could also act as a base for tours into the Labu Lakes and Bula Falls and to war relics near Salamaua. The coastal area also provides good snorkelling.	<b>4</b>
<b>Develop range of mountain bike tour packages</b>	Tourist attraction	Inland adventure tourism	Mountain biking is a growing sub-sector of adventure tourism. Keen mountain bikers tend to be young, adventurous and affluent. This niche is willing to travel the world to find challenging and exciting trails. Investors may choose to negotiate with an existing small provider to expand the business or develop a product covering a different region or regions.	<b>4</b>

Opportunity	Area of Investment	Tourism Segment(s)	Description	Score
<b>Develop targeted holiday packages to entice expats including ‘fly in, fly out’ workers to holiday in Papua New Guinea</b>	Travel retail services	VFR  Business	Expatriates working in Papua New Guinea tend to return home for holidays. This includes ‘fly in, fly out’ workers who may be in Papua New Guinea for two to four weeks before being flown home for a break. There are opportunities to provide well crafted and attractive deals to encourage these workers to enjoy the attractions Papua New Guinea has to offer. Packages could be offered for individuals, couples, groups of friends, family groups and so on. Ideally packages will see family and friends travelling to Papua New Guinea to join in with a leisure pursuit rather than always have the worker fly home.	<b>4</b>
<b>Build secure mid-priced accommodation in Port Moresby</b>	Hospitality	All segments	Tourists attracted to Papua New Guinea for leisure activities are obliged to spend at least one night (often two) in Port Moresby due to limited airline connections. These travellers resent the stay and, even more so, resent paying for upmarket accommodation simply to feel safe. Investors could develop value for money accommodation with an emphasis on security.	<b>3</b>
<b>Open traditional restaurants in Mount Hagen and Goroka</b>	F&B	Cultural tourism  Natural features	Currently in Mount Hagen (Papua New Guinea’s third-largest centre), restaurant options are mostly associated with hotels and guesthouses. A similar situation exists in Goroka. Both centres draw large crowds for cultural festivals and tours. An opportunity exists to open restaurants in these centres that showcase the traditional <i>mumu</i> feast during peak times or for prebooked tour groups. The cultural theme could be expanded by holding demonstrations showing how some of Papua New Guinea’s staple foods are prepared.	<b>3</b>
<b>Open water sport school and rental centre in Port Moresby</b>	Tourist attraction	VFR  Ocean marine adventure tourism	Visitors to Port Moresby often have time on their hands and are keen for activities in a secure, controlled environment. An investor could set up a water sport school offering sailing instruction, windsurfing and kite surfing tuition, in addition to equipment rental.	<b>3</b>

## **LIST OF CONTACTS**

List of key contacts: To be provided by PNG TPA

## APPENDIX

### APPENDIX I: LIST OF BUSINESS ACTIVITIES RESTRICTED TO CITIZEN ENTERPRISES

The regulations of the Investment Promotion Act 1992, as amended, contain a list of business activities which are restricted to citizens and or national enterprises. The list may be reviewed from time to time.

Activities restricted to citizen enterprises only make up the Cottage Business Activities List (CBAL). The CBAL replaces what used to be called the Reserved Activities List. Foreign enterprises cannot conduct business in activities listed under CBAL as follows:

#### Agriculture

- Cultivation and growing of vegetables and other market produce with annual sales of K50,000 or less
- Farming of animals with annual sales of K50,000 or less
- Poultry farming with annual sales of K50,000 or less
- Hunting, trapping and game propagation including related services and 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.
- Work about (mobile) sawmill

#### 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 (within three miles of the shoreline) and inland waters
- Taking of marine or fresh-water crustaceans and mollusks
- Hunting of aquatic animals such as turtles, sea squirts, other tunicates, sea urchins or other echinoderms and aquatic invertebrates
- 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; 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 second-hand clothing and footwear
- Retail sale carried out from a motor vehicle or motorcycle
- Wholesale and retail sale of handicrafts and artifacts
- Repair of footwear when not done in combination with the manufacture, wholesaling or retailing of these goods



