

PNG MINING AND PETROLEUM INVESTMENT CONFERENCE
SYDNEY
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GOVERNMENT INITIATIVES IN THE PETROLEUM SECTOR

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INTRODUCTORY REMARKS

THANK YOU FOR GRANTING ME THIS OPPORTUNITY TO SPEAK TO THIS AUGUST BODY ABOUT REBUILDING A ROBUST PETROLEUM INDUSTRY IN PAPUA NEW GUINEA.

MANY OF YOU ARE NO DOUBT BEWILDERED OR PERPLEXED BY THE VAGARIES OF PNG POLITICS, BECAUSE ITS TWISTS AND TURNS, EBBS AND FLOWS SEEM TO DEFY REASON AND LOGIC.

WELL, IF YOU EXPECT NEW POLITICAL INSIGHTS FROM ME THIS MORNING YOU ARE GOING TO BE DISAPPOINTED. YOU ARE LOOKING AT THE WRONG GUY. IT IS PRECISELY THESE SAME SEEMINGLY ILLOGICAL FORCES THAT MADE ME THE MINISTER FOR PETROLEUM AND ENERGY.

IF I SHOULD APPEAR SOMEWHAT INCOHERENT THIS MORNING, IT IS NOT BECAUSE OF POLITICS – IT'S ALL THE BRUISING FROM THE INTERMINABLE NEGOTIATIONS OVER THE GAS AGREEMENT. THANKS TO DOUG SCHWEBEL AND PETER BOTTEN, I AM WISER FOR THE EXPERIENCE.

MY POLITICS SIMPLY REFLECT THE IMMORTAL WORDS OF ROBERT F KENNEDY:

- “SOME MEN”, HE OBSERVED, “SEE THINGS AS THEY ARE AND SAY WHY? I DREAM OF THINGS THAT NEVER WERE AND SAY..... WHY NOT?”

IN THAT SPIRIT, LET ME OUTLINE THE GOVERNMENT'S FISCAL AND NON-FISCAL INCENTIVES THAT ARE DESIGNED TO PROMOTE GROWTH IN THE PETROLEUM SECTOR.

I BELIEVE THAT THE PETROLEUM INDUSTRY IS THE ONLY ONE IN PNG WITH THE POTENTIAL TO HAVE A MATERIAL IMPACT ON THE ECONOMY OVER THE NEXT FEW YEARS, PARTICULARLY IF WE TAKE INTO ACCOUNT THE MULTIPLIER EFFECTS OF THE PNG GAS-TO-AUSTRALIA PROJECT.

THE BOTTOM LINE FOR THE GOVERNMENT IS TO RAISE THE STANDARD OF LIVING OF OUR PEOPLE. VILLAGE PEOPLE IN THE PAST WERE INSULATED SOMEWHAT FROM THE VAGARIES OF THE MARKET PLACE BY NATURE OF OUR DUAL ECONOMY. THEY COULD LIVE OFF THE LAND.

BUT NOW BECAUSE OF THE PENETRATION OF THE CASH ECONOMY, LIVING STANDARDS ARE BEING DICTATED BY THE BUYING POWER OF THE KINA. AS YOU ALL KNOW, THE KINA IS BUYING LESS AND LESS.

THAT HAS TO CHANGE. I WANT THE PETROLEUM INDUSTRY TO BE THE CATALYST. FOR EXAMPLE, MORE EXPORT REVENUE FROM HIGHER PRODUCTION WILL ENHANCE THE BUYING POWER OF THE KINA.

FISCAL INCENTIVES

AS THE PRIME MINISTER SAID YESTERDAY, WE INTRODUCED SOME VERY SUBSTANTIAL FISCAL INCENTIVES IN THE 2003 BUDGET, INCLUDING REDUCING THE TAX RATE ON NEW OIL PROJECTS FROM 45% TO 30%.

THAT WAS THE JEWEL IN THE CROWN OF THE BUDGET. TO QUOTE MY MATE BART PHILEMON, OUR TREASURER, IT IS THE LOWEST TAX RATE ON OIL PRODUCTION IN THE WORLD.

IF OUR TREASURY DEPARTMENT HAD BOUGHT FAIRFAX PRESS, THE HEADLINE IN THE SYDNEY MORNING HERALD WOULD HAVE BEEN

- **AVEI SELLS OUT**

IF DAVID SODE AND JOHN LOHBERGER OF THE IRC HAD CONTROL, THE HEADLINE WOULD HAVE BEEN

- **AVEI SELLS FAMILY JEWELS FOR A SONG.**

THEIR CONCERNS ARE UNDERSTANDABLE, HOWEVER, BECAUSE OIL AND GAS ARE NON-RENEWABLE RESOURCES. THE STATE HAS TO MAKE THE BEST USE OF THE REVENUES FROM THEM WHILE IT CAN.

