PNG Chamber of Mines and Petroleum

Helping Papua New Guinea to Develop its Full Potential

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Executive Director writes...

There is an air of unreality in recent government statements on the state of PNG's mining industry as highlighted by the Ministerial Statement to Parliament and comments made in the PNG Taxation Review.

At a time when exploration spending has collapsed to a multi-year low - final 2013 data is still awaited from the Mineral Resources Authority - Mining Minister Byron Chan told Parliament there has been "renewed interest of majors in the mining industry".

In fact majors such as Ok Tedi, Newcrest and Barrick have pulled out of farm-in deals with junior explorers, and others such as Newmont and Brazil's Vale have abandoned exploration efforts in PNG. While exploration acreage has been swamped by licence applications in the past decade, most junior explorers are currently cash strapped, trying to do just enough not to lose their Exploration Licences.

The Minister would have heard much about the negative trends facing the sector when he attended recent mining conferences in Johannesburg in South Africa, Toronto in Canada and in Hong Kong.

The PNG Taxation Review Issues Paper on Mining and Petroleum taxes released in March also presented a rosy picture of the mining scene as compared with ten years ago. While accurately acknowledging the worldwide mineral boom which it said started "around 2004" no reference was made to the slump in mineral commodity prices commencing in 2012 and the struggle of most mining companies to remain profitable.

A number of juniors, Foyson Resources being the latest, have surrendered exploration licences to scale back on commitments and many would be fearful they could lose tenements after many years of active exploration.

In the current economic climate any new taxes or imposts that effectively raise operating costs would act as a deterrent to new investments and make it that much harder for junior miners, who generally make up the bulk of the exploration sector, to raise finance for their projects.

The Taxation Review Issues Paper is also putting Infrastructure Tax Credits, or the Tax Credit Scheme, in the spotlight by suggesting it could be replaced by a 150% tax deduction scheme rather than the present system of reducing the tax payable by the expenditure incurred by the company.

The industry strongly believes this would be a retrograde step as eligible resource projects would stop using TCS as it would add to the cost of company operations.

The Issues Paper draws a parallel between TCS spending by resource projects and "the treatment of donations to registered charities by individuals". This is not a valid comparison because the schools, aid posts, hospitals, roads and other capital assets constructed under the TCS provide essential public services that are generally lacking or inadequate in most remote locations.

Corporate entities involved in the mining sector often have thousands of shareholders as listed public entities with governance structures and accountability that does not allow them to operate like a non-profit charity.

The air of unreality also relates to discussion regarding the 10-year tax holiday granted by the government to the Ramu Nickel project which it said "is projected to move to full production in 2014 without paying any income tax".

Industry analysts would recognise it would have taken something of a miracle for Ramu Nickel to pay company tax in its first full year of operation given the problems it has gone through, including two years of stalled operation through litigation after it had been built at a cost of US$1.5 billion. In the absence of cash flow, loan financing costs would have mounted.

Other similarly large mines like Ok Tedi mine and Lihir took eight to ten years before paying any company tax and, in both cases, they went into immediate production soon after project completion.

The influential Washington headquartered International Monetary Fund is understood to have provided much of the input into the Issues Paper and it seems that it has misunderstood some aspects of the PNG mining sector.

CHAMBER NEWS

Chamber delegation meets Prime Minister on proposed Mining Act amendments

A delegation from the PNG Chamber of Mines and Petroleum led by Senior Vice President Peter Aitsi held top level meetings with Prime Minister Peter O'Neill to express their concerns regarding a Ministerial Statement to Parliament on proposed changes to the Mining Act.

They advised the Prime Minister the Chamber's view that the proposed changes would have a detrimental impact on PNG's investment climate and undermine the existence of a viable mining sector.

The delegation said new initiatives were being proposed with little regard for their economic impacts following inadequate consultations with the industry.

Among the proposed changes to the Act was a plan to raise State equity in mining ventures from the current 30% level to 50% with an additional 20% that could be acquired at commercial cost.

It also proposed to restrict or ban fly-in, fly-out schemes which could adversely affect some remotely located mines. This could result in the inherent danger of creating increased inter-ethnic tensions in some instances.

The Prime Minister assured the delegation he would refer the proposed amendments to the Ministerial Economic Committee for further discussion and said the National Executive Council had not endorsed the proposed changes.

