

**Murray Woo, Chairman, Manufacturers Council of PNG
&CheyScovell, Chief Executive Officer, Manufacturers Council of PNG**

TALKING NOTES FOR INAWORKSHOP 30TH JAN 2012

With the current resource boom, we have all seen and experienced the changes this past three years in PNG. I say current resource boom as this is not the first boom, nor shall it be the last. It would be fair to say however that the LNG project has been discussed and felt to a greater degree than previously and whilst major changes center around the project sites, with respect to LNG changes are none more visible than here in our nation's capital, Port Moresby and the nation's industrial hub Lae.

Story before opening... which is appropriate as the brackets of issues are what are generally considered as the bracketed concerns today.

SPBrewkettle with ExxonMobile Senior Exec

Their perception of PNG labour force

Local content policy

Capacity for supply

General constraints

Impact outside of project area

Could talk at length about issues in general, which is a trap as the reality is many of the issues raised by industry and civil society today were held and vocalized before the advent of LNG.

Impact on Livelihoods and Econ Dev

Access to opportunity

Access to goods, services

All of course over a long term and sustainable provision.

Livelihoods... from the perspective of a newborn to retiree

Inutero... little support and no changes

Birth – born to LNG worker great, other much worse

Education - >50% to grade 1, >5% grade 12

Formal Employment – ops very poor

TVET – poor

Work – Increased salaries

Retirement - superannuation as virtually no state support and in the traditional sense village life, land ownership, resource ownership is the retirement safety net.

Today we still have a high unemployment rate especially the youths who come out from school looking for jobs. Most of these youths are not targeted by the extractive industry job stream in Papua New Guinea and remain the biggest number in their age bracket to remain unemployed.

The formal labour force nationwide is about 300,000 with the informal sector largely engaged in the agriculture sector. With many still unemployed, some have resorted to crime and corruption to survive.

The demand for housing became unaffordable for many, as the demand by LNG and its many support services and suppliers push the property market beyond the means of the average person and even companies. This in effect has forced many Papua New Guineans who once could afford to live in a basic house or apartment to move into the settlements or share accommodation with other families.

Due to the demand of mainly multi-billion LNG project and its suppliers to accommodate their staff, the property boom coincided with the construction phase of the project. Many local tradesman and foreigners were recruited to cater to the demand.

Along with the economic boom inflation has raise its head even higher. It has risen to an all time high of 9% and rising to a predicted double -digit figure.

Food prices are also ridiculously high. Even expatriates are complaining about the high cost of food especially here in Port Moresby. With the rising and stronger Kina it is not affordable to many as the benefits are eroded by the importers who had not pass on

the difference and even their cost have increased because of the raising cost on the domestic front.

Econ Dev... and that for businesses...

LNG represents many ops for entrepreneurs; whilst opps are there it isn't easy.

Constraints: available, reliable and affordable.

How have other businesses fared?

Manufacturers lost drivers, technical personnel such as fitters and turners, electricians, refrigeration mechanics, welders, plumbers, carpenters and key management staff. The LNG is so insatiable for labour that it had also sourced many workers from overseas.

The LNG project especially and the overall extractive industry has put a huge strain on the already poor infrastructure we have. Government departments, with the lack of resources in staff, budget and facilities have been unable to handle the increase in demand placed by existing and new businesses for the likes of power, water, ports, roads, land, sea and air transport, Customs, Immigration, Labour Departments, the Investment Promotional Authority and many other statutory bodies.

You only have to step out this hotel to experience the increased traffic and poor road maintenance. I remember that for me to go to a meeting it would only take about ten minutes. Today with the many vehicles on the roads I would have to leave my office at least 45 minutes before hand to ensure I get to my meeting on time. We have not planned and foreseen the impact of this project.

We are still dealing with the same issues including poor health facilities and services, poor education facilities with technical institutions desperate for assistance. It was noted that LNG has not liaised and partnered with these existing training technical institutions and help improved these facilities but have gone and built and invested in new facilities that it promised to hand over to the State after a period of time.

Power is currently severely under capacity, non-reliable and expensive. Ports is also strained to the limit with ships being delayed for unloading and having to incur further

cost by waiting outside before coming in to unload. Customs are also undermanned and lack facilities. The Labour Department has admitted that they were caught napping with the massive surge in request for work permits and have improved but they are still going through processes like "REV", Restrictive Employment Visa, to try to make it easier for foreign workers to come to work especially for short term for emergencies where for example the technical skills are not readily available here in the country.

Available finance for businesses especially for construction and development have been curbed in the last few years by the local commercial banks because of the fear in the so called "property bubble" and interest rates for borrowing have risen from about 11% to up to 15% for loans and investments. On the other side, interests for term deposits have been lowered from 5% to a mere 1.5% to 2%. It is also worth noting Banks have also increase their fees and imposed new charges such as 1% on cash deposits that is K10,000.00 and above. They are so liquid, flushed with cash that they now charge you for depositing with them?

The extractive industry sector imports most of their requirements and is not really affected by what is happening on the domestic level. In fact, when it does buy from onshore it encourages importers to bring the items it needs from overseas.

The stronger Kina should make imports cheaper and have impacted on some local manufacturing businesses.

The Government has yet to put into place the Sovereign Wealth Fund which is also a mechanism which they hope to keep inflation and the raising Kina at a more stable and manageable level. We have yet to realize the benefits or cause of this fund.

It is known that once the set up phase of the construction period is over for the LNG project, many of the workers from the project will flood the market. PNG will have ready trained human resources available for future projects which will hopefully sustain their expected higher remuneration. When will skilled people move into other sectors for less money... is this likely or reasonable to expect?

Competing will further increase inflation.

With the increasing high cost in the poor infrastructure and low productivity another increase in wages will force many business to address how they will sustain employing more people and some have even seriously considered letting go some employees. This course of action will certainly affect livelihoods and have a social impact on communities.

FOCUS ON LNG

GOODS AND SERVICE FOCUS FOR LNG

REGULATORY FOCUS FOR LNG

SCALE OF ECON, MEETING SUPPLY

Wage Rate Survey

Debt Burden

FOCUS NEEDS TO BE OUTSIDE LNG...

Productivity... tolerance of poor performance and inflated pricing by LO