

TOURISM SECTOR STUDY

PAPUA NEW GUINEA



1. ECONOMIC INDICATORS OF TOURISM

1.1 Key Economic Indicators

| | <u>2000</u> | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Population (mn) ^a | 5.19 | 5.34 | 5.52 | 5.62 | 5.70 |
| Population Growth (%) ^a | 1.9 | 3.0 | 3.3 | 1.8 | 1.4 |
| GDP (US\$bn) ^b | 3.5 | 3.0 | 2.8 | 3.7 | 4.5 |
| Real GDP Growth(%) ^b | (1.2) | (3.4) | (3.1) | 1.4 | 1.8 |
| GDP/Capita (US\$) ^b | 656 | 553 | 508 | 647 | 764 |
| Tourism Contribution to GDP (%) ^c | | | 6.3 | | |
| Balance of Visible Trade (kina mn) ^a | 3,034 | 2,940 | 3,113 | | |
| Inflation Rate (%) ^b | 15.6 | 9.3 | 11.7 | 16.0 | 14.0 |
| Exchange Rate (US\$1 to kina) ^d | 2.78 | 3.39 | 3.90 | 3.56 | 3.21 |

a – Asian Development Bank Key Indicators 2000-2002; Pacific Island Populations, SPC, 2003-2004.
b – Market Information & Analysis Section, Australian Department of Foreign Affairs & Trade, using data from the Australian Bureau of Statistics and various international sources; 2003 subject to revision; 2004 EIU forecast
c – SPTO Regional Tourism Strategy for the South and Central Pacific. d – CIA World Factbook. 2004 – market exchange rate as of mid-October.

1.2 Balance of Payments

Papua New Guinea's rich minerals resources (i.e. gold, copper, crude petroleum) and primary produce exports (i.e. palm oil, forest products, coffee beans, cocoa) ensure the country is able to maintain a positive balance of trade account. Mineral deposits account for 72% of export earnings. The economy has slowed in recent years with the government's challenges being the curbing of inflation, gaining further investor confidence, continuing efforts to privatise government assets, maintaining the support of members of Parliament, and balancing relations with the former colonial power, Australia.

1.3 Employment

The labour force of 3.25mn is predominantly (i.e. 85%) employed in agriculture – mostly of the subsistence form. There are no figures on the composition of employment of the remainder of the labour force, nor of unemployment levels though it is widely recognized that there is substantial urban unemployment. The South Pacific Tourism Organisation (SPTO) estimates in 2002 the tourism sector accounted for 3.2% of formal employment in Papua New Guinea (PNG).

1.4 Construction Costs

PNG is well endowed with the necessary resources to support the provision of the necessary infrastructure and superstructure for the tourism industry. There are long-established construction firms, local supplies of building materials and a ready source of labour. These factors result in lower construction costs in PNG than in many smaller Pacific ACP (African Caribbean Pacific bloc) states.

1.5 Operating Costs

The prevailing wage level for service personnel is between kina100 to 200 per fortnight (i.e. kina1.25 to 2.5 or US\$0.38 to 0.76 per hour). For supervisory and management, typical fortnightly salary levels are kina300 to 500 (i.e. US\$93 to 156). Motor gasoline prices are close to the regional average at US\$0.63 while diesel prices are somewhat lower than in other Pacific countries at US\$0.49 (end 2003 prices).

1.6 Local Skills Base

With 80-85% of the population living in rural areas poorly connected physically and financially with the urban segment of the economy, more than half of PNG's population remains functionally illiterate, and only a fraction of the literate population has a primary or high school education. While the number of skilled PNG citizens is growing, it remains small and has not kept pace with the demand for skilled labour, which is rising rapidly.

These human resource issues will affect the growth of the tourism sector. In response, an Australian-funded tourism-training project was commenced earlier in 2004 to be delivered nationally over an eight month period. It involves Australian vocational training institutes working with Divine Word University, Madang. Divine Word is the Catholic University which has a hospitality and tourism school. Its primary role in facilitating the Australian Overseas Aid Agency (AusAID) -funded training project was a study of training needs to identify the scope of the project in the areas of in-service and management training. The AusAID project

is front line training. There is however no training for managers of small businesses which remains an area of need.