Mr Aitsi advised the Prime Minister that while the mining sector had enjoyed good conditions in the past decade this situation has been reversed in the past two years as a result of falling commodity prices, especially for gold and copper.

As a result there has been a dramatic fall in exploration expenditure. Big multinationals such as Newmont from the US and Vale from Brazil have abandoned exploration ventures in PNG while the big Lihir and Porgera gold mines have shed workers and significantly reduced the valuation of their PNG deposits.

A Chamber delegation also presented similar views to Mining Minister Byron Chan.

Chamber engages in tax review discussions

The PNG Chamber of Mines and Petroleum welcomes the consultative approach adopted by the National Government Tax Review Committee regarding government plans to review the nation's fiscal regime and tax structures.

The Tax Review Committee's Issues Paper No 1 on "Mining and Petroleum Taxation" was issued in March.

The Chamber is planning a formal response to the Tax Review Committee, acknowledging that while groups such as Canada's Fraser Institute rate PNG's geological prospectivity very highly in international comparisons it is nevertheless rated poorly as an international mineral investment destination because of the policy and regulatory regime and land issues.

The Chamber will also present a strong case against the adoption of a 150% tax deduction in place of the current infrastructure Tax Credit Scheme (TCS).

The Issues Paper draws a parallel between TCS expenditure by resource projects on government approved community infrastructure such as schools, aid posts, hospitals and roads with "treatment of donations to registered charities by individuals" and that such infrastructure "gives the resource company greater private benefits in the form of community goodwill".

The Chamber argues that any changes to the current Infrastructure Tax Credit scheme that effectively diminishes the scheme would only worsen a situation where communities residing near major resource projects are already severely neglected in terms of public service delivery.

The Infrastructure Tax Credit scheme not only assists in the provision and maintenance of socially important infrastructure; it also enables resource companies to nurture the skills and technical capacities of locally based entrepreneurs, including landowner companies.

Chamber supports government's EITI initiative

The Chamber has welcomed PNG's acceptance as a member country within the Extractive Industries Transparency Initiative and the Government's commitment to publish by September 2015 its first annual report detailing all government tax receipts from mining and petroleum companies.

In a media statement, Chamber President Gerea Aopi said the Government application for membership in EITI would complement other Government initiatives to improve transparency and accountability within the National Government.

Two other key government initiatives in this regard were the proposed establishment of an Independent Commission Against Corruption (ICAC) and a Sovereign Wealth Fund.

"Meeting the EITI standard will support a culture of accountability and good governance, and its implementation will prove an important step in building a sustainable future for the Papua New Guinea people," Mr Aopi said.

Industry representatives in PNG's EITI multi-stakeholder group includes the PNG Chamber of Mines and Petroleum, Barrick Niugini, ExxonMobil PNG, Morobe Mining Joint Venture, Newcrest Mining, Oil Search and Talisman Energy Niugini.

Inaugural workshop held for WIMAP project

The Chamber's Women in Mining and Petroleum project, funded by the Japanese Government through the auspices of the World Bank, has been kick-started with a two-day workshop attended by community affairs representatives from all key mining and petroleum companies.

Workshop facilitator Elizabeth Cox demonstrated a pioneering technique using situational cartoons as an avenue for discussion of community and gender issues and problems as well as for needs assessment.

This methodology, "Participatory Methodology and Tools for Gender Equality/Empowerment of Women", will be used for the Chamber project, "Social and Economic Empowerment for Women in Mining and Petroleum Areas".

Program being finalised for the 13th PNG Investment Conference in Sydney

A preliminary program is being finalized for the Chamber's 13th PNG Mining and Petroleum Investment Conference in Sydney from Dec 1 to 3 with Prime Minister Peter O'Neill as the keynote speaker.

Addresses are also expected to be given by the newly appointed Petroleum and Energy Minister Nixon Duban, Mining Minister Byron Chan and highlights of the 2015 budget provided by the Treasurer, Patrick Pruaitch.

There will be updates on all significant petroleum and mineral projects, including progress reports on ExxonMobil PNG's PNG LNG Project, InterOil's Elk-Antelope LNG venture and Talisman's interest in becoming PNG's third LNG player.

Annual Media Workshop held in Madang

The Chamber's annual Media Workshop was held in Madang from May 8 to 10 attended by 20 journalists from Port Moresby, Lae and Madang as well as five Divine Word University third year journalism students and a DWU lecturer who is completing his doctorate. More than 50 people attended the workshop, inclusive of industry representatives.

