



## **PRESIDENT'S REPORT**

# **PNG CHAMBER OF MINES AND PETROLEUM ANNUAL GENERAL MEETING, 2<sup>ND</sup> MAY 2014**

### **INTRODUCTION**

Good afternoon Ladies and Gentlemen,

It has been another hectic year for the Chamber, the same as in most other industries across the country, in what has both been a pleasing as well challenging year.

The Mining and Petroleum industry has been the most aggressive driver for PNG's good economic fortunes for almost a decade, and will continue to do so with production commencing from the PNG LNG project.

Chamber activities ended the year on a high note, with near record attendance at the petroleum and mining seminar held in Port Moresby from December 3 to 6.

Prime Minister Peter O'Neill, Mining Minister Byron Chan and former Petroleum and Energy Minister William Duma, and the secretary for the Department of Mineral Policy and Geohazards all made significant addresses at the seminar.

A number of major projects in the industry are currently progressing very well, the most notable being the PNG LNG Project, with production currently starting ahead of schedule as announced by operator ExxonMobil PNG Ltd recently.

We, as a Chamber have also made progress on a number of issues, and continue to work with government to ensure the industry voice is heard on issues that affect not only us in the mining and petroleum sector but the country as a whole.

More new projects are being pursued in the petroleum sector; however, on the flip side the growth we have seen for a considerable time in the mining sector is in steep decline, due to falling commodity prices and unfriendly financial markets.

Despite the decline in commodity prices in the mining sector, which have affected the industry globally, and PNG is no exception, with a number of projects laying off workers and a sharp decline in mineral exploration activity. Progress has also been made on PNG's first deep see mining project, Solwara 1.

## **THE YEAR IN REVIEW**

Here are some of the highlights of the last 12 months.

- **THE PNG ECONOMY**

The GDP growth in PNG was somewhat slower than budget forecast at 5.1%. The lower growth is attributed to the winding down of the PNG LNG construction phase, the downturn in the mineral sector, and the ongoing lag effect with the Government's counter cyclical fiscal stimulus.

In contrast to the mining and petroleum sector the rest of the economy would just grow by 1.6%. The annual inflation was 4.7%, which was lower than Bank of PNG's forecast of 5.5%.

International commodity prices for agriculture and mineral commodities has fallen sharply and high demand for imported goods and services have contributed to depreciation of the kina against all major currencies.

The 2014 National Budget continues on the fiscal stimulus path started in 2013 to support economic growth following the winding down of the construction of the PNG LNG project.

The wind down in the PNG LNG project, slowdown in the mining sector, lower commodity prices and falling domestic consumption, weak kina has led to weaker than expected year for many business entities.

- **POLITICS**

The Chamber has been watching closely events unfolding in the political arena over the last 12 months. Notably, we gained a new Minister for Petroleum and Energy, the Hon Nixon Duban. The Chamber appreciates the government's development achievements, particularly the implementation of a free education policy, and the political stability that we have seen in recent times.

The return to political stability following the 2012 National Election has lifted business confidence. There is nothing more worrying for an investor than continuous changes to government policy, either real or perceived. We hope the government can take this into account when considering the recommendations from the current taxation review.

The industry continues to be concerned about the delays and inconsistency in regulatory approvals, especially in the petroleum sector, with some applicants waiting for months for processing of licence applications whilst others are approved with ease.

A significant amount work and dialogue continued between the industry and government, notable ones being;

- **THE ACCEPTANCE OF PNG AS AN EITI CANDIDATE COUNTRY**

- This was a significant step in a process that began in 2006 to ensure greater transparency over payments made to the PNG Government by oil, gas and mining companies.
- We congratulate the Government on its commitment to move forward with EITI and other transparency and management initiatives such as the Independent Commission Against Corruption (ICAC) and the Sovereign Wealth Fund.
- The transformation of the Department of Environment and Conservation into an authority was passed in Parliament in February 2014. This set up the Conservation and Environment Protection Authority. A workshop is being organised by the Chamber and CEPA to inform the stakeholders of the transition next week.
- The transformation of the Department of Petroleum and Energy into an Authority is still in the planning phase.

