WHO WILL SHARE THE BENEFITS OF PNG’S GAS PROJECT?

Colin Filer
Project will increase PNG’s GDP [or is it GNP?] from K8.65 billion in 2006 to an average of K18.2 billion annually once project is operational in 2014.

Project will increase government revenues by K2 billion a year over first 10 years of operation, and K3 billion a year for remaining 20 years.
CURRENT PROJECT TIMELINE

May 2008  Gas Agreement and start of FEED
September 2008  Amendments to Income Tax Act
November 2008  Government mortgages OSL shares
December 2008  Hela Province Task Force established
April 2009  Umbrella BSA negotiations
May 2009  Start of ‘early works’
July 2009  DEC response to EIS
September 2009  Completion of licence area forums
December 2009  Final investment decision
### PROJECT LICENCE AREAS

<table>
<thead>
<tr>
<th>CURRENT LICENCES:</th>
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<tbody>
<tr>
<td>Hides (PDL 1)</td>
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<td>Kutubu (PDL 2)</td>
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<td>Gobe (PDL 4)</td>
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<td>Moran (PDL 5)</td>
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<td>NW Moran (PDL 6)</td>
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<th>NEW LICENCES:</th>
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<td>Juha (PRL 2)</td>
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<td>Angore (PRL 11)</td>
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<td>South Hides (PRL 12)</td>
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<td>Pipeline (buffer zone)</td>
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<td>Plant site (Portion 152)</td>
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KEY BENEFIT STREAMS

- ROYALTY BENEFIT (2% OF WELLHEAD VALUE)
- DEVELOPMENT LEVIES (2% OF WELLHEAD VALUE)
- EQUITY BENEFIT (2% OF TOTAL PROJECT EQUITY)
- INFRASTRUCTURE GRANTS (NEGOTIABLE)
- TAX CREDIT PROJECTS (<0.75% OF GROSS INCOME)
- ‘NATIONAL CONTENT’ (EMPLOYMENT AND SPIN-OFFS)
PALO share of K5.39 billion (US$1.78 billion) split:
40% cash, 30% Future Generations Trust,
30% Community Investments Trust
The State's Dev't Levy Offer

K5.39 billion (US$1.78 billion) divided between provincial and local-level governments by mutual agreement.
THE STATE’S EQUITY OFFER

PDLs

PL/Plant

90%

10%

Angore

Juha

HIDES

LLG

67%

33%

Negotiated outcomes

Proportional Equity

Per capita split

BSA Umbrella limit

PALOs

PALOs

71% 24% 5%

48% 52%

10%

10%

Negotiated outcomes

Per capita split

PALO share of K5.21 billion (US$1.72 billion) split:

40% cash, 30% Future Generations Trust,
30% Community Investments Trust
Economic Corridor – 4 Envelopes

- Nomad WP
- Komo
- Hides
- Kutubu
- Kopiago
- Korobo
- Tari

- Magarima
- Nipa
- Ialibu
- Mendi
- Kandep

- Wabag
- Mt Hagen
- WHP

**Economic Pursuits**
- Sago
- Shipping
- Fisheries
- Water Bottling
- Livestock
- Hospitality
- Vegetables
- Spices
- Coffee processing
But OGA
Section 48 says:

“...prior to the first grant of a licence or licences in respect of a petroleum project, the Minister shall convene a development forum at a place close to the proposed licence area to provide ease of access, being a meeting to which are invited persons who, in the view of the Minister, will be affected by that petroleum project...”
WHAT DID THE STATE CONCEDE?

- Additional 5% project equity option (including portion for provincial governments) in 2016
- Bureaucratic review of trustee arrangements for landowner royalty and equity benefits
- Judicial review of distribution of development levy between provincial governments
- K1.2 billion in infrastructure grants over 10-year period (2010-2020)
- K120 million in business development grants (20% before final investment decision, rest after)
- Government to regulate implementation of National Content Plan by project operator
Kikori-Sepik & Tari-Komo super-highways
Kikori international wharf
Expansion of Kikori, Mendi and Ialibu towns
New towns at Kutubu, Komo, Magarima, Koroba, Kagua and Nipa
‘Growth centres’ at Angore and Nogoli (Hides)
Tari turns into ‘Hela City’ with international airport and free trade zone
To take over from existing ‘Expenditure Implementation Committees’ in ensuring that the disbursement of all grants (in cash or in kind) made by the National Government to provincial or local-level governments, the spending of all funds held in trust for them by a subsidiary of Mineral Resources Development Company, and any expenditures by the developer under the Tax Credit Scheme are made “in accordance with development plans submitted by the relevant Local-level Government or Provincial Government”.
OGA SECTION 174

“The total benefits granted in accordance with this Act to project area landowners and affected Local-level Governments and affected Provincial Governments and any other persons or organisations shall not, when added to other costs incurred by the State in the course of the development or operation of a petroleum project, exceed 20% of the total net benefit to the State from that petroleum project as determined in a cost-benefit analysis under Section 116 of the *Organic Law on Provincial Governments and Local-level Governments*.”
PNG Govt seems to be using prospective windfall to play hard ball on direction of Australian aid program

Fat lady won’t sing until licence area forums are completed and litigation has been laid to rest

Spending windfall in advance could replicate fiscal crisis of 1994 but maybe on a much bigger scale

Later leakage of gas revenues could likewise make previous leakage of oil revenues look like small beer

So when and how will the prospect/reality of a new gas economy fuel a new form of political instability?