# MADE IN PNG

## SPECIAL FEATURE



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Business Advantage INTERNATIONAL


# LOCALLY MADE

Manufacturing in PNG is a small part of the country's economy; however, the spirited sector is punching way above its weight with a wide array of products, from coffee to beer, chocolates and steel products. *David James* reports.

Manufacturing in Papua New Guinea represents a comparatively small part of the economy. According to the World Bank, it constituted just two per cent of GDP in 2017, although other estimates put it between six and 11.5 per cent.

On the export side, the strongest performer is palm oil. According to the Bank of Papua New Guinea, palm oil exports rose by 180 per cent between 1998 and 2016.

Yet if the manufacturing sector is small, there is nevertheless some spirited activity.

One example is Pacific Foam, which claims to be the largest diversified packaging supplier in PNG. "We can meet all the packaging needs of the various sectors of the growing PNG economy: retail, wholesale, fast-moving consumer goods manufacture, food and beverage manufacture, agriculture, fisheries, construction, mining and resources, hospitality and catering," says chairman Nihal Shah.

"While economic conditions are definitely very tough in the country today, Pacific Foam Group does see a bright long-term future and continues to invest in its manufacturing capabilities to grow its business and help the national goal to reduce reliance on imports.

"Today, we are a vertically integrated manufacturer with products that are proudly PNG-made and proven in the marketplace."

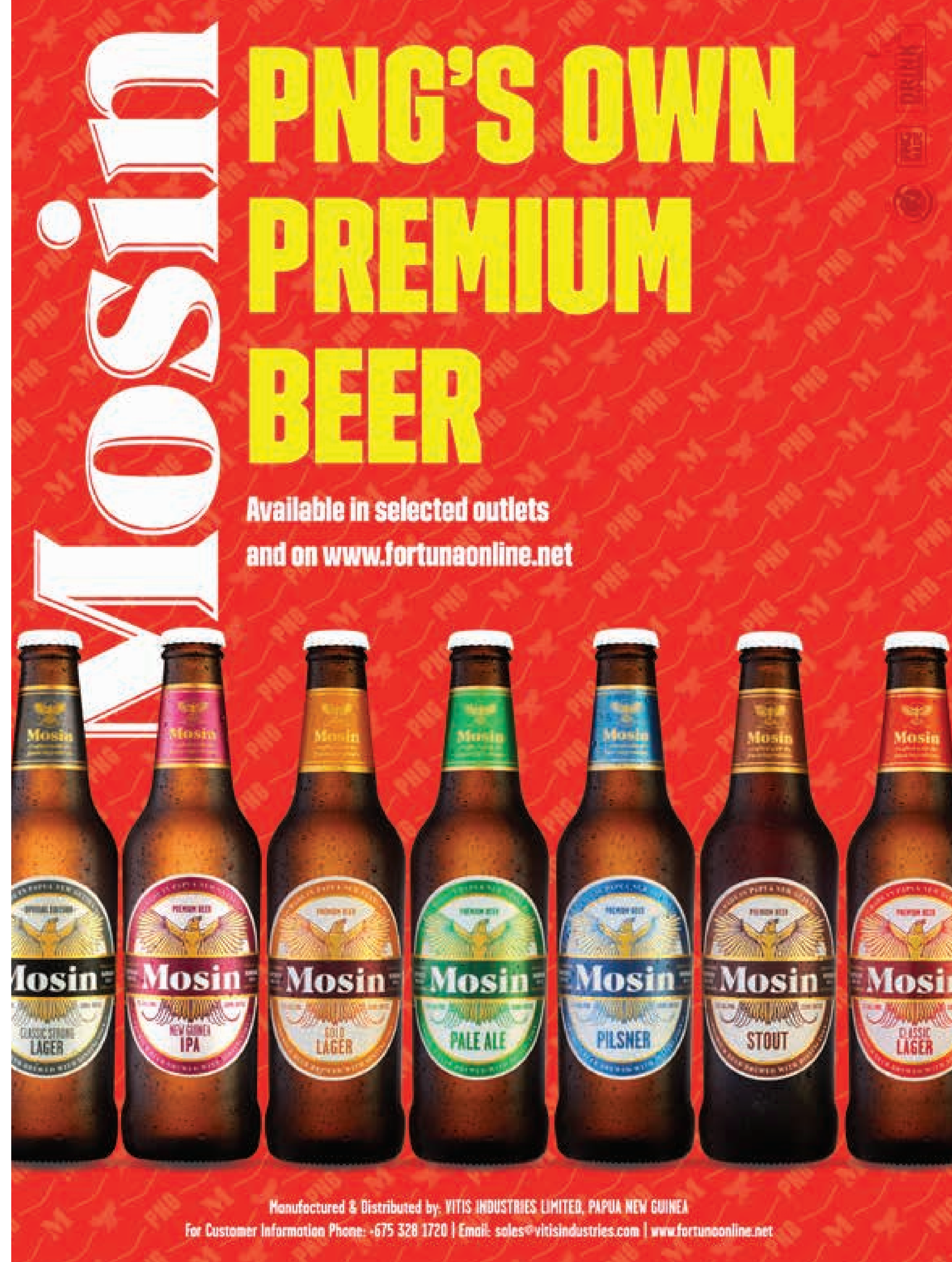
Another prominent player is SP Brewery. General manager, Stan Joyce, says managing economic volatility is essential in PNG.