Among the highlights were a presentation by ExxonMobil PNG Managing Director Peter Graham and an overview of the global mining scene and the implications for PNG by Geoff Day, Executive General Manager Sustainability and External Affairs for Newcrest Mining.

Former Mining Minister Sam Akoitai shared his experiences as a young mining company employee and a self made entrepreneur before entering the world of politics. He also spoke of his role in the rejuvenation of PNG's mining sector in the 2002 Somare-led Government.

One highlight for many journalists was a site visit to Ramu Nickel's Basamuk processing plant, including a 1 1/2 hour catamaran trip from Madang to the plant site.

The workshop generated many news stories in the print and broadcast media.

INDUSTRY NEWS - PETROLEUM

PNG commences LNG exports to Asian customers

The first LNG shipment from the US$19 billion PNG LNG Project has left PNG shores bound for Tokyo Electric Power Company Inc (TEPCO), ExxonMobil PNG announced on May 26.

The spot sale was made to TEPCO, one of four long-term contract customers for the PNG LNG Project. The others are Osaka Gas, China Petroleum and Chemical Corp (Sinopec) and CPC Corp of Taiwan.

Spot sales have been made possible because of early start-up of the project, which will sell 6.6 million tonnes annually to the four buyers. An additional 300,000 tonnes, of the 6.9 million tonnes a year nameplate capacity, is understood to be available for spot sales.

ExxonMobil PNG Managing Director Peter Graham said it had taken the efforts of many thousands of people and the support of the Government, co-venturers and the local community to complete the project.

"This announcement is a historic moment for Papua New Guinea. Revenue from the PNG LNG Project will support PNG's continued economic and social development. The PNG LNG Project demonstrates to the world what Papua New Guinea is capable of delivering."

Mr. Graham said production from the first LNG train had started in April. Production from the second train has also started as additional gas production wells came online.

Project construction began in 2010 and it has taken more than 191 million work hours to complete. At peak more than 21,000 people were employed at the project, including more than 9,000 Papua New Guineans. More than K10.7 billion was spent with PNG businesses.

Prime Minister Peter O'Neill said the LNG project has brought significant economic benefits "that will last for generations to come".

ExxonMobil PNG said the project was expected to produce more than 9 trillion cubic feet of gas over the estimated 30 years of operations.

The project is operated by ExxonMobil PNG in co-venture with Oil Search, National Petroleum Company of PNG, Santos Ltd, JX Nippon Oil & Gas Exploration Corp, Mineral Resources Development Company (representing landowners) and Petromin PNG Holdings Ltd.

Oil Search, in a separate statement, said the start of LNG shipments was "a momentous occasion" for Oil Search and its partners. It was expected to more than double PNG's gross domestic product and "transform the country into a significant supplier to key neighbouring Asian markets," Oil Search MD Peter Botten said.

In its first full year of operation the LNG project would quadruple the Oil Search production base and contribute more than US$1.3 billion annually to the company's operating cash flows, he said.

Santos MD David Knox said at full production shipments from the PNG LNG Project would quadruple his company's LNG production through its 13.5% equity holding.

Interesting Facts and Figures from the PNG LNG Project

Some details about the size and scope of the PNG LNG Project were disclosed at the recent Australia PNG Business Forum held in Cairns. These details were disclosed by ExxonMobil PNG's Technical Manager, Dan Lillig:

- The LNG Plant area near Port Moresby occupies 685 hectares. At its peak 11,000 people worked there. It took around eight tonnes of meat and a tonne of rice to feed this work force on a daily basis.

- The two LNG tanks at the plant site are each large enough to hold a Boeing 747 jumbo jet.

- It required as much steel as 20 Eiffel Towers for the pipelines collecting gas and condensate for the project. This included the 407-km offshore pipeline, the 292-km onshore pipe from the Hides Gas Conditioning Plant to Omati in the Kikori Delta area; the 109-km pipeline taking condensate from Hides to Kutubu and an 18-km line connecting the Hides fields to the Conditioning Plant.

- The Spirit of Hela, the first LNG tanker to export LNG from PNG, is almost 300 metres long and as high as a 12-storey building. It can carry 80,000 tonnes of LNG. This is one of six tankers that is expected to visit Port Moresby about every four to six days to load LNG.