1.7 Infrastructure and Services

Air and Sea Access

Jacksons International Airport at Port Moresby can handle all types of aircraft, with a runway approaching 3,000 metres. International services are operated by the national carrier Air Niugini's Boeing 767, in some cases in conjunction with foreign carriers:

- **From Australia (3 points):** *with Qantas – 6 a week (Brisbane, 2 of which commence from Sydney), 9 a week Cairns,*
- **From Asian countries:** *Singapore with Singapore Airlines – 2 a week; Manila (Philippines) – 1 a week; Tokyo (Japan) – 1 a week,*
- **From other Pacific States:** *Honiara (Solomon Islands) – 2 a week.*

As by far the largest Pacific ACP state PNG has the most extensive network of domestic airports. 21 are paved (with runways ranging from 900 to 3,000 metres; while of the unpaved airports 72 have runways of over 1,000 metres. Air Niugini flies to over 100 airstrips and operates regular services to the country's 20 major towns.

The main ports are Alotau, Kieta, Lae, Madang, Momote, Port Moresby, Rabaul and Wewak. Given the weak status of the road transport network, domestic air services and the network of ports are vital to contact with, and the movement of goods and passengers to/from, provincial centres. PNG has a significant sea and river cruising (on the Sepik river) tourism product.

Telecommunications and Information Technology

Services are adequate and are being improved. International telephone (including mobile), facsimile, and email/internet services are available 24 hours from the national telecommunications company, Telekom. Most accommodation properties have international direct dialling (IDD) facilities and internet access. Domestic connection is mostly through radiotelephone.

Utilities

Electricity is 220 volt AC, 50Hz (110 volt AC in some hotels) generated either by fossil fuel or through hydropower. The dispersal of the population across the country's large land mass results in electricity supplies reaching only 12% of the population. Costs are high and service interruptions frequent.

Less than half the population has access to clean water and only one-in-five has sewerage connection. A current Asian Development Bank (ADB) loan of US\$15mn is upgrading water and sewerage provision in six towns.

Roads

Road transport within the country is difficult and expensive due to its mountainous terrain. A network of roads connects the northern coast towns of Madang and Lae with the major

urban centres in the Highlands region. There are few roads connecting the various provinces, however, and the maintenance of existing roads is poor. The Highlands Highway can be impassable during the wet season. The ADB has made a grant of US\$1.1mn recently to address the problem of road improvement.

2. TOURISM STATUS AND TRENDS

2.1 The Tourism Offer

The largest of the Pacific countries in terms of land mass and population (i.e. 75% of the land area and 70% of the region's population); much of Papua New Guinea has seen little tourism development. The outstanding natural resources and the wide variety of traditional lifestyles still little changed from exposure to the western world make Papua New Guinea the ultimate adventure-cum-ecotourism destination.

The country offers a range of holiday features and activities: **trekking** along remote jungle tracks, **cruising** the mighty Sepik, **surfing** the waves of New Ireland, **fishing** around the fiords of Tufi, and **diving** amongst the coral reefs. **Sports facilities** are available in main urban centres (e.g. sailing, golf, horse riding, squash, tennis). PNG is seeking to move into mainstream tourism as a major dive destination, adventure destination, increasing emphasis on **ecotourism** and a special **cultural experience**. The PNG Tourism Promotion Authority (TPA) is well-resourced, and is able to provide assistance to industry organisations to enable them to develop their operations and member services. It is promoting new investments in major tourism facilities, such as mid-large scale resorts in the main provinces.