**Table 10 List of Other Restricted Cottage Business Activities**

Activity	Description
Weaving	This activity includes, but is not limited to, weaving of cane products, textiles, baskets, nets, dishes, ropes and bags that are saleable at home, at street markets or in retail outlets for a fee
Bilum making	Making of string bags (bilums) from traditional bush ropes and cotton stacking traditional and contemporary designs that are saleable at home, at street markets or in retail outlets for a fee
Knitting	Knitting of textiles, wearing apparel, cloth, garment, designs, fabrics and decorations that are saleable at home, at street markets or in retail outlets for a fee
Arts and crafts	All sorts of handicrafts and artistic designs that are saleable at home, at street markets or in retail outlets for a fee
Carvings	Wood carvings and sculptures for a fee (on contract) or assorted carvings that are saleable at home, at street markets or in retail outlets for 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, at street markets or in retail outlets for a fee
Painting	All sorts of painting in any shape, type and form including portrait paintings, oil paintings saleable at home, at street markets or in retail outlets for a fee
Screen printing	Screen printing or designs including emblems, logos, traditional and contemporary art forms, commemorations and special events on apparel including traditional <i>laplaps</i> , shirts, T-shirts and other garments and textile materials, suited to the event, situation or purpose they relate to that are saleable at home, at street markets or in retail outlets for a fee
Sewing	Sewing of garments, textile materials, apparel, cloth and fabrics that are saleable at home, at street markets or in retail outlets for a fee
Jewellery-making	The making of simple jewellery products including necklaces, earrings, rings, arm bands, primarily from sea shells, tusks and beads for sale at home, at street markets or in retail outlets for a fee
Baking	Baking of fresh bakery products including bread loaves, cakes, pies, cookies and scones saleable at home, at street markets or in retail outlets for a fee
Coffee pulping	Coffee pulping using a manual pulping machine with the beans saleable at buying points or at coffee depots
Hunting of crocodiles and processing of skins	Hunting and processing of crocodile skins for sale at established market outlets
Operation of tyre repair service	Operation of small tyre repair shops, where such repairs are not incidental to the core business of maintenance and repairs

Source: Papua New Guinea Tourism Promotion Authority

For further information on the Cottage Business Activities List, please contact:  
 The Business Information and Facilitation Division  
 Investment Promotion Authority  
 P.O. Box 5053, Boroko NCD 111 Papua New Guinea  
 Tel: (675) 308 4457. Fax: (675) 320 0262  
 Email: [bif@ipa.gov.pg](mailto:bif@ipa.gov.pg)

## APPENDIX II: ADDITIONAL TOURISM TAX CONCESSIONS

**Table 11 Additional Incentives Available to the Papua New Guinea Tourism Sector**

Incentive/Concession	Description
<b>Zero-rating Customs tariff duties on products imported by the tourism sector</b>	<p>There is a zero-rate Customs tariff duty on the following products which are widely consumed by the tourism industry and not manufactured locally:</p> <ul style="list-style-type: none"> <li>• bed linen, table linen, toilet linen and kitchen linen</li> <li>• tableware, kitchenware, other household articles and toilet articles, of porcelain or china</li> <li>• ceramic tableware, kitchenware, other household articles and toilet articles, other than porcelain or china</li> <li>• glassware of a kind used for a table, kitchen, toilet, office, indoor decoration or similar uses, and</li> <li>• Wetsuits of the type suitable for underwater diving</li> </ul>
<b>Zero-rating excise duties on products imported by the tourism sector or consumed by tourists</b>	<p>Excise duties on photographic film have been removed and are free as opposed to 30% previously. These include photographic film (or instant print film) in rolls, sensitised, unexposed, of any material other than paper, paperboard or textiles.</p>
<b>Zero-rated airfares</b>	<p>International air fares and ship fares including travel into and out of Papua New Guinea are zero-rated. The GST Act zero-rates domestic air travel within Papua New Guinea where that travel is taken as part of international air service. For example, if a foreign tourist purchases a holiday to Papua New Guinea from Air Niugini which includes international and domestic fares as part of his or her visit to Papua New Guinea, all the airfares (including those for domestic flights inside Papua New Guinea) are zero-rated. Papua New Guinea's GST law is consistent with common international practice in this regard.</p>
<b>Duty-free shops</b>	<p>The GST Act zero-rates goods sold by an incoming or outgoing duty-free shop to inbound or outbound air travellers. The shops must be licenced under the Customs Act to operate as duty-free shops. Items bought at the outgoing (only one in Papua New Guinea) duty-free stores must be exported by the purchaser. In Papua New Guinea, this can only be done in the passenger's carry-on baggage as the only duty-free store in Papua New Guinea is located in Jacksons Airport (i.e. after passing through outgoing immigration). Items bought at the incoming (only one in Papua New Guinea) duty-free store must fall within the duty-free concession or passenger allowance, otherwise duty will be calculated on the excess. There is no facility for sending packages, etc.</p>
<b>GST-free shopping from retailers (not duty-free shops)</b>	<p>Goods purchased by tourists from retailers (not duty-free shops) and sent directly by the retailer to the overseas address are zero-rated. The retailers will have to provide evidence of export. Duty, however, cannot be refunded to the consumer as it has already been paid by the importer or manufacturer of the goods.</p>

**Tax-free importation of goods by tourists**

Goods imported by travellers as part of their accompanied baggage are exempted from GST and duty as prescribed in the Customs 'Personal Effects' rules. The allowances provide for GST and duty concession on all new goods (excluding tobacco, alcohol and perfumes) to the total value of K1,000 per traveller over the age of 18 and K500 for those under 18.