- Gas from Hides was first introduced into the Hides Gas Conditioning Plant on March 20 this year. It is now sending down natural gas to the LNG Plant and condensate to the Kutubu facility for blending and export via Oil Search's Kumul terminal.

- The Komo Airfield was completed early last year and required the bringing in of 400,000 cubic metres of gravel and aggregate. Moving all the earth at the airfield involved haul trucks travelling the equivalent of 32 trips around the earth.

- To prevent the giant Russian-made Antonov aircraft from slipping on the surface in heavy rain, grooves were saw cut into the runway for the equivalent of 3,900km or the comparable distance from Perth to Sydney or from London to Moscow and back again to Frankfurt.

- A total of 88 Antonov deliveries of heavy and sensitive equipment was flown to Komo, which is now being used to transport workers flying into Hela Province. Some 14,000 loads were transported 800km from Lae to Hides on the Highlands Highway. There are 98 bridges on the Highway, many not able to carry loads exceeding 50 tonnes which were airlifted to Komo.

- Over two million man hours were spent training 10,000 Papua New Guineans to work on the project; more than K10.7 billion has been spent on local businesses.

InterOil LNG deal with Total underpins growth era for the company

InterOil Corporation has announced a first quarter net profit of US$318.6 million resulting from a one-off US$340.5 million gain from the sale to Total SA of France of a 40.1275% interest in PRL 15, which contain the Elk and Antelope gas fields.

InterOil said the profit, which contrasted with US$4 million in the first quarter of 2013, was helping to underpin an aggressive exploration drilling campaign across four petroleum prospecting licences awarded to InterOil in March by the PNG Government.

The licenses, which are valid for six years and renewable for a further five, cover almost four million acres (16,000 sq km) in the Gulf Province. Drilling began in early March and initial results are expected in the next several weeks.

InterOil's Chief Executive Dr Michael Hession said InterOil's strategy remained on track with a new leadership team in place, the granting of new exploration licenses and completion of the deal with Total.

"We remain focussed on adding value, particularly through the drill bit, which is something we do well. We have a busy, exciting program ahead, and the financial capacity to deliver it," he said.

LNG deal with Total: Dr Hession said, the Total deal was concluded on March 26 when Total acquired a participating interest of 40.1275% (net 31.0988% after government back-in of 22.5%) in PRL 15. InterOil is entitled to additional fixed and variable resource payments when certain milestones are met following appraisal of the fields.

Dr Hession said, "Total will provide a 75% carry on the first US$50 million (gross) per well for the first three appraisal wells and on the first US$60 million (gross) for the single exploration well in PRL 15. Certification of Elk-Antelope volumes is expected in 2015.

"Total has agreed to lead construction and operation of a proposed integrated LNG project. The final investment decision will follow resource certification, concept selection, basis of design, and front end engineering and design."

Exploration update : The PNG Government granted InterOil four new PPLs, covering the same area as their previous licences. Further seismic was acquired over Triceratops, south west Antelope and across two new prospects, Bobcat in PPL 476 and Antelope Deep (formerly Big Horn) in PRL 15.

Operational status: InterOil's Chief Financial Officer Don Spector said the receipt of US$401.3 million completion payment from Total had significantly strengthened the company's balance sheet and provided funds for the drilling program.

Spector said: "Despite slower retail and wholesale demand in PNG coupled with a weakening PNG kina, our refinery enjoyed higher margins driving a small, but positive net profit.

"Our downstream business saw a drop in volume sold but continued to enjoy a stable US$6 million net profit. We intend to secure additional flexibility in our capital structure by refinancing our US$250 million secured loan facility in the coming weeks."

InterOil said its revenue in the first quarter of this year fell by US$39.2 million to US$311.1 million from US$350.3 million in the first quarter last year after total sales fell from 2.4 million barrels to 1.9 million barrels due to the timing of refinery exports.

The domestic sales volume fell 0.1 million barrels, or 9.5%, during the quarter to 1.2 million barrels on the back of a slowing PNG economy.

US$500 million petroleum exploration program underway in Gulf Province

InterOil is undertaking one of PNG's biggest drilling campaigns at its exploration licence areas in Gulf Province to determine potential resource levels for its proposed LNG project involving joint venture partners Total Oil and Oil Search.