Accommodation

Accommodation in Papua New Guinea comprises a wide range of facilities, including hotels, resorts, lodges, cottages and guesthouses. The SPTO estimated in 2002, that there were 140 tourist accommodation establishments in PNG of less or equal to 9 rooms each, giving a total room stock of approximately 1,200. The Intercontinental Hotels Group has two hotels in Port Moresby – the Crowne Plaza and the Holiday Inn with 163 and 156 rooms respectively. The Coral Sea Hotel group with eight properties with a combined room inventory of over 350 is also foreign-owned. There are three or four major accommodation facilities in each province, most of these having between 50 and 70 rooms. There is a very large number of operations of lower grade (in the form of guesthouses) with less than half a dozen rooms each.

2.2 Market Trends

Over the past two decades the tourism sector in PNG has been static. Successive Governments provided little support and no incentives to development. Visitor arrivals have declined in the past three years, partly following 9/11 and Severe Acute Respiratory Syndrome (SARS) but also perceived weaknesses in the tourism sector.

| TABLE ONE | VISITOR ARRIVALS 1999-2003 | | | | |
|------------------|----------------------------|--------|--------|--------|--------|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| Visitor arrivals | 67,357 | 58,429 | 54,235 | 53,670 | 56,185 |

Australia is the main source of international tourist arrivals in PNG, accounting for 54% of total arrivals in 2003. Then come the USA (just under 8%), Japan (nearly 7%), and the Philippines (5%). A total of 4,214 arrivals (or 7.5% of all arrivals) were recorded from European markets, mainly from the UK and Germany.

| TABLE TWO | ARRIVALS BY MAIN SOURCE MARKETS | | |
|-----------------|---------------------------------|---------------|---------------|
| | 2001 | 2002 | 2003 |
| Australia | 27,661 | 26,562 | 30,609 |
| New Zealand | 2,731 | 2,351 | 1,952 |
| Other Pacific | 1,410 | 1,426 | 2,095 |
| Japan | 2,686 | 3,804 | 3,789 |
| Philippines | 2,540 | 2,448 | 2,772 |
| USA | 5,314 | 6,053 | 4,261 |
| United Kingdom | 2,133 | 1,800 | 1,459 |
| Other Europe | 3,028 | 2,928 | 2,755 |
| Other Countries | 6,732 | 6,298 | 6,493 |
| TOTAL | 54,235 | 53,670 | 56,185 |

In 2002 62.3% of arrivals were on business, reflecting increasing investment in PNG's resources and primary industries, a high level of aid-related travel and normal business operations of a nation of 5.2 million people, by far the largest in the South Pacific. The proportion of business arrivals increased in 2003 to 62.9%.

The strong business traffic is reflected in a business hotel network with main city hotels in Port Moresby stating that 90% of their guests are business and government related. Most regional hotels are also dependent on the business and meetings sector.

The holiday travel sector, on the other hand has been soft, with the major operators reporting significant business decline in the past three years. The loss has been noticed primarily in the touring product, with declining numbers evident in the Highlands and Sepik areas. The PNG Tourism Promotion Authority (TPA) attributes this decline to the cancellation of national cultural events and poor press in Australia.

PNG is traditionally regarded as a niche market experience, with diving, culture and adventure the main elements. The strongest sector is the dive industry, which is continuing to expand, with investment in resorts and in live-aboards and increasing involvement of overseas operators and investors.

European markets have been declining, particularly for business and other non-discretionary purposes. The number of holiday visits by EU citizens showed little change at just over 1,900 in both 2002 and 2003 but as a proportion of total EU visits to PNG holidaymakers rose from 41% to 46%.

The number of Australian visitors on holiday increased from 5,194 to 6,310, but this may be a reflection on the high cost of a business visa. Japanese holiday visitors were relatively constant, 2,821 in 2002 and 2,805 in 2003, a year affected by SARS and the Iraq war.

| TABLE THREE | ARRIVALS BY PURPOSE OF VISIT | | |
|--------------------------------|------------------------------|---------------|---------------|
| | 2001 | 2002 | 2003 |
| Business | 34,531 | 33,276 | 35,339 |
| Holiday | 13,896 | 15,285 | 14,820 |
| Visiting Friends and relatives | 5,536 | 4,762 | 5,395 |
| Other | 452 | 347 | 631 |
| TOTAL | 54,235 | 53,670 | 56,185 |

Occupancy and Seasonality

Occupancy rate statistics are not collected. While the larger hotels may achieve 70% occupancy, it is unlikely that the smaller operations outside main tourist centres would achieve annual utilisation levels as high as 50%.