- **THE PNG LNG PROJECT**

The PNG LNG project has made significant progress in the last 12 months, and is currently ahead of schedule to produce its first LNG, adding PNG to the list of LNG producing nations. This is a significant milestone for the country as well as the project proponents.

The project remains on target for first LNG Cargo in the coming weeks, production continues to ramp up, with the project expected to produce more than 9 trillion cubic feet of gas.

Production from the first LNG train will increase over the coming weeks, and the first cargo is expected to be shipped to Asian markets before midyear.

This is a fantastic achievement for the Operator, the joint venture partners, all stakeholders and the country.

- **THE GULF LNG PROJECT**

Oil Search and Total SA have joined InterOil as partners in PRL 15, which contains the Elk and Antelope gas fields. The JV partners are currently resolving some commercial issues.

- **STANLEY GAS CONDENSATE DEVELOPMENT PROJECT**

The government's approval of the development of the Stanley Gas Condensate Project in mid-April, currently being pursued by Talisman Energy and Horizon Oil is welcome news.

A development forum will soon be held between the affected the State, the affected provincial governments and the landowners prior to the granting of the Development Licence, which when granted, will be PDL 10.

- **CONFERENCES AND WORKSHOPS**

- The Chamber had excellent turn out at its two key events for the last 12 months – the Petroleum and Mining bi-annual seminar in December – for both the seminar and the associated trade fare.
- There was also record attendance at the inaugural Occupational Health and Safety workshop in Port Moresby as well. Amongst other activities, industry representatives also exchanged views on community health initiatives, particularly in the areas of HIV/AIDS, tuberculosis, malaria, infectious disease and trauma, and the rising concerns regarding lifestyle diseases such as cardiovascular programmes and diabetes.
- The Chamber once again hosted a two day workshop for the media, targeting journalists that write about the resource sector. There is a challenge in this area as there is a high turnover in journalists that cover the sector.
- There was also a good turnout at the Community Affairs workshop in Madang, facilitated by the University of Queensland’s Centre for Social Responsibility in Mining. A special session was convened on the proposed revision of the Chamber’s Community Relations manual.

- **WOMEN IN MINING AND PETROLEUM PROJECT**

- The project was officially launched on November 7<sup>th</sup>, and is sponsored by the World Bank, with funding from the Japan Social Development Fund. This is the second JSDF project for women, managed by the Chamber.
- The US 2.07 million, four year programme has already commenced. It is expected to improve the livelihood and quality of life for women in remote villages near mining and petroleum sites at some 15 locations around the country.
- This programme takes place as the Chamber winds down an existing program with ExxonMobil under sponsorship of the World Bank.

- **MEDIA**

- EMTV has shown a number of documentaries that were produced in conjunction with the Chamber in their weekly Resource PNG programme. These covered the Ramu nickel project, the Porgera operations, PNG LNG, Oil Production in PNG, Mining in PNG and Resource Sector initiatives in the health sector.
- The other two documentaries that will be shown this year are on the Resource Sector Role in National Development and Employment, Education and Training.

## **MAJOR RESOURCE SECTOR CHALLENGES**

Some of the key challenges that we face as an industry include;

- Government capacity constraints that impact on effective regulation and support for industry, especially in permitting
- Projects taking on government functions because of remoteness and lack of services
- Severe constraints imposed because of inadequate or non-functioning public infrastructure and utilities
- Lack of full protection of the rights of the tenement holder
- IRC tax reviews that impose significant penalties for tax issues that arise from non-effective tax administration
- Public misconceptions fuelled by external NGOs with an anti-resources agenda
- Escalating community and landowner issues and expectations that impact on projects particularly in light of poor public service delivery.
- Lack of transparent management of project benefits causing disruption and disharmony
- Eroding of States rights of ownership to resources – political push to change resource laws increasing demands for compensation and for a greater share of equity and royalties, etc
- Inconsistent, irregular and non-transparent management of petroleum licences
- The urgent need to establish the PEA as the Department lacks resources and manpower

### **KEY RESOURCES SECTORS ISSUES**

The key resources issue in PNG today is the challenge facing landowners and government in converting the revenues generated by the mining and petroleum industry into real and tangible benefits. This is related to the growing corruption and mismanagement issue which can only be addressed through increased governance and transparency.