The company, for the first time, is concurrently drilling three exploration wells - Wahoo 1 in PPL 474, which is about 120 kilometres north-west of Port Moresby, as well as Raptor 1 in PPL 475 and Bobcat 1 in PPL 476. The latter two wells are close to the currently proven gas-condensate resource at Elk and Antelope.

In addition, three appraisal wells are planned in the third and fourth quarter this year - Triceratops 3 in PRL 39 and Antelope 4 and 5 in PRL 15. The exploration and appraisal wells this year are anticipated to cost more than US$300 million to complete.

Two other wells in the current program, Antelope 6 and Antelope Deep, at a budgeted cost of more than US$110 million, will be drilled next year under InterOil's 2014-15 exploration program.

The Wahoo 1 wildcat well in PPL 474, which is currently being drilled, is testing an area relatively close to Port Moresby where a gas discovery will greatly boost the prospects for gas-fired electricity generation.

The Elk-Antelope fields have already been described as among the biggest undeveloped gas resources in the Asia-Pacific. New discoveries from the wildcat exploration wells will add to the size of the natural gas resource available for the proposed LNG venture.

An exploration and appraisal program of this nature is likely to involve significant cost overruns due to unexpected drilling problems and the need to sidetrack the drilling of one or more wells, taking the overall program cost to at least US$500 million.

Current equity interests in PRL 15, which includes the Elk-Antelope gas resource, are: Total Oil (40.1%), InterOil (35.5%) and Oil Search (22.8%) along with indirect participating interest of 1.6% prior to the Government right to acquire up to 22.5%.

INDUSTRY NEWS - MINING

Lihir gold production costs rise with over 200 jobs shed

Newcrest Mining has disclosed that production from its Lihir gold mine will remain at around this year's level of 700,000 to 800,000 ounces in its 2015 financial year rather than the earlier projection of topping a million ounces.

Following the release of its March quarterly report, Newcrest said stockpiles would continue to be the primary source of ore feed next year, having supplied 85% of feed in the current year.

It had earlier been anticipated that the US$1.3 billion Million Ounce Plant Upgrade (MOPU) would result in production hitting one million ounces in 2015.

Newcrest says plant optimisation is ongoing prior to further investment. The expanded flotation plant is working well, enabling increased processing of ore stockpiles.

It said large available ore stockpiles have allowed for a deferral of the Kapit open pit development. A strategy to reduce the amount of open pit feed material was implemented as a cost-cutting exercise after gold prices fell significantly in the past year.

All-in Sustaining Costs (AISC) at Lihir amounted to US$1,253 an ounce during the March quarter, 7% higher than the December quarter, as compared with the group's overall AISC of US$988 an ounce during the March quarter. In comparison, the average realised gold price for the quarter was US$1,450.

Newcrest, which is Australia's largest listed gold producer, operates mines at Cadia in New South Wales and Telfer in Western Australia, as well as Gosowong in Indonesia and Bonriko in the Ivory Coast. It also has a 50% stake in the Hidden Valley gold-silver operation in Morobe Province.

Lihir produced 164,359 ounces of gold in the March quarter, down 12% on the previous quarter after a 7% decrease in mill throughput and a 3% decline in gold feed grades.

With AISC having fallen by 9% to US$1,091 an ounce at Hidden Valley in the March quarter, the Lihir mine stood out as being the highest cost operation in the group.

"As part of the ongoing focus to increase productivity and reduce costs at Lihir, organisational changes were implemented during the quarter which resulted in a workforce reduction of around 240 roles, of which 208 were occupied," Newcrest said.

The ongoing improvement at Hidden Valley, which is jointly owned with South Africa's Harmony Gold, saw gold production rise to 26,241 ounces, up 6% compared with the December quarter, due to a 12% improvement in the gold grade that was partially offset by an 8% reduction in milling throughput. However, a lower silver grade contributed to a 9% fall in silver production to 248,602 ounces.

Police/army call-out to stop illegal miners from 'stealing' Porgera gold

Following a severe deterioration in illegal miner activity, the National Government approved a call out of 180 army and police personnel to restore normalcy at the Porgera mining operation of Barrick Gold.

In a statement, Barrick said the force included approximately 40 PNG Defence Force personnel to assist as special constables under the command of the police.

It said there had been a significant increase in violent assaults by illegal miners in the past year, including 16 serious assaults on mine employees, and related unrest in nearby communities. Accessing active mining areas with no safety equipment or proper training "is also extremely hazardous to the illegal miners themselves, many of whom have been injured in falls and other incidents."