HOWEVER, FOR OUR LANDOWNERS, THE BUDGET WAS PROBABLY MEANINGLESS. THEY HAVE BECOME USED TO

- **MAUS WARA**

FROM WAIGANI, WHICH IN ENGLISH MEANS “TALK NOTHING”.

THEY WANT TO SEE TANGIBLE EVIDENCE ON THE GROUND. THEY WANT TO BE ABLE TO TRAVEL FROM MENDI TO TARI ON A GOOD ROAD AND IN SAFETY. THEY WANT TO BE ABLE TO SELL DIESEL FROM HIDES IN MOUNT HAGEN. THEY WANT TO BE ABLE TO BUY GOODS IN THEIR TRADE STORES AT REASONABLE PRICES.

THUS THE KEY QUESTION IS:

- **DOES THE 2003 BUDGET ADDRESS ALL THESE ISSUES?**

AS THE MINISTER FOR PETROLEUM AND ENERGY I HAVE PUT MY HEAD ON THE MINISTERIAL CHOPPING BLOCK TO GET THESE FISCAL INCENTIVES AND I HAVE TO DELIVER RESULTS. I TRUST THAT THE INDUSTRY WILL RESPOND WITH INCREASED OIL AND GAS PRODUCTION, INCREASED EXPLORATION AND INCREASED INVESTMENT. IF NOT, ALL MY EFFORTS WILL HAVE BEEN IN VAIN.

I BELIEVE THAT RENEWED GROWTH IN THE PETROLEUM INDUSTRY CAN ADDRESS THE TWO CRITICAL ISSUES OF:

- THE FINANCING GAP, AND
- THE DEPRECIATION OF THE KINA.

AS THE MINISTER, I HAVE A THREEFOLD MISSION:

- **TO HAVE A ROBUST PETROLEUM INDUSTRY WHICH WILL DEAL WITH THE ABOVE ISSUES**
- **TO GET THE GAS-TO AUSTRALIA PROJECT UP AND RUNNING**
- **TO PRODUCE THE GAS MASTER PLAN**

I WANT TO TALK ABOUT ALL THREE OF THESE OBJECTIVES THIS MORNING.

REVENUE GAP TO 2006

AS YOU ALL WILL KNOW, THE PNG ECONOMY IS IN A VERY POOR STATE. ONE OF THE BIG PROBLEMS OVER THE NEXT FEW YEARS WILL BE THE DECLINING TAX REVENUES FROM THE PETROLEUM INDUSTRY. PRODUCTION IS FALLING BY ABOUT – 20% A YEAR AND THE TAX REVENUES AT AN EVEN GREATER RATE.

THE GAS PROJECT WILL HAVE A MASSIVE IMPACT ON OUR ECONOMY BUT GAS PRODUCTION WILL NOT BEGIN UNTIL 2006 AND THERE ARE UNLIKELY TO BE SIGNIFICANT TAX REVENUES FROM THE PROJECT UNTIL 2010. THE BIG CHALLENGE IS TO REFORM AND REVITALISE THE ECONOMY BY 2006.

ONE OF THE KEY OBJECTIVES OF THE NEW FISCAL INCENTIVES, THEREFORE, IS TO ENCOURAGE HIGHER OIL PRODUCTION. I EXPECT TO SEE AT LEAST THREE NEW OIL FIELDS DEVELOPED BEFORE 2006.

I WAS DELIGHTED TO HEAR LAST WEEK THE RESULTS OF THE BILIP WELL, WHICH WAS DRILLED BY BARRACUDA, A SUBSIDIARY OF SANTOS. THE SIZE OF THE OIL RESERVES DISCOVERED IS UNCERTAIN AT THE PRESENT TIME BUT THERE IS NO DOUBT THAT IT IS A VERY SIGNIFICANT DISCOVERY.

BILIP IN PIDGIN MEANS

➤ FAITH

AND I HOPE THAT IS A GOOD OMEN FOR THE FUTURE.

I HAVE FAITH IN THE INDUSTRY BUT NEED YOU ALL TO PROVE ME RIGHT.

I WANT TO SEE THE SOUTH EAST MANANDA FIELD DEVELOPED IN THE NEAR FUTURE. THIS WAS DISCOVERED ABOUT TEN YEARS AGO, WITH ESTIMATED RECOVERABLE RESERVES OF ABOUT 30 MILLION BARRELS, BUT HAS YET TO BE DEVELOPED. THE NEW FISCAL INCENTIVES WILL ALLOW SOUTH EAST MANANDA TO BE DEVELOPED WITH A 30% TAX RATE INSTEAD OF 50%, SO I WANT TO SEE THAT HAPPEN QUICKLY.

THE SAME APPLIES TO THE SMALL SAUNDERS DISCOVERY, ALTHOUGH THAT SHOULD BE MUCH EASIER AND ECONOMIC TO DEVELOP GIVEN ITS PROXIMITY TO THE GOBE FIELD FACILITIES.

