PNG Chamber of Mines and Petroleum

Helping Papua New Guinea to Develop its Full Potential

MEDIA RELEASE

‘WHY IS GOVERNMENT FAST-TRACKING THE INTRODUCTION OF PRODUCTION SHARING FOR MINING AND PETROLEUM?’

The PNG Chamber of Mines & Petroleum is alarmed at the PNG Government decision to fast track the adoption of Production Sharing Contracts for mining and petroleum in place of the Royalty/Tax Concessionary System that has operated successfully since independence.

The Chamber remains cognisant of the government’s prerogative to review and reform our resource laws and has never been opposed to it.

The Chamber also works to ensure that there is sufficient protection to both existing investment, and that there is accountability and governance to promote a fair investment climate to see continued, strong future investment in the country’s resources.

But significant changes are proposed that will directly affect a wide range of people in PNG, including landowners, Provincial and Local Level Governments, yet there has been virtually no consultation with anyone about it.

A wide range of stakeholders will be affected

Under the proposed changes, the State intends to transfer ownership of minerals and hydrocarbons to Kumul Mining and Kumul Petroleum, both of which will operate independently of government in pursuing exploration and development activities.

“Is the State willing to make such fundamental changes without wide public debate on their merits and without fully assessing if this is in the long-term interest of the nation and the people?” the Chamber asked.

Production sharing does not work for mining

Petroleum and Energy Minister, Honourable Kerenga Kua, when speaking at a recent Chamber webinar spoke about production sharing, and acknowledged that there was little evidence of PSCs working in mining sectors around the world,

In spite of this acknowledgement, “*The Organic Law on Papua New Guinea’s Ownership and Development of Hydrocarbons and Minerals and the Commercialisation of State Businesses 2020*” is expected to be tabled in this current sitting of Parliament.

Production sharing is inappropriate for mining and is uncommon for minerals worldwide and has not worked in other countries. Egypt abandoned production sharing to revert to a concession system, similar to PNG.

The government says under the proposed PSCs there would be no changes to royalties, equity or other benefits that usually accrue to affected landowners, Provincial and Local Level Governments, but this is not true.

Under the proposed changes, the Chamber said, these stakeholders will still be entitled to an unspecified share of royalties, but will have no specific entitlement to equity or other benefits, which will be up to Kumul Minerals and Kumul Petroleum to determine.

The government's recent statement on PSCs asked, "Will the PSC Regime discourage new investment?" and went on to answer that question by referring to the experience of other countries. However, the Chamber believes these changes will discourage future investments in PNG and impair PNG's economic growth potential.

One of the few government statements in Parliament on production sharing was made in July last year by the then Commerce and Industry Minister, Honourable. Wera Mori, a professional geologist prior to his entry into Parliament. Mr Mori said his Department had put companies on notice that the government would take up 40% of the production from companies such as Ok Tedi and others in the pipeline.

The Chamber said: "It is doubtful any mining project would remain viable if it had to give away a large proportion of production, even if this was applied to the fully PNG-owned Ok Tedi mine."

Changing to production sharing could be counter-productive

In his recent statement Mr Kua admitted, "there is no intrinsic revenue tax reason to prefer the Royalty/Tax Concessionary Regime over the Production Sharing Contract Regime".

Introducing a PSC regime would involve an enormous challenge for government. While such a system will not work for minerals, there is no guarantee increased benefits will accrue from the petroleum sector, the Chamber said.

According to Minister Kua a key reason for the legislative change is for the PNG Government to avoid raising large loans to pay for its right to purchase 22.5% equity in any oil or gas project and up to 30% for a mining venture. However, the existing regulatory framework can manage State equity funding issues and a dramatic and fundamental change of regime is not needed.

The Minister said the need to borrow funds for equity participation had "major crippling effects on the PNG economy". However, at this point, with the government holding some K35 billion in debt, none of the public debt is due to any operating resource venture, including the most recent US$19.6 billion PNG LNG Project.

The government has also said PSCs would give government greater control and related benefits, although there is no reason why this should be so.

And while the government misguidedly points to current in-country developers having experience in PSC regimes in other countries worldwide, these developers only invested based on clear and accountable environments. World experience has shown that increased government take under this regime, is not feasible. Which is why countries who have tried it, have reverted to systems used today in PNG.

There has been no hint of an established PSC processing environment, that has strong government and parliament oversight. Proposed reforms in their current form, assign resource revenue management to entities which sit outside of the country's fiscal accountability processes.

The current Royalty/Tax Concessionary system places significant emphasis on returns to landowners, who reside where the resource development occurs. This includes direct equity paid for by the National Government, receipt of royalties and development levies and support for landowner companies, which earn hundreds of millions of kina annually in areas such as Ok Tedi, Lihir, Porgera, Kutubu and the PNG LNG Project.

Conclusion

It has been a longstanding stance of the Chamber that due processes should be observed and followed when major legislative changes are contemplated which may have long-term impacts on the resources sector and the PNG economy.

The Chamber is fully supportive of an open and transparent consultative process that engages institutions and groups affected by any legislative changes and ensures that national and public interest values, and investor interest are sustained and nurtured.

Authorised for Release:

President

PNG Chamber of Mines and Petroleum