The Porgera Joint Venture has agreed to assist the PNG Government with limited financial support and in-kind assistance, such as office supplies, accommodation, meals and transportation, to support additional policing activities.

It said a highly respected former PNG Ombudsman has been appointed as an independent observer to investigate any concerns relating to policing activities.

Barrick said PJV provided direct employment for more than 2,500 Papua New Guineans and has made substantial investments in projects to support improved health care, education and infrastructure in local communities.

In a separate statement on illegal mining, Barrick said illegal mining was a complex and difficult issue to manage in a country where a relatively low standard of living is evident.

"Illegal miners are people who evade PJV's perimeter security and enter the mine property, of the Special Mining Lease, without permission with the intention of stealing gold-bearing ore. Those involved in illegal mining are trespassers and are breaking the law," it said.

Barrick said there are regular incursions by illegal miners into the open pit, the ore stockpiles and the waste dump areas. "In recent years, criminal behaviour in and around the mine has become much more aggressive and has often involved armed individuals. Frequently they enter the mine site in large groups prepared to come into direct conflict with security personnel, who are responsible for the safety of the mine and its employees."

GOVERNMENT NEWS

Treasurer discloses higher deficits and soaring debt to GDP ratios

Treasury Minister Patrick Pruaitch has disclosed that the Provisional 2013 Budget Outcome has shown a deficit of K3023.2 million, which is 8.7% of GDP and 7.9% higher than the deficit (2,736.9 million) projected in the revised 2013 budget.

He told Parliament due to shortcomings caused by the recent usage of the Integrated Financial Management System there were problems with the reconciling of expenditure figures with a final budget outcome anticipated in May.

Total revenue and grants last year was K9,832.7 million. This was K649 million less than the revised budget estimate and the original budget estimate. This was due to a fall in non-tax revenue and a smaller shortfall in tax revenue with lower than expected grants from foreign donor agencies.

Nevertheless total revenue and grants was K167 million higher than the 2012 outcome of K9,566.1 million as a result of growth in tax collections.

The Treasurer said expenditure and net lending in 2013 was K12,852.5 million, which was K178 million lower than the original 2013 budget estimate.

Recurrent expenditure was K783.7 million higher than the original estimate at K8,018.7 million due to K950 million in over expenditure by National Government Departments. However, this was more than offset by under-expenditure of K962 million in the Development Budget (K4,833.8 million).

Financing of the deficit saw public sector debt rise to K11,880.3 million at the end of 2013, K1,307.7 million higher than the original budget estimate and K2,726.5 million higher than the 2012 budget outcome.

The Treasury Minister told Parliament lower than anticipated GDP growth saw public debt as a percentage of GDP rise from 27.6% in 2012 to 34.3% in 2013.

DEC budget likely to triple under CEPA

Parliament last month approved the establishment of the Conservation and Environment Protection Authority (CEPA) to effectively take over current functions of the Department of Environment and Conservation.

A briefing organised by the PNG Chamber of Mines and Petroleum was advised by a CEPA advisor that the conversion of DEC into an Authority would see its annual budget increase from K13 million this year to an estimated K35 million to K45 million annually.

DEC, which employs 103 public servants, had an annual budget of K10.5 million two years ago.

Officials told the Chamber briefing that CEPA's increased revenue will come from the charging of fees for the issue of environmental licence permits and ongoing management and monitoring of these permits.

They said the increased budget, up to K45 million, was justifiable since it would still represent less than half the annual budget of the PNG Forest Authority.

CEPA's governance structure would include a board which will set the organisation's overall priorities. This will be outlined every year in communications to the Minister for Environment and Conservation.

CEPA will have two independent councils – an Environment Council and a National Conservation Council – and will operate as a "non-commercial Statutory Authority".

A three-year transition period for the setting up of the authority is proposed commencing from June 2014 with management of environment permits brought under the responsibility of the Chief Legal Officer.

Oil and minerals exports hit six-year low of K9.07 billion from K11.8 billion peak in 2012

PNG's crude oil and mineral exports last year fell to a six-year low of K9,071.2 million, down from K9,523.5 million in 2012 and an all-time high of K11,782.8 million in 2010. Last year's mineral export figure was the lowest since it hit K7,651.9 million in 2005.