I ALSO WANT TO SEE THE FURTHER DEVELOPMENT OF THE MORAN FIELD, FOLLOWING THE DRILLING OF THE NORTH WEST MORAN APPRAISAL WELL AND ANY ADDITIONAL APPRAISAL DRILLING THAT IS JUSTIFIED.

THUS I WANT A COMMITMENT FROM CHEVRON AND THE OTHER COMPANIES INVOLVED TO DEVELOP THESE FIELDS SOON. THEIR DEVELOPMENT SHOULD

HELP TO REDUCE THE REVENUE SHORTFALL IN THE PERIOD TO 2006 AND RESULT IN A SUBSTANTIAL INCREASE IN INVESTMENT OVER THAT PERIOD.

CURRENT OIL PRODUCTION IS AVERAGING ABOUT 60,000 BARRELS PER DAY (BPD). MORAN SHOULD GIVE A TEMPORARY BOOST TO THAT BUT I HAVE PROMISED TREASURY THAT WE SHALL BE ABLE TO KEEP PRODUCTION ABOVE 75,000 BPD UNTIL 2006 AT LEAST.

THE LOW LEVEL OF EXPLORATION

EXPLORATION HAS ALSO FALLEN DRAMATICALLY OVER THE LAST FEW YEARS. I RECOGNISE THAT MANY OF THE MAJOR OIL COMPANIES ARE CONCENTRATING THEIR EFFORTS NOW ON MORE PROLIFIC AREAS SUCH AS WEST AFRICA, THE GULF OF MEXICO AND AROUND THE CASPIAN SEA. FOR MANY COMPANIES PAPUA NEW GUINEA IS NOW OF VERY LITTLE INTEREST.

HOWEVER, I HAVE PROMISED THE TREASURER AND MY CABINET COLLEAGUES THAT THE NEW INCENTIVES WILL LEAD TO A MUCH HIGHER LEVEL OF EXPLORATION IN 2003 AND SUBSEQUENT YEARS. I WANT TO SEE AN AVERAGE OF AT LEAST FIVE EXPLORATION WELLS A YEAR IN THE PERIOD TO 2006. HOPEFULLY, SOME OF THESE WELLS WILL RESULT IN NEW DISCOVERIES.

INCENTIVES IN THE 2003 BUDGET

LET ME EXPLAIN THE INCENTIVES IN THE 2003 BUDGET WHICH WERE PRESENTED TO PARLIAMENT LAST THURSDAY. THE PROVISIONS INCLUDE A SPECIAL PACKAGE FOR THE PETROLEUM INDUSTRY. THESE SPECIAL TERMS ARE STYLED AS "INCENTIVE RATE PETROLEUM OPERATIONS".

BRIEFLY, INCENTIVE RATE PETROLEUM OPERATIONS WILL BE SUBJECT TO A REVISED INCOME TAX OF JUST 30% OF TAXABLE INCOME. THAT IS A SUBSTANTIAL DECREASE FROM NORMAL PETROLEUM OPERATIONS, WHICH ARE CURRENTLY ASSESSED AT 50% OF TAXABLE INCOME FOR PETROLEUM PROJECTS ESTABLISHED PRIOR TO JANUARY 1ST 2001 AND 45% FOR PROJECTS AFTER THAT DATE.

TO QUALIFY FOR THE 30% INCENTIVE RATE, COMPANIES WILL NEED TO BE GRANTED A PETROLEUM PROSPECTING LICENCE (PPL) WITHIN THE FIVE YEAR PERIOD FROM 1ST JANUARY 2003 TO 31ST DECEMBER 2007. IF A DISCOVERY IS MADE, THEN A PETROLEUM DEVELOPMENT LICENCE (PDL) MUST BE AWARDED

BEFORE 31 DECEMBER 2017 FOR THE 30% TAX RATE TO APPLY. THAT GIVES AN ADDITIONAL 10 YEAR PERIOD FOR THE COMPANIES TO APPRAISE THE DISCOVERIES AND PRODUCE DEVELOPMENT PLANS. I BELIEVE THAT IS VERY GENEROUS.

THE INCENTIVE RATE WILL APPLY TO NEWLY GRANTED LICENCES THROUGHOUT ALL OF THE PETROLEUM BASINS OF PAPUA NEW GUINEA, INCLUDING EXISTING PRODUCTIVE BASINS, UNDER-EXPLORED BASINS AND UNEXPLORED BASINS. I PARTICULARLY WANT TO ENCOURAGE EXPLORATION ACTIVITY IN THE LESSER EXPLORED OR FRONTIER AREAS.

EXISTING LICENCES

WE HAVE JUST 16 PETROLEUM PROSPECTING LICENCES AT PRESENT, DOWN FROM A PEAK OF 40 IN 1990. MANY OF THESE LICENSEES ARE FINDING IT DIFFICULT TO COMMIT TO HIGH EXPLORATION EXPENDITURES AND GAIN MANAGEMENT APPROVAL TO SPEND SCARCE EXPLORATION BUDGETS IN PNG.

