



Thursday, 20th August, 2020

MEDIA RELEASE

Mines and Petroleum Chamber Seminar gives industry update amidst sector law reforms



VIRTUAL ENGAGEMENT: *The Chamber Webinar set up in Port Moresby at the Hilton Hotel*

The Papua New Guinea Chamber of Mines and Petroleum, held its first ever virtual seminar last Thursday 13 August to give an update on the resource sector, and its plans moving into the new normal.

With recent amendments having been made to both the Mining and Oil and Gas Acts, and with more proposed amendments announced by government to the organic law on resource ownership, the webinar was also aimed at creating an avenue for both government, and industry, to reconnect and progress dialogue on these future changes in resource laws.



UNCERTAINTY: PNG Chamber of Mines and Petroleum President, Gerea Aopi voice industry's concern about low levels of consultation with industry.

Jointly broadcast and hosted between the Hilton Hotel in Port Moresby, and the Hilton Hotel in Brisbane, the webinar was opened by PNG Chamber of Mines and Petroleum President, Gerea Aopi.

Mr. Aopi voiced the collective concern of the industry, over the lack of consultations on changes to national resource laws.

“The position of the Chamber on legislative reforms has not changed. We welcome and encourage government to initiate reviews of policies and legislation, and the resource laws are no exception. What is important however,

is that the consultative process with the industry must be consistent, open, and transparent.

“We want to engage and stand ready to consult with government on these legislative reforms. Fundamentally this is to be the bedrock of our partnership, a consultative partnership,” Mr. Aopi said.



STATE PERSPECTIVE: Minister for Petroleum, Kerenga Kua speaks of the government’s motivation for pushing reforms in the mining and petroleum sector.

Minister for Petroleum and Energy, Kerenga Kua, thanked the Chamber for the invitation to speak at the forum to explain the Marape-Steven government’s motivation for the reforms in legislation.

“The main reason why the state is setting about carrying out a series of legislative reforms at the moment in mining and petroleum is because we think there are certain aspects of the legislative framework that we are working under at the moment, that is not operating to the benefit of the state and the citizens of this country, from whom we the political leaders, obtain our mandate,” Mr. Kua said.

He explained three major points upon which the government was focused.

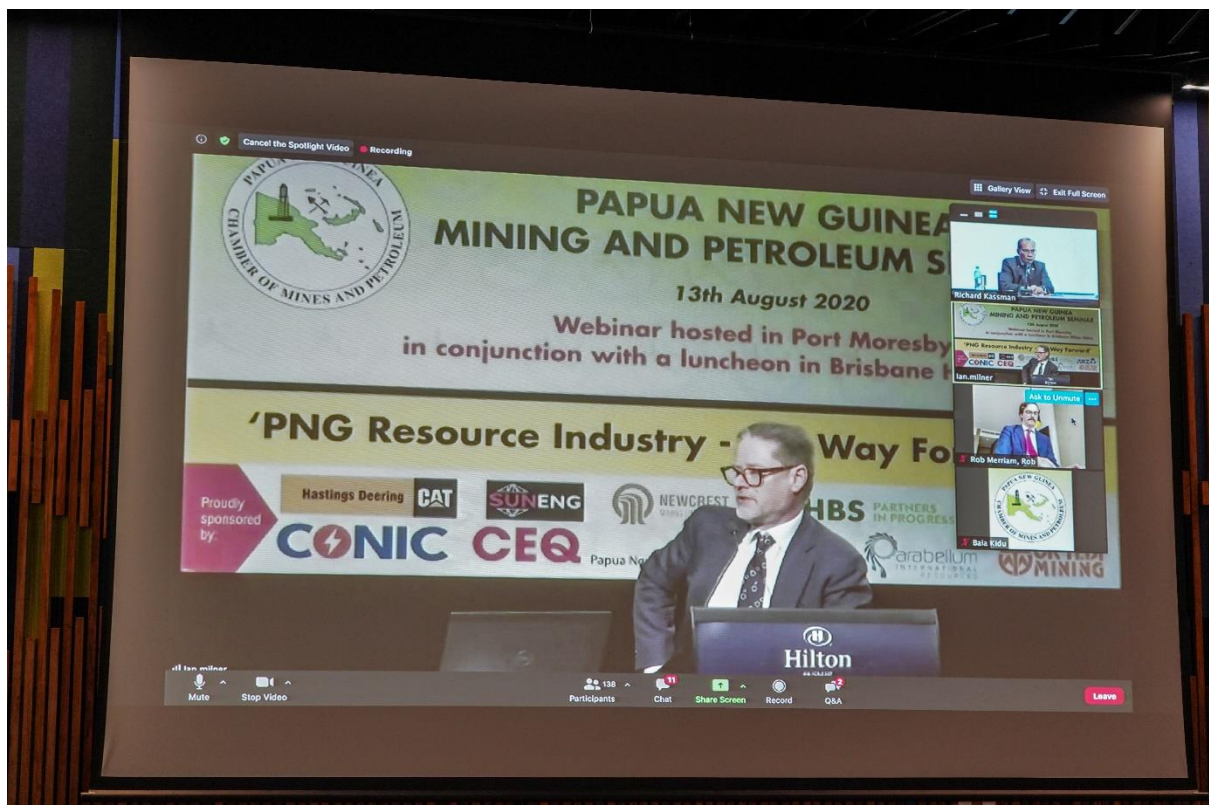
1. A perceived loss of resource ownership by the state which can be mitigated by moving to a platform of production sharing. “When we sign a project agreement and give a licence, we lose our ownership to the resource, without any compensation flowing back to the state. Here we forfeit all our ownership to resources to the developer, and no compensation comes back,” Mr. Kua said.
2. The need for the State to “buy-back” into Projects after the exploration phase to take up an equity share in a development. Mr Kua explained that the present system obligates government to borrow money to meet their interests in commercial projects. Loans that the government could use as budget financing.
3. As the present Debt:GDP ratio is close to the maximum permitted level, the Government does not have the capacity to borrow to participate as an equity partner.