The dominance of business travel leads to a fairly even flow of arrivals across the year. Only in December is there a marked peak with high levels of visits home to friends and family by those of PNG origin resident in Australia. The quietest period of the year is February through May.

Estimates of Expenditure

In the World Bank's Pacific Islands Regional Economic Report (Tables 1.2 and 1.3, pp10/11) the tourism GDP for PNG in 2000 is given at 6.3% of total GDP of US\$3,476mn (i.e. around US\$315mn); no figure is provided for tourism receipts or its proportion of the value of exports in the World Bank report. The Department of Trade & Industry indicates a lower level of tourism GDP contribution i.e. 2.4% (as a result of definitional differences). This would suggest a contribution of over US\$100mn a year. The PNGTB estimates tourist expenditure averaging kina7,000 (somewhat over US\$2,000). Grossed up by the number of visitors a total receipts figure for 2003 of US\$120mn is estimated.

3. INVESTMENT OPPORTUNITIES IN TOURISM

The fact that great areas of Papua New Guinea are virtually untouched constitutes a lure for the growing numbers of international tourists looking for a combination of the unusual, "off the beaten track" places, opportunities for adventure, and access to authentic local cultures.

The government has targeted tourism as a priority area for the economic development of the country and for the creation of employment opportunities at rural and urban levels. There has been a significant shift in Government's position on tourism. Prior to the election of 2002, there was little vision or support for tourism development and promotion. With the appointment of an internationally experienced chief executive, a doubling of operating budgets, approval to open new overseas posts and additional funds for development and industry support, the PNG TPA is giving direction and leadership to tourism previously lacking. There are plans for a major review of the Act governing the TPA to enable a more effective Board and requiring the Provincial Governments to become more closely involved in tourism development. It will also require the Provincial Governments to provide resources for staff, the upkeep of tourism assets and access.

Two major operators, Melanesian Tourist Services, and the Australian-owned Trans New Guinea Tours dominate much tourism to Papua New Guinea. These long-established competitive organisations control a network of hotels, transport and tour operations which has limited the growth of indigenous tourism particularly in the Highlands and northern coastal regions, prime tourism areas. The TPA's strategy is to encourage growth in the non-divide sector and developing wider indigenous tourism, particularly in local village guesthouses and small accommodation properties.

The major impediments to the tourism sector are: (i) high airfares (both international and domestic); (ii) the difficulty of access; and (iii) the law and order problem, which has been widely – and exaggeratedly - reported in the foreign media.

The Papua New Guinean tourism industry and broader economy is well positioned to attract inward investment and partnership formation. The following are some key investment and partnership opportunities that currently exist:

- Accommodation development – of all types from 3-4 star city hotels and resorts to eco-lodges and guesthouses;
- Trekking trail development;
- Cultural facility development;
- Diving;
- Fishing;
- Surfing;
- World War Two (WWII) history;
- Caving;
- Nature-based activities e.g. bird and butterfly watching

4. OPERATING ENVIRONMENT FOR TOURISM INVESTMENT

4.1 Investment Framework

Papua New Guinea has a liberal investment policy that encourages and welcomes foreign direct investment. The National Investment Policy provides the transparency, equal treatment and consistency demanded by foreign companies. A one-stop shop for investment - the Investment Promotion Agency – has been established with a Business Licensing and Information System put in place.

Certain business activities – including small-scale operations in tourism – are restricted to citizen and national enterprises.

Foreign investors are allowed to remit earnings overseas, repatriate capital and remit amounts necessary to meet principal, interest and service charges.

Corporate tax ranges from 25% for resident companies to 48% for non-resident companies. Personal tax is levied at 25% for those with incomes up to kina16,000 with rates progressively rising in line with income up to a maximum of 47% on earners of kina95,000 or more.