WHILST THE INCENTIVE RATE TERMS ARE PRIMARILY INTENDED FOR NEW PPL'S, I AM PREPARED TO GRANT NEW LICENCES TO THOSE WHO HOLD EXISTING TENEMENTS, PROVIDED THEY VOLUNTARILY SURRENDER THEIR CURRENT LICENCES SIMULTANEOUSLY WITH APPLICATIONS FOR NEW LICENCES.

THE NEW LICENCE APPLICATIONS MUST, HOWEVER, HAVE STRONGER EXPLORATION WORK COMMITMENTS THAN THE OBLIGATIONS OF THE CURRENT LICENCES. THE CURRENT LICENSEES WHO WISH TO AVAIL THEMSELVES OF THE NEW INCENTIVE TERMS MUST RECOGNISE THAT WITH THE GRANT OF NEW LICENCES COMES NEW TENURE, AND WITH THE APPLICATION OF THE INCENTIVE TERMS, ALL PRIOR EXPLORATION EXPENDITURE ALSO BECOMES ELIGIBLE AS A TAX DEDUCTION.

I WILL THEREFORE ONLY CONSIDER RE-GRANTS THAT SERIOUSLY HEED MY CONDITIONS AND RESPOND TO MY CALL FOR ENHANCED INVESTMENT IN EXPLORATION. I AM DETERMINED NOT TO GIVE BLANKET APPROVAL TO ALL WHO WANT TO OBTAIN NEW LICENCES.

THERE ARE SOME MARGINAL OIL FIELDS THAT LIE INSIDE EXISTING PETROLEUM DEVELOPMENT LICENCE AREAS. IT MAY BE POSSIBLE IN CERTAIN

CIRCUMSTANCES TO OFFER THE INCUMBENT LICENCEES A SIMILAR TRADE-IN OF A BLOCK OR BLOCKS OF THEIR LICENCE AREA FOR A RE-GRANT AS A NEW PPL, WHERE THAT DOES NOT COMPROMISE THE ARRANGEMENTS AND LICENSING FOR THE ORIGINAL DEVELOPMENT FOR WHICH THE PDL WAS GRANTED.

IN THIS ROUNDABOUT MANNER, I MAY BE ABLE TO SELECTIVELY OFFER THE NEW INCENTIVE TERMS FOR CERTAIN UNDEVELOPED MARGINAL FIELDS.

SOUTH-EAST MANANDA IS THE OBVIOUS EXAMPLE. AS I MENTIONED EARLIER, I WANT CHEVRON AND PARTNERS TO DEVELOP THIS FIELD AS QUICKLY AS POSSIBLE.

ADDITIONAL PROFITS TAX

THE BUDGET ALSO ABOLISHED THE FIRST TIER OF THE ADDITIONAL PROFITS TAX OR APT, AS IT IS KNOWN. I TRUST THAT THIS IS A FURTHER INCENTIVE FOR THE INDUSTRY TO DEVELOP NEW FIELDS IN PAPUA NEW GUINEA.

THE SECOND TIER OF APT HAS BEEN RE-NAMED THE RESOURCE RENT TAX. HOWEVER, I DOUBT IF IT WILL EVER BE TRIGGERED AND I SHALL BE HAVING FURTHER DISCUSSIONS WITH TREASURY AND IRC ABOUT ABOLISHING THIS TAX AS WELL.

RELAXATION OF RING FENCING

SOME COMPANIES ASKED FOR A RELAXATION OF THE RING FENCING CONDITIONS. AFTER CONSULTING THE TREASURER, I DID NOT PUT THIS TO THE CABINET BECAUSE OF THE NEGATIVE IMPLICATIONS FOR GOVERNMENT TAX REVENUE IN 2003 AND THE NEXT FEW YEARS.

NEVERTHELESS, I AM STRONGLY OF THE BELIEF THAT THE FISCAL INCENTIVES WHICH HAVE BEEN AGREED ARE MUCH BETTER THAN THE INDUSTRY ASKED FOR AND EXPECTED.

NON-FISCAL INCENTIVES

IN PARALLEL WITH THESE FISCAL INCENTIVES, THE GOVERNMENT WILL ALSO PROVIDE SOME NON-FISCAL INCENTIVES TO INTRODUCE MORE STABILITY AND CONFIDENCE IN THE INDUSTRY. THESE FALL INTO THREE MAIN CATEGORIES:

- 1) INFRASTRUCTURE IN THE SOUTHERN HIGHLANDS

- 2) MEETING MOA COMMITMENTS
- 3) RESTRUCTURING OF DPE TO UPGRADE LANDOWNER MANAGEMENT

INFRASTRUCTURE IN THE SOUTHERN HIGHLANDS

WE ARE DETERMINED TO RESTORE GOVERNMENT AND ADMINISTRATION IN THE REGION, PARTICULARLY IN MENDI AND TARI, AND SIR PETER BARTER IS ALREADY MAKING GOOD PROGRESS WITH THAT.

