PNG Chamber of Mines and Petroleum

Helping Papua New Guinea to Develop its Full Potential

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MEDIA STATEMENT

Consultation vital before further changes

The Chamber of Mines and Petroleum acknowledges the passing of Oil and Gas (Amendment) Bill 2020, and understands the desire of the PNG Government to maximise its position in resource projects.

However, the Chamber believes that significant changes to existing legislation such as these are best made in collaborative consultation with industry. In failing to consult, the consequences of some of these amendments will not be to the benefit of PNG but will inadvertently set back the nation's economy for many years to come by dis-incentivizing investors or making otherwise economic projects uneconomic.

Stability of PNG's investment framework and contract sanctity is important if the country is going to retain and attract much needed new investment. While PNG is endowed with natural resources, it lacks sufficient capital to develop them on its own, and like all successful nations, it will require foreign direct investment and private sector investment if PNG is to maximize its economic and developmental potential.

All major projects in PNG since the 1960s have had a State Agreement either enshrined in legislation or since the Kutubu Pipeline Oil Project in 1991 signed as an agreement and given force of law by provisions such as sections 185 of the Oil & Gas Act. The State Agreements also importantly contained fiscal stabilisation provisions which locked in the fiscal deal and provided an agreed road map to PDL grant. This has enhanced the bankability of those projects to international project financiers, and provides a playing field that is set for all players for the duration of the project. Financiers want to see a committed road map before providing funding.

Amendments to the Oil & Gas Act such as those made to section 185 will severely impact the bankability of future projects for developers, state equity participants and landowners. The section now allows a review in effect of the project before PDL grant against a national interest test, even if these things were satisfied previously as the Project entered Front End Engineering and Design (FEED) when a State Agreement was concluded. It also allows the Minister discretions to grant licences and give approvals against a national interest test during the life of the project. Historically all these issues have been agreed upfront in the State Agreement.

Financiers may choose not to proceed in view of the uncertainty or to add a significant risk premium on Developer, State equity participant and landowner financing with higher borrowing costs to cover the perceived heightened political risk.

It is not clear to the Chamber whether it was the intention of the June Amendments to the Oil and Gas Act to create this uncertainty. Consultation prior to rushing these changes may have prevented unintended consequences and the Chamber continues to offer its support to the Government as a consultative body with significant international experience among its members.

The Chamber understands there is a desire to further modify the Oil and Gas Act and to move to a Production Sharing Contract fiscal system. Although Chamber members readily acknowledge that they successfully invest in such systems in other jurisdictions, caution is advised in ensuring any changes do indeed satisfy the needs of PNG and do optimally develop resources.

The Chamber is strongly of the view that modifying the existing Oil and Gas Act can deliver the Government's objectives more effectively rather than moving to a complex new system. The Chamber is ready and willing to work with the Government constructively to assist in amending the Oil and Gas Act to try to satisfy some of the Government's issues with the existing system such as mechanism of funding of State equity participation and entry costs. The Chamber notes that these issues have been addressed in recent documents such as the Papua Gas Agreement and could well be put directly into the Oil and Gas Act if that was a preference.

President of the PNG Chamber of Mines and Petroleum, Gerea Aopi, reiterated that the recent changes, made without consultation, have caused unintended consequences that will negatively impact PNG.

"The Chamber is ready to work with the Government to improve the existing Act, but the Government needs to appreciate that we need to be working for win-win solutions here that enable investment rather than increasing the business risk at a time when the global petroleum industry is under severe stress from sharply reduced oil and gas prices. Companies worldwide are slashing capital and operating expenditures by hundreds of millions of dollars and the competition for the limited funds by other countries is increasing," President Aopi said.

"When analysing the performance of the extractive industries, there will be bad years and good years because of commodity price fluctuations. We have all heard government claims that the country has not received adequate returns from major developments in recent years, including the PNG LNG Project. However, one has to look at the actual data, which supports the assertion that since LNG production commenced in May 2014 the benefits to PNG have outweighed returns to project investors who have not yet recovered their investment as oil and gas prices have been lower than anticipated since exports commenced.

“Since mid-2014 payments from PNG LNG to the PNG Government totalled more than K10Billion through project equity cash distributions to Kumul Petroleum and MRDC, corporate taxes, development levies, royalties, employment taxes and licence maintenance fees.”

President Aopi said he hoped the government could recognise that the development of an LNG industry in PNG has also helped to diversify the country’s economic base and contribute to significant growth in exports and employment, enabling gross domestic product to double between 2009 and 2014.

“Unfortunately, rather than prioritizing efforts to build upon this strong LNG industry foundation further LNG project developments worth US$24 billion have stalled. Had they progressed as planned we would have likely seen PNG avoid a recession.

“In short, policy matters. Countries such as ours stand to make significant benefits by tapping into abundant natural resources but such prospects are diminished by poor policies, as has been the case in Venezuela, which holds the biggest oil resource in the world,” President

Aopi added. “We cannot afford to get this wrong, and for that reason the Chamber will continue to offer up its expertise and advice so that government and the private sector can collaboratively shape the best policy outcomes for the future of PNG.”

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