This requires a fundamental shift in the way that governments and landowner leaders manage, utilise and distribute resource benefits, and the way they report on this to their respective constituents. It all comes down to effective management, transparency and integrity, and a dedication to serve the people.

### **MINING SECTOR**

The Chamber is in continued dialogue with the State over proposed amendments to the Mining Act. We expressed concern over the last few years over some of the proposed changes. Our persistence has paid off, with some recent positive developments.

We took our concerns directly to the Minister, and agreement has been reached to;

- Extend the review process by 6 months
- There will be close consultation between the DMPGM and the Chamber
- Exclusion of all taxation matters that fall under the purview of the Taxation Reform Committee

- **PNG SUSTAINABLE DEVELOPMENT PROGRAMME & OK TEDI MINING LIMITED**

One of the highlights of mining sector over the last 12 months was the tussle between the State and PNG Sustainable Development Programme Limited.

The Government achieved control of Ok Tedi through an Act of Parliament.

The Chamber whilst acknowledging Parliament's decision to resolve the long standing controversy regarding Ok Tedi, is concerned at the method that was used to obtain control.

The Chamber also expressed concern about the message this would send to the investment community.

### **THE SOLWARA PROJECT**

The Government recently acquired 15% equity with an option to raise this to 30% equity level in the Solwara 1 project currently being developed by Nautilus Minerals.

### **FISCAL REVIEW NAGORA BOGAN COMMITTEE**

A comprehensive review of Papua New Guinea's Taxation Regime (tax and non-tax revenue) is now underway. This follows the Government's decision to establish a Committee consisting of five eminent persons to carry out the Review. The Committee began its work on 01 September 2013.

The Tax Review Committee's first task was to put together the Terms of Reference (TOR) of the Review. This was approved by the National Executive Council on 18 November 2013.

The Chamber, together with its members have made submission to the Committee, as the Committee's first Issues Paper is on PNG's Mining and Petroleum taxation regime. This issues paper is extrapolated and distilled from a study done by a team of experts from IMF engaged by the Department of Treasury on behalf of the Government.

The Tax Review Committee has released its draft paper on the industry on 20 March, 2014 and consultations with the resource sector has commenced.

### **STRATEGY REVIEW**

Keogh Consultants were again engaged to review our strategy agreed in 2011. Allan Keogh again facilitated the review at a workshop held in Port Moresby last November.

It was agreed that the strategic imperatives were not only still relevant but reflected accurately the right focus to guide the implementation of the strategic plans for 2013 -2014

We will continue with the five key strategic imperatives but will now include action plans.

- Legislation and Policy
  - Draft policies and responses to policies on key industry issues; fiscal review, mining act, CEPA, representation on key Government bodies

- Building Corporate Capacity
  - Development of skills, infrastructure and education
- Positioning and Promotion of the Chamber (Industry)
  - Promotion, communication plan, lobby, rebranding
- Build corporate Capacity
  - Organisation align to support strategy
  - Succession planning
  - Staff training and development
- Effective Government and Government Agency Relationships
  - Government and Agency capacity

The focus will be implementation of the strategic drivers.

### **CONCLUSION**

The Year ahead looks exciting, with the PNG LNG Project starts exporting LNG, adding PNG to the list of LNG producing nations. However, there are serious concerns about the declining fortunes of the minerals sector and the sharp fall off in exploration activity in the past year.

We will continue to monitor and work with the Bogan Tax Committee, to ensure the Chamber and Industry views are considered in their final recommendations.

The Chamber's 2014 media workshop will be held in Madang next week, and I urge members of the Chamber to attend and meet and mingle with the reporters.

Work is already underway for the 2014 PNG Mining and Petroleum Investment Conference in Sydney in December, at which we are expecting a good turnout from the investment community.

Thank You

GEREA AOPI  
**PRESIDENT**