THE PRIME MINISTER HAS ANNOUNCED A PROGRAMME OF IMPROVEMENTS TO THE HIGHLANDS HIGHWAY. I AM PLEASED TO INFORM THE INDUSTRY THAT IT HAS BEEN AGREED THAT THE HIGHLAND HIGHWAY INCLUDES THE MENDI-TARI ROAD AND NOT JUST LAE TO MENDI.

ALSO, THE ASIAN DEVELOPMENT BANK HAS AGREED THAT TAX CREDIT MONEY FROM THE PETROLEUM INDUSTRY WILL BE ACCEPTED AS THE PNG COUNTERPART FUNDING FOR THEIR ASSISTANCE FOR TWO ROADS:

- (1) MENDI TO NIPA; AND
- (2) KISINAOE TO IALIBU.

THE GOBE-SAMBERIGI ROAD IS ALSO INCLUDED IN THE 2003 BUDGET.

THE STATE AGREED TO OTHER ROAD PROJECTS IN THE GAS AGREEMENT AND THESE WILL BE FUNDED OVER THE NEXT FEW YEARS. THEY WILL ULTIMATELY RESULT IN A NEW ROAD FROM KIKORI IN THE GULF TO HIDES, WHICH WILL PROVIDE AN ALTERNATIVE TRANSPORT ROUTE TO THE SOUTHERN HIGHLANDS FOR AGRICULTURAL PRODUCE FROM THE SOUTHERN HIGHLANDS.

I WANT TO STRESS THAT THE KEY OBJECTIVE OF THESE ROAD AND OTHER INFRASTRUCTURE PROJECTS IS TO ENSURE THAT ALL THE PEOPLE OF THE SOUTHERN HIGHLANDS BENEFIT AND NOT JUST THOSE IN THE PROJECT AREAS. THERE HAS TO BE TANGIBLE EVIDENCE OF PROGRESS ON THE GROUND FOR PEOPLE TO SEE, RATHER THAN JUST THE WHITE ELEPHANTS THEY CAN SEE IN MENDI TODAY.

RESTRUCTURING OF DPE

I HAVE CONCLUDED THAT THERE ARE INHERENT FLAWS IN THE CURRENT STRUCTURE OF LANDOWNER BENEFITS WHICH GIVE RISE TO LUDICROUSLY HIGH EXPECTATIONS BY LANDOWNERS. THEIR DEMANDS ARE TOO COSTLY TO

DELIVER AND THE CURRENT SYSTEM DOES NOT TAKE INTO ACCOUNT THE POOR CAPACITY OF THE GOVERNMENT TO DELIVER. THAT INEVITABLY RESULTS IN FRUSTRATION AND THE TYPE OF PROBLEMS THAT I HAVE BEEN PLAGUED WITH SINCE I BECAME MINISTER.

THE DEPARTMENT OF PETROLEUM AND ENERGY HAS TWO CORE FUNCTIONS:

- 1) REGULATORY, IN ACCORDANCE WITH THE OIL AND GAS ACT, AND
- 2) LANDOWNER MANAGEMENT.

I BELIEVE THAT DPE HAS A GOOD RECORD IN RESPECT OF ITS REGULATORY FUNCTION. I WOULD LIKE TO MENTION IN PASSING THAT NEW REGULATIONS FOR THE INDUSTRY WERE APPROVED BY THE NEC TWO WEEKS AGO. THEY ARE NOW WITH THE GOVERNOR-GENERAL AND SHOULD BE GAZETTED SOON.

I HAVE DECIDED TO UPGRADE LANDOWNER MANAGEMENT TO BE THE SECOND CORE FUNCTION OF THE DEPARTMENT.

I HAVE INSTRUCTED SECRETARY GABUT TO STRENGTHEN THE COORDINATION BRANCH, BY ALLOCATING IT MORE MANPOWER AND MORE RESOURCES. THESE WILL BE PLACED IN THE PROJECT AREAS AND NOT IN PORT MORESBY.

I DO NOT UNDERSTAND WHY SO MANY OF THE MEETINGS WITH LANDOWNERS ARE HELD IN PORT MORESBY, INSTEAD OF AT KUTUBU, GOBE, MORAN OR HIDES. BY STRENGTHENING THE DEPARTMENT'S CAPABILITIES IN THE FIELD, I HOPE TO ELIMINATE OR AT LEAST MINIMIZE THE NEED FOR PEOPLE TO VISIT PORT MORESBY.

IN PASSING, I ALSO DO NOT UNDERSTAND WHY SO MANY MEETINGS OF THE BOARDS OF PRK AND PRG HAVE BEEN HELD IN CAIRNS, BRISBANE AND THE GOLD COAST, RATHER THAN IN PNG. I TRUST THAT FRANCIS KAUPA, THE NEW MANAGING DIRECTOR OF MRDC, IS TAKING NOTES ON MY REMARKS THIS MORNING.