"If you're planning a manufacturing business in PNG, you have to accept that the nice little 2–2.5 per cent growth that the economists and all those wonderful people in suits on the other side of the world want to have happen, won't always be the case in PNG.

"Sometimes I go to meetings and tell the bosses about a 10 per cent growth in sales and they're wondering how you did it. When you've got to explain a 15 per cent drop they want to know what you're not doing. But you need to have that long-term view."

Many manufacturers in PNG are overseas companies. ➤





For example, KraftHeinz has two factories in PNG producing corned beef. In 1988, the company purchased the Hugo Canning Company and it has distributed from the Port Moresby warehouse since 2011. It also exports to the Solomon Islands and Vanuatu.

The Australian company Rhodes has a manufacturing and logistics plant in Port Moresby. Managing director, Emanuel

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Papas, says the company is geographically spread, with procurement and manufacturing operations in China, a back-end design office in the Philippines, a head office in Australia and local operations for each project.

Papas says establishing operations in PNG takes time, but once established it is relatively secure because of the high barriers to entry.

Some companies find conditions difficult, however.


**Hard at work … (from top, clockwise) making ice cream at Laga Industries; Chey Scovell, the chief executive of the Manufacturers Council of PNG; beer from SP Brewery; PNG springs.**

The paint manufacturer Akzo Nobel has pulled out of local manufacturing, citing high overheads. Although PNG labour is affordable, the other costs can be high.

The foreign exchange shortage is posing a challenge for many PNG businesses, including international manufacturers. But it can benefit the local players, according to Chey Scovell, chief executive of the Manufacturers Council of PNG.

He notes that it is opening up gaps in the market, especially in the fast-moving consumer goods space.

Frank McQuoid, chairman of steel fabricator, Steel Industries, says that many clients prefer to pay for their product in kina. He says, however, that it will be difficult for PNG manufacturers to survive without greater protection, observing that “the vast majority of imports into PNG are duty free”.

Many local PNG manufacturers are building on the advantage PNG has in agricultural produce.

According to Canadian vanilla supplier Aust & Hachmann, PNG is one of the premier producers of vanilla beans, and essence is locally manufactured.

Another using this strategy is Ernestine Maxtone-Graham, director of MaxtoneHaus, who started a coconut oil processing plant at Kanudi in Port Moresby in 2015, buying copra from local farmers along the coastal villages in the Abau District of Central Province.