Data released in the December quarterly of the Bank of Papua New Guinea showed that crude oil exports last year totalled K2,029.4 million, down from K2,134.3 million in 2012. This contrasted with a record K2,966.5 million in 2006.

The fluctuations in crude oil export earnings are mainly a reflection of shifting global prices in view of a steady decline in PNG's oil production.

BPNG said oil exports last year amounted to 8.29 million barrels as against 8.95 million barrels in 2012 and a high of almost 15 million barrels in 2003.

Gold exports last year totalled 55 tonnes valued at K5.4 billion compared with export of 46.8 tonnes worth K5.2 billion in 2012. The highest gold export earnings were reached in 2010 when 61.5 tonnes worth K6.38 billion was exported.

Copper exports fell to 92,900 tonnes worth K1.5 billion last year compared with 125,300 tonnes worth K2.07 billion in 2012. Copper export earnings hit a record high in 2006 when exports of 216,700 tonnes were valued at K4.3 billion.

Crude oil and mineral exports were worth 72.5% of total PNG exports worth K12.5 billion in 2013 versus 73% of total exports worth K13.2 billion in 2012.

OVERSEAS NEWS

Counting the costs of Indonesia's ban on copper concentrate exports

Newmont Mining Corporation's big Batu Hijau copper-gold mine on Sumbawa Island has become the first victim of the Indonesian Government's ambitious plan to halt export of mineral concentrates in a bid to promote domestic smelting activities.

The big copper-gold miner announced on June 3 it was stopping production at Batu Hijau because of the company's failure to obtain an export permit for copper concentrate production.

The company plans to send most employees on leave at reduced pay pending last minute talks at a ministerial meeting. Some 8,000 employees and contract workers will remain at work.

Rubi Purnomo, a spokesman for Newmont's Indonesian subsidiary, Newmont Nusa Tenggara, said in a media release that copper concentrate storage facilities "are now full forcing the operation to halt processing activities and cease production of copper concentrate".

Newmont, the world's third largest gold producer, warned last month that mining would cease at Batu Hijau in June if the export ban issue was not resolved.

This follows the government's decision to impose a 25% export tax on export of copper concentrates with plans to increase the tax to 35% in January 2015 and 60% in 2016.

Newmont is holding discussions with the government to try and obtain an initial export permit. The company currently supplies 30% of its Indonesian copper concentrate output to Indonesia's only copper smelter, PT Smelting.

Batu Hijau was expected to produce 110,000 to 125,000 tonnes of copper concentrate and 110,000 to 120,000 ounces of gold this year.

Meanwhile, Freeport-McMoRan reported that their first quarter Indonesian sales of 109 million pounds of copper and 162,000 ounces of gold were lower than the 198 million pounds and 191,000 ounces respectively in the same period last year because of the government restrictions.

The company said it may reduce or defer current development plans at its big Grasberg operations in West Papua "pending resolution of export restrictions and other Indonesian regulatory matters".

Freeport said that since it has not received authorisation for copper concentrate exports it has begun to align concentrate production with PT Smelting's operating plans. Production in the first quarter has been halved to 118,000 tonnes a day and Freeport has plans to reduce operating costs, defer capital expenditures and implement workforce reductions.

In March this year the World Bank estimated that in the period from 2014 to 2017 the negative impact on Indonesia's net trade could amount to US$12.5 billion because of the loss of export revenue and a rise in capital goods imported to build smelting capacity.

Reuters quoted the Jakarta-based World Bank economist, Jim Brumby, was quoted by Reuters as saying there have been no success stories anywhere in the world where countries have tried to impose similar bans.

"Over the longer term, this could prove to be the biggest obstacle in increasing domestic value-addition, as it increases investor risk perceptions at a time when economy-wide investment has already decelerated," the Bank said in its quarterly report.

Striking miners cause South African economy to shrink

The Financial Times has reported that South Africa's economy, the most developed in Africa, has contracted for the first time since the global financial crisis in 2008 after a plunge in mining production caused by a crippling strike at the world's top platinum mines.

A four-month strike - the longest and costliest in the country's history - caused GDP to decline by a worse than expected 0.6% in the first quarter of this year.

"Mining and quarrying output shrank by nearly 25% on an annualised basis in the first quarter, the biggest decrease since 1967 at the height of white minority rule, according to the country's statistical office," the FT reported.

The world's three biggest platinum producers - Anglo American Platinum, Impala and Lonmin - have been affected since the strike began on January 23.