I FEAR THAT SOME OF THE LANDOWNER GROUPS HAVE FALLEN INTO A STATE OF WELFARE DEPENDENCY. THEY JUST HANG AROUND KONE DOBU WAITING FOR THEIR ROYALTY CHEQUES.

EXPENDITURE IMPLEMENTATION COMMITTEE

ONE OF THE CRITICAL PROBLEMS IS UNDOUBTEDLY THE DELIVERY OF MOA COMMITMENTS. I ACKNOWLEDGE THAT THE GOVERNMENT TRACK RECORD ON THESE HAS BEEN ABYSMAL.

TO CHANGE THAT, MY DEPARTMENT HAS BEEN WORKING ON DETAILED PLANS TO SET UP THE

- EXPENDITURE IMPLEMENTATION COMMITTEE

AND I HOPE TO SUBMIT THOSE TO THE NATIONAL EXECUTIVE COUNCIL FOR APPROVAL WITHIN THE NEXT TWO WEEKS.

THE EXPENDITURE IMPLEMENTATION COMMITTEE (EIC) WILL OVERSEE THE DISTRIBUTION OF FUNDS FOR MOA PROJECTS AND ALSO MANAGE THE IMPLEMENTATION OF THESE PROJECTS. I EXPECT IT TO RESULT IN A SUBSTANTIAL IMPROVEMENT IN THE DELIVERY OF PROJECTS. THE EIC WILL EMPLOY STAFF WITH PROJECT MANAGEMENT AND IMPLEMENTATION SKILLS, WHICH MY DEPARTMENT UNDERSTANDABLY DOES NOT HAVE.

IN ADDITION, THE FORTHCOMING MOA REVIEWS WILL ADDRESS SOME OF THE INHERENT FLAWS IN THE CURRENT STRUCTURE. I BELIEVE THAT MANY OF THE MOA PROJECTS HAVE BEEN DRIVEN BY POLITICS AND NOT GOOD PLANNING. THERE HAS BEEN A POOR SELECTION OF PROJECTS, AS WELL AS POOR EXECUTION.

LANDOWNER OBLIGATIONS

LET ME NOW ADDRESS SOME REMARKS TO THE LANDOWNER LEADERS HERE IN SYDNEY TODAY. IN RETURN FOR THESE NEW INCENTIVES, THE LANDOWNERS MUST ALSO GET THEIR ACT TOGETHER. I WANT AN END TO THE CORRUPTION AND MISMANAGEMENT OF FUNDS. I WANT AN END TO THE PROBLEMS AT MRDC. I WANT AN END TO THE THREATS TO DISRUPT PRODUCTION.

FROM THE VISITS I HAVE PAID TO THE PROJECT AREAS I FEAR THAT A WELFARE CULTURE HAS DESCENDED ON MANY LANDOWNERS. THEY HAVE BECOME TOO DEPENDENT ON ROYALTY AND EQUITY CHEQUES FROM THE INDUSTRY. PETROLEUM RESOURCES KUTUBU AND PETROLEUM RESOURCES GOBE ARE SEEN AS CASH COWS, BUT THAT MUST STOP.

THE IMPORTANCE OF AGRICULTURE

THE LANDOWNERS HAVE TO RECOGNISE THAT AN OIL FIELD IN PNG ONLY PRODUCES FOR 10 TO 15 YEARS. PRODUCTION FROM KUTUBU AND GOBE IS NOW DECLINING AT ABOUT -20% A YEAR, AND THE ROYALTY AND EQUITY PAYMENTS ARE DECLINING AT AN EVEN FASTER RATE.

THE LONG TERM FUTURE FOR THESE LANDOWNERS IS IN AGRICULTURE. THAT AGRICULTURE HAS TO ENTER AND BE ABLE TO COMPETE IN THE CASH ECONOMY. THE SOUTHERN HIGHLANDS IN THE FUTURE MUST BE CAPABLE OF EXPORTING MORE AGRICULTURAL PRODUCE TO THE REST OF PNG AND ALSO TO OVERSEAS MARKETS.

TO DO THAT, THE LANDOWNERS MUST INVEST A SUBSTANTIAL PART OF THEIR CURRENT INCOME IN AGRICULTURE AND RELATED PROJECTS. SADLY, I DO NOT SEE THAT HAPPENING AT THE PRESENT TIME BUT I AM DETERMINED THAT IT WILL BEGIN DURING MY PERIOD AS MINISTER FOR PETROLEUM AND ENERGY.

THE NEW GOVERNMENT WILL DO ITS PART THROUGH THE UPGRADING OF THE HIGHLANDS HIGHWAY AND THE OTHER ROADS PROJECTS I MENTIONED A FEW MINUTES AGO.