PNG has double taxation treaties with the UK, Australia, Canada, Singapore, Malaysia, China PRC, South Korea, Germany, Indonesia and Fiji.

97% of land in PNG is collectively owned and cannot be sold for individual gain. Acquiring land for tourism development can only be done through leasing for terms up to 99 years. The owners of areas formerly under palm oil plantation are leading the way e.g. in New Britain Province. Government is seeking to identify, and smooth the acquisition of, land for tourism development purposes on long-term leases.

4.2 Incentives Regime

Most of the incentives take the form of exemptions from company income tax or deferment of income tax liabilities. There are tax holidays for rural development projects, and for developments in East New Britain and Bougainville. There are double deduction provisions for export market development costs and staff training.

4.3 Access to Finance

The central bank is the Bank of Papua New Guinea. There are five commercial banks offering a variety of financial services:

- ANZ PNG
- Westpac PNG
- PNG BS
- BSP
- Maybank

There are also a number of other agencies that will provide assistance to prospective investors including finance companies, merchant banks, savings & loans societies, insurance companies, stockbrokers & the Rural Development Bank.

International Financial Institutions

Papua New Guinea as a signatory to the Cotonou Agreement has access to the facilities of the European Investment Bank (EIB). As a member of the World Bank, the facilities of the International Finance Corporation (IFC) would be available for projects in this country.

APPENDIX ONE: PRINCIPAL TOURISM ACCOMMODATION ENTERPRISES

INDEPENDENT HOTELS, MOTELS & RESORTS

LOCATION

| | |
|--------------------------|---|
| Lae International Hotel | Lae, Morobe Province |
| Jais Aben Resort | Madang Province |
| Smugglers Inn Resort | Madang Province |
| Madang Lodge | Madang Province |
| Kainantu Lodge | Kainantu, Eastern Highlands Province |
| Kiburu Lodge | Mendi, Southern Highlands Province |
| Hamamas Hotel | Rabaul, East New Britain Province |
| Rapopo Plantation Resort | Rabaul, East New Britain Province |
| Kavieng Hotel | New Ireland Province |
| Palm Lodge Hotel | |
| Palms Resort Hotel | |
| Kimininga Lodge | Mt. Hagen, Western Highlands Province |
| Minj Hotel | Mt. Hagen, Western Highlands Province |
| Harbourside Hotel | Manus Province |
| Tufi Dive Resort | Popondetta, Oro (Northern) Province |
| Sandaun Motel | Vanimu, Sundaun Province |
| Vanimu Resort Hotel | Vanimu, Sundaun Province |
| Lamana Hotel | Port Moresby, National Capital District |
| Loloata Island Resort | Port Moresby, National Capital District |
| Napatana Lodge | Milne Bay Province |
| Kiriwina Lodge | Milne Bay Province |
| Masurina Lodge | Milne Bay Province |
| Kokopo Beach Hotel | Kokopo, East New Britain Province |
| Kundiawa Hotel | Simbu Province |

HOTEL GROUPS

Melanesian Tourist Services

| | |
|-------------------------|---|
| Madang Resort Hotel | Madang Province |
| Malangan Beach Resort | Kavieng, New Ireland Province |
| <i>Coral Sea Hotels</i> | |
| Ela Beach Hotels | Port Moresby, National Capital District |
| Gateway Hotel | Port Moresby, National Capital District |
| Melanesian Hotel | Lae, Morobe Province |
| Huon Gulf Motel | Lae, Morobe Province |
| Highlander Hotel | Mt. Hagen, Western Highlands Province |
| Coastwatchers Hotel | Madang Province |
| Lamington Lodge | Popondetta, Oro (Northern) Province |
| Bird of Paradise Hotel | Goroka, Eastern Highlands Province |

Intercontinental Hotels

| | |
|------------------|---|
| The Crowne Plaza | Port Moresby, National Capital District |
|------------------|---|

The Holiday Inn Port Moresby, National Capital District
Rabaul Travelodge Rabaul, East New Britain Province