A traveller of any age is allowed to import free of GST and duty, among other things, a personal computer, a still or video camera and work tools are free of duty provided they are not new or in commercial quantity and are intended for their own use. Crews of vessels and aircraft have slightly different allowances.

**GST exemption for any purchase made by foreign tourists prior to their arrival in Papua New Guinea**

International travel in and out of Papua New Guinea as well as domestic travel (within Papua New Guinea by air or sea) and temporary accommodation are exempt from GST. This is provided that the passenger benefiting from the zero-rating of GST must not be a resident of Papua New Guinea and the purchase of the travel or accommodation must be made prior to the visitor's arrival in Papua New Guinea.

Purchase through a travel agent of travel or accommodation by non-residents intending to visit Papua New Guinea are treated as being made by the visitor directly from the airline or hotel operator. Such purchases are zero-rated (GST-free) if made before the visitor reaches Papua New Guinea.

Accommodation or travel can include incidentals such as insurance, food, beverages, tours, activities and airport transfers which are provided 'inclusive' of the accommodation or travel package price. Where the incidentals are sold by the accommodation or travel provider to the intended Papua New Guinea visitor (prior to their arrival in Papua New Guinea) their value will not be subject to GST. These package items are incidental if their total value is less than half the total package price. If the 'incidentals' are sold separately to the visitor by someone other than the accommodation or travel provider they will remain subject to Papua New Guinea GST. It is emphasised that GST will apply in all cases where the visitor purchases accommodation or travel after arriving in Papua New Guinea.

'Unstructured arrivals' refers to independent travellers, who fly in to Papua New Guinea and then purchase accommodation and sea or air travel within Papua New Guinea. Their domestic travel and accommodation is subject to GST.

**Special concessions for ship stores and aircraft stores**

A GST and duty zero-rating is extended for goods for use on ship stores or aircraft stores for consumption outside Papua New Guinea on an aircraft or ship travelling to a destination outside Papua New Guinea (this covers fuel, food, beverages and other consumables). Ship stores and aircraft stores include all the goods necessary to maintain the ship and the aircraft as well as to sustain their crew and passengers. They should not be confused with duty-free shops on the ships or aircrafts.

Stores that sell consumables (alcohol, cigarettes, perfumes, jewellery, clothes, etc.) to passengers are only duty-free as long as they have not landed. Once they have landed, the goods are subject to duty and GST if they exceed the limits allowed under the concessions of the Custom regulations mentioned previously. For example, if you purchase three litres of alcohol duty-free on an aircraft, Customs will charge you duty on the one litre purchased in excess of the two litres allowed if you try to land them with you.

These shops cannot trade while the ship or aircraft is in port or at the airport. They may only operate when the ship or aircraft has cleared the port or the airport and is on an international voyage.

**Special concessions for boats imported by visiting yacht enthusiasts**

Yachts and other small craft that arrive in Papua New Guinea but are not intended for import are treated as any other commercial vessel or aircraft. No duty is charged and the vessel is allowed to travel between Customs ports on what is called an inter-port clearance. Yachts may visit non-Customs ports only with the permission of the principal officer at a port of entry (the Collector) and must abide by any conditions attached to that permission.

When a vessel has entered Papua New Guinea temporarily but, after such enquiries as he thinks appropriate, the Collector has reason to believe that the vessel might have been imported, he may serve a notice requiring the owner or operator to either export the vessel or enter it for home consumption and pay the duty and GST owed within 30 days. If the vessel remains in Papua New Guinea after this time without being entered it shall be forfeited to the state.

**Allowances for cruise vessels and charter flights**

The Collector is allowed to issue permission for a charter vessel or aircraft to arrive or depart from Papua New Guinea using non-Customs ports and airports. The Collector may impose any condition to the permission that he or she thinks is appropriate in order to protect the revenue and ensure compliance with Border Security and Customs-related legislation.

Examples of conditions may include the vessel or aircraft operator paying appropriate costs for the services of Customs officers or employing security personnel to ensure no unauthorised activities occur at the non-Customs ports or airports.

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Source: Papua New Guinea Tourism Promotion Authority