GAS-TO- AUSTRALIA PROJECT

LET ME NOW MAKE A FEW COMMENTS ON THE GAS-TO -AUSTRALIA PROJECT. I GAVE A DETAILED STATEMENT TO PARLIAMENT ON THE PROJECT ON THURSDAY OF LAST WEEK.

THE COMPANIES AND THE STATE SIGNED THE GAS AGREEMENT IN JUNE. IN IT, THE STATE MADE VARIOUS COMMITMENTS TO BE COMPLETED BY THE END OF THIS YEAR.

I AM PLEASED TO TELL YOU THAT THE GOVERNMENT HAS ALREADY MET MOST OF THESE COMMITMENTS AND DEADLINES.

FOR EXAMPLE, WE HAVE DECIDED TO EXERCISE OUR OPTION TO TAKE 22.5% EQUITY IN THE HIDES FIELD WHICH WILL SUPPLY ABOUT HALF THE GAS NEEDED FOR THE PROJECT.

IN PARLIAMENT LAST THURSDAY I ANNOUNCED THAT THIS EQUITY WILL BE SUBDIVIDED AS FOLLOWS:

- STATE (EDA GAS) 15.5%
- HIDES LANDOWNERS 2.0%
- SOUTHERN HIGHLANDS & GULF PROVINCIAL GOVERNMENTS 1.0%
- NATIONAL GAS CORPORATION (NGC) 4.0%

THE LANDOWNERS WILL RECEIVE 2% FREE EQUITY, IN ACCORDANCE WITH GOVERNMENT POLICY FOR PETROLEUM PROJECTS, BUT THE OTHER BODIES WILL HAVE TO PAY FAIR MARKET VALUE FOR THEIR INTERESTS.

I DO NOT WANT THE LANDOWNERS AND THE PROVINCIAL GOVERNMENTS JUST TO SIT BACK AND WAIT FOR THEIR ROYALTIES AND EQUITY DIVIDENDS TO FLOW IN. I WANT THEM TO BE PART OF THE PROJECT AND BE UNITED IN THEIR COMMITMENT TO ITS SUCCESS.

THE MINERAL RESOURCES DEVELOPMENT COMPANY (MRDC)

I ALSO ANNOUNCED THAT THREE NEW SUBSIDIARIES OF THE MINERAL RESOURCES DEVELOPMENT COMPANY (MRDC) WILL BE SET UP. THESE ARE:

- EDA GAS
- PETROLEUM RESOURCES HIDES
- AND A SUBSIDIARY OF THE NATIONAL GAS CORPORATION TO BE KNOWN AS GIGIRA LAITEBO.

EDA GAS WILL LOOK AFTER THE STATE'S 15.5% INTEREST IN HIDES. IT WILL ALSO MANAGE THE PNG PARTICIPATION IN THE PIPELINES AND DOWNSTREAM INFRASTRUCTURE.

PETROLEUM RESOURCES HIDES (PRH) WILL BE SET UP AS ANOTHER SUBSIDIARY OF MRDC TO MANAGE THE 2% INTEREST OF THE LANDOWNERS AND THE 1% INTEREST OF THE TWO AFFECTED PROVINCIAL GOVERNMENTS. THIS WILL BE SIMILAR TO THE OTHER EXISTING MRDC SUBSIDIARIES SUCH AS PETROLEUM RESOURCES KUTUBU.

I HAVE ALSO AGREED WITH THE CHAIRMAN OF THE NATIONAL GAS CORPORATION, ALFRED KAIABE, THAT THE INTERESTS OF THE NGC IN THE PROJECT WILL ALSO BE MANAGED BY MRDC UNTIL THE NGC'S LOANS HAVE

BEEN PAID OFF. THIS WILL BE DONE THROUGH ANOTHER SUBSIDIARY GIGIRA LAITEBO.

I SHOULD ALSO MENTION ANOTHER MRDC SUBSIDIARY, EDA OIL, WHICH WE ARE SETTING UP TO MANAGE THE STATE'S INTERESTS IN OIL PROJECTS SUCH AS MORAN. WE RECENTLY AGREED TO TAKE A 22.5% SHARE IN THE PDL 5 PORTION OF THE MORAN FIELD. 2% OF THAT WILL GO AS FREE EQUITY FOR THE MORAN LANDOWNERS AND THE REMAINING 20.5% WILL BE MANAGED FOR THE STATE BY EDA OIL.

SOME OF MY FELLOW MP'S HAVE EXPRESSED CONCERNS IN PARLIAMENT ABOUT USING MRDC AS THE VEHICLE FOR PNG PARTICIPATION IN THE GAS-TO-AUSTRALIA PROJECT. IT IS UNDENIABLE THAT THE RECENT SPATE OF BAD PUBLICITY HAS TARNISHED THE PREVIOUS GOOD NAME OF MRDC.

NEVERTHELESS, MRDC IS WELL KNOWN TO INTERNATIONAL FINANCIAL INSTITUTIONS SUCH AS THE ADB AND EIB. IT HAS RAISED LOANS FROM THESE INSTITUTIONS BASED ON ITS OWN BALANCE SHEET TO FINANCE GOVERNMENT EQUITY INTERESTS IN OTHER MINING AND PETROLEUM PROJECTS.