The Airways Hotel
Airways Hotel & Apartments Port Moresby, National Capital District
Alotau International Hotel Alotau, Milne Bay Province

Trans Niugini Tours
Ambua Lodge Tari, Southern Highlands Province
Malolo Plantation Lodge Madang Province
Karawari Lodge East Sepik Province

BUDGET/ECOTOUR

Comfort Inn Motel Port Moresby & Central Province
Magila Motel Port Moresby & Central Province
Owen Stanley Lodge Port Moresby & Central Province
Kokoda Trail Motel Port Moresby & Central Province
Hoibiscus Motel Port Moresby & Central Province
Carmel Guest House Port Moresby & Central Province
Mansava Adventure Lodge New Ireland Province
Kavieng Guest House New Ireland Province
Dalom Guest House New Ireland Province
Lisinung Guest House New Ireland Province
Nusa Island Retreat New Ireland Province
Taklam Lodge East New Britain Province
Kokopo Village Resort East New Britain Province
Village Haven Guest House East New Britain Province
Haus Poroman Lodge Western Highlands Province
Gold Line Lodge Western Highlands Province
Betty's Lodge Simbu Province
Kumul Adventure Resort Hotel Enga Province
Mountain Lodge Pogera Enga Province
Lakawanda Guest House Southern Highlands Province

APPENDIX TWO: INTERNET RESOURCES ON PAPUA NEW GUINEA

PNG Tourism Promotion Board

Address: Pacific MMI Building, Level2, Champion Parade, Port Moresby.
PO Box 1291, Port Moresby, NCD, PNG

Tel: (675) 3200 211

Fax: (675) 3200 223

Email: info@pngtourism.org.pg

Web: www.pngtourism.org.pg/

Investment considerations

<http://www.ipa.gov.pg>

<http://www.tcsp.com/spto/cms/investment/indax.shtml>

<http://www.tcsp.com/spto/export/sites/SPTO/investment/png.shtml>

Economic policy & performance, Financial infrastructure & regulatory framework

http://dfat.gov.au/geo/png/png_brief.html

<http://www.forumsec.org.fj/docs/IG/P12.htm>

http://www.adb.org/Documents/Reports/Annual_Report/2002/png.asp

http://www.adb.org/Documents/Books/Key_Indicators/2003/pdf/PNG.pdf

Law

<http://www.law.cornell.edu/world/australasia.html>

Tourism statistics

<http://www.pngtourism.org.pg/png/export/sites/TPA/news/ArrivalStats/tillaug2004.pdf>

http://www.tcsp.com/spto/cms/investment/table_A2.shtml

http://www.tcsp.com/spto/cms/investment/table_A3.shtml

<http://www.spc.int/prism/country/pg/Stats/Tourism/tourism.htm>

Key indicators of developing Asian and Pacific countries

http://www.adb.org/Documents/Books/Key_Indicators/2004/pdf/PNG.pdf

National Institutions, General Information, Political Information, Information from Encyclopaedias, Tourist Information, Information on Human Rights, Other Information (2001)

<http://www.gksoft.com/govt/en/pg.html>

Project profiles

<http://www.adb.org/Documents/Profiles/ctry.asp?ctry=36>

General information, tourism profile, (March 2003)

http://www.adb.org/Documents/Books/Business_Reference_Guides/BIG/png.pdf

<http://www.forumsec.org.fj/docs/IG/Tourism%20Guide%20Sydney.pdf>

Geography, people, government, economy (December 2004)

<http://www.cia.gov/cia/publications/factbook/print/pp.html>

Communications Policy Statement & Facilities

<http://www.pngonline.gov.pg/>

Tourism attractions, tourism accommodation

<http://www.pngtourism.org.pg/>

<http://www.tcsp.com/spto/cms/destinations/png/index.shtml>

<http://www.spto.org/sitemap.shtml>

General information

<http://www.cia.gov/cia/publications/factbook/geos/pp.html>

<http://www.adminet.com/world/pg/>

<http://www.postcourier.com.pg/>