MaxtoneHaus says it initially bought sun-dried coconuts, but then began purchasing whole coconuts and air drying them. The shell is used for fuel, the meat is pressed for oil and the remaining meal is sold to piggeries. “There is no wastage,” says MaxtoneHaus.

Another option is to manufacture offshore using PNG raw materials.

Papua New Guinean, Pana Wiya, principal of Village Coffee, is located in Sydney, Australia. He imports beans from Wau in Morobe Province, and the Eastern Highlands, then roasts them for the Australian market. ■

# STEEL COMPANY DIVERSIFIES

Major steel fabrication and construction company Hornibrook NGI is leveraging its in-house capacity to diversify into property and hospitality.

The privately owned Lae-based firm was formed in 1990 by the merger of Hornibrook Constructions and NGI Steel.

With the construction side of the business relying heavily on roll-formed steel-frame buildings (well suited to PNG's harsh environment) vertical integration became an important competitive advantage in an economy where it is not always easy to source the products and services you need.

"Vertical integration is the key. The more you do in-house the less you can be let down," says managing director Matthew Lewis.

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The company relocated from the centre of Lae to the Nine Mile area, halfway to Lae's Nadzab Airport in 2012. At 6400 square metres, the steel fabrication facility at the new site is the largest in PNG and includes a vehicle repair workshop. The company's core business is to provide turnkey building services for mine sites, hospitals, schools and housing.

In the past decade, it has also expanded into property and hospitality, most obviously with the opening of the Crossroads Hotel, on a pristine block across the road from the steel plant.

The three-star hotel has 45 rooms, plus an infinity pool, poolside bar and entertainment area, and a well-equipped gym.

On the same estate, Hornibrook has built 134 four-bedroom houses, which it rents out. There is also a convenience store and ATM on site. However, this development is just the beginning of the company's ambitions in the property sector, says Lewis.

"We own a large tract of land in the Nine Mile area and when the economic conditions are right we intend to develop it into a satellite suburb of Lae."

– ROBERT HAMILTON-JONES

# TUNA CANNER SEES GOOD TIMES AHEAD

PICTURE: DAVID JAMES.





Managing the price of fish is the biggest manufacturing challenge, according to Erwin Ortiz, general manager of RD Tuna Canners.

He says the company intends to increase its storage capacity as part of its strategy to deal with price volatility.

Ortiz says 2017 was "a decent year" for the fishing group.

"We need to really catch the free-school fish. That is why we have upgraded our fishing vessels. We were able to see the benefits."

Ortiz says the company is now vertically integrated and does not need to buy fish from external players.

This has helped partially with foreign exchange challenges.

"We have to pay in kina and the fishing companies want US dollars. But now that our fleet is upgraded we all get our fish from our own fishing group."

Ortiz says there are two elements to manage: the volume and the price of the fish.

> "In 2019, we will be building additional cold storage in the manufacturing compound."

"In 2017, we improved on the volume in the second half of the year because of the new vessels," he says.

But the price of fish, which is set internationally, got very high.

Ortiz says the average fish price last year swung in a 25–30 per cent range against 2016.

The price of fish greatly affects the company's profit margins, he says. "You buy more fish when the price is low but when the price is up you have to be very careful."

The way to deal with the volatility is to use cold storage to increase the inventory.

"What we need to do is stock fish for three months. With that we can plan well, do forward bookings effectively and will be protected from any changes of price.

"In 2019, we will be building additional cold storage in the manufacturing compound."

Seventy per cent of RD Tuna's revenue comes from exports, with the remainder sold to the domestic market.

Ortiz says he is "very, very optimistic about the future," noting that the upgrading of the fishing fleet is paying off.

"The rebate given by the National Fishing Authority and the government to manufacturers is very good," he says.

"We have been in the business for 20 years. RD Tuna Canners is the pioneer in tuna processing in Papua New Guinea and we believe, given the right support from the National Government, doing business here is still profitable." ■

– DAVID JAMES