The Minister also reassured industry stakeholders that proposed legislation currently before parliament, was only to enable the mechanisms and vehicles needed to establish and operate a production sharing regime for both mining and petroleum.

“We are going to do some structural adjustments and create the operating vehicles and agencies that will have to carry the responsibility, or share it out between them.

“The organic law that we now have sitting in Parliament, only aims to achieve that outcome, which is to create the operating vehicles and the agencies. It’s not going into other details, such as the operational side of the mining and petroleum things. That will be in the next stage when we introduce legislations later next year. So this year, the organic law that will be introduced, will just create the states operating vehicles,” Mr. Kua explained.

First of regular Industry Webinar Updates



VIRTUAL CONNECTION: Chamber Council Member and Co-Chair of the webinar from Brisbane, John Chambers.

Following the Minister's statement a strong panel of speakers both from Port Moresby, and Brisbane provided a legal, financial and investor view of some of the changes being proposed by the Minister. As Mr. Chambers who chaired the Brisbane end of proceedings stated, "the key is to understand the Government, Industry and Investor positions better through dialogue so that a path can be navigated that enables continued investment and growth of the PNG economy for the benefit of its citizens as well as creating a stable platform for investment".

The legal and impacts of the changes already made to the Oil and Gas and to the Mining Acts were discussed by Sarah Kuman and Rob Merriman of legal firm Allens Linklaters, who pointed out that the removal of the certainty of obtaining a Petroleum Development License after successful exploration will likely deter investment in exploration within PNG. Uncertainty created as a result of the required minimum "expected level of return" and the fact that The State is no longer strictly required to comply with its obligations under State Agreements will likely discourage further investment. Additionally, on

the mining side, there is a risk that new mining lessees will not be able to exploit a discovery to its full economic extent.

On the Financial side, Mark Couchman, Director of Resources, Energy and Infrastructure at ANZ, explained what financiers look at when considering providing finance to a resource project. In addition to the commodity risk, investors need to consider construction risk, environmental approvals logistics/Infrastructure access and key areas where the project can go wrong. Additionally, does management have expertise to fix things when they go wrong? And what is their track record and relationship with key suppliers and customers? This expands into operating risk and cost control and offtake agreements. However, although this is all to an extent within an investor's control, risks such as political & sovereign risk, legal tenure and regulatory risk (likelihood of changes to the legal framework that may impact the financing structure & security) will impact the ability to finance a project.

Sang Ratnam, from Total PNG, showed how the multiplier effect of large projects works and impacts economic growth in a developing nation citing examples from Total's worldwide experience on the relationship between direct activity, indirect activity, and induced activity. Of relevance is the fact that indirect and induced employment can be nine times larger than the direct employment of major projects. In Ghana, direct take from major projects makes up only one third of the economic contribution to the economy. There are possible lessons here to PNG on the value to economic growth and the potential to lower the debt to GDP ratio if large projects can move forward and have a positive impact on GDP. The key being to ensure a sound local content program is in place.

John Gooding, a retired mining executive with a global reputation, including time spent in PNG, summarised the PNG Trade and Investment policy for 2017-2032 which is to maximise trade and investment by increasing exports, to reduce imports and to increase foreign direct investment. He explained how PNG is a resource rich but capital poor nation, and thus needs foreign direct investment to create jobs and local capacity. Unfortunately, PNG has fallen in its ranking as an investment destination in recent times as shown by the Fraser Institute falling from 41st to 54th on the list of 76 states from the 2018-2019 survey even prior to the recent changes to the legislation. This is something we all need to work together on to change if PNG is to realise its policy goals and improve the lives of its citizens. Mr Gooding pointed out that continued

resource sector revenues in Australia were responsible for that nation being in a stronger position than most nations at present with the Covid19 crisis.

Mr Wapu Sonk on behalf of Kumul Petroleum Holdings and Mr. Augustine Mano from MRDC gave a brief summary of their views on the proposed changes and the need for continuing investment and to get legacy issues sorted.



KUMUL PETROLEUM: Chairman of Kumul Petroleum, Wapu Sonk, addressing the Chamber Webinar.



LANDOWNERS: *Executive Director of the Mineral Resources Development Corporation (MRDC), Augustine Mano, speaking on behalf of resource sector landowners at the Chamber Webinar.*

Unfortunately, time was limited and did not enable a more detailed debate, but the Chamber intends to hold follow-up seminars to try to work to bridge the gap between Government and Investor sentiment within the Resource Sector.

“Due to COVID19, a series of planned seminars will replace the 2020 conference, and these events will be held via Webinars,” said Chamber President, Gereia Aopi.



SUMMING UP: Chamber Council Member Leon Buskens, presenting a summary of discussions to close up the webinar.

Next Chamber Webinar in September

Petroleum Minister, Kerenga Kua, has already committed to speaking at the next webinar, which is scheduled for the first week of September.

You can register for our September Webinar, by following updates on our official social media pages on Facebook, LinkedIn and Youtube and website www.pngchamberminpet.com.pg or you can contact our Projects Team on Telephone +675 321 2988 / 321 3785 / 321 0546 and Email: proj3@pngchamberminpet.com.pg