MINISTER PHILEMON AND I CONSIDERED ALTERNATIVES BUT CONCLUDED THAT A WELL-MANAGED MRDC IS STILL THE BEST OPTION. WE HAVE APPOINTED FRANCIS KAUPA AS THE NEW MANAGING DIRECTOR AND WE ARE CONFIDENT THAT MRDC WILL IN THE FUTURE PERFORM ITS VARIOUS FUNCTIONS EFFICIENTLY AND IN THE BEST INTERESTS OF THE PEOPLE OF PNG.

PNG PARTICIPATION IN THE DOWNSTREAM INFRASTRUCTURE

THE TOTAL PNG PARTICIPATION IN THE UPSTREAM COMPONENT OF THE GAS PROJECT WILL BE 14.3%. IN ADDITION, IT IS IMPORTANT TO REMEMBER THAT THE STATE NOW OWNS 18% OF OIL SEARCH FOLLOWING THE MERGER WITH OROGEN. IF THAT INDIRECT INTEREST IS ADDED IN, THE PNG PARTICIPATION RISES TO JUST UNDER 22%.

THE GAS PROJECT COMPANIES HAVE OFFERED PNG INTERESTS, THROUGH THE STATE, AN ADDITIONAL PARTICIPATION OF BETWEEN 15% AND 30% IN THE DOWNSTREAM INFRASTRUCTURE ASSETS. THE STATE ACCEPTED THIS OFFER

IN THE GAS AGREEMENT, SUBJECT TO FINANCE BEING AVAILABLE ON TERMS ACCEPTABLE TO THE STATE.

THE BASIC OBJECTIVE OF THE TAKE UP OF THE ADDITIONAL INTEREST BY PNG BODIES IS TO INCREASE THE SECURITY AND STABILITY OF THE OVERALL PROJECT. I AGREE WHOLEHEARTEDLY WITH THAT.

EDA GAS, AS THE LOCAL PARTICIPANT, WILL HOLD THE "ADDITIONAL INTEREST" IN THE PNG DOWNSTREAM INFRASTRUCTURE ASSETS ON BEHALF OF THE PNG BODIES.

WE HAVE YET TO FINALISE THE STRUCTURE OF THIS ADDITIONAL INTEREST BUT THE GOVERNMENT HAS DECIDED THAT IT WILL KEEP A SHARE FOR ITSELF AND THAT OTHER PARTICIPANTS WILL INCLUDE LANDOWNERS, THE NGC AND THE AFFECTED PROVINCIAL GOVERNMENTS. THESE LANDOWNERS WILL INCLUDE "NEW" LANDOWNERS ALONG THE ROUTE OF THE HIDES TO KUTUBU PIPELINE AND IN THE OMATI RIVER AREA.

FINANCING

THE FINANCING OF THE PNG PARTICIPATION IN BOTH THE UPSTREAM AND DOWNSTREAM PARTS WILL NOT BE EASY, BUT WE HAVE ALREADY BEGUN WORK ON THAT.

MY DEPARTMENT IS CLOSE TO APPOINTING A FINANCIAL ADVISER TO ASSIST TREASURY, MRDC AND DPE. WE HAVE ALSO PREPARED A PRELIMINARY FINANCING PLAN WHICH WE SHALL PRESENT TO THE PROJECT COMPANIES AT A MEETING IN HOUSTON NEXT WEEK.

GAS SALES CONTRACTS

I MUST SAY THAT THE MOST DISAPPOINTING FEATURE OF THE PROJECT IN 2002 HAS BEEN THE SLOW PROGRESS MADE IN FINALISING THE GAS SALES CONTRACTS WITH CUSTOMERS IN QUEENSLAND AND ELSEWHERE IN AUSTRALIA.

THE 4.6 TRILLION CUBIC FEET OF SALES GAS IS EQUIVALENT TO AN AVERAGE OF 180 PETAJOULES (PJ) PER YEAR OVER THE 30 YEARS OF THE PROJECT. AGL HAVE AGREED TO BUY 40 TO 50 PJ AND CS ENERGY 15 PJ, GIVING A TOTAL OF 65 PJ. HOWEVER, MORE CONTRACTS HAVE TO BE FINALISED BEFORE THE

COMPANIES WILL COMMIT TO THE FRONT-END ENGINEERING AND DESIGN (FEED).

I HAVE BEEN TRYING MY BEST TO HELP. ON FRIDAY, ON MY WAY HERE, I HAD AN EXCELLENT MEETING WITH THE QUEENSLAND PREMIER PETER BEATTIE IN BRISBANE. HE AND HIS GOVERNMENT WANT THE GAS PROJECT TO GO AHEAD.

WE DISCUSSED AT LENGTH THE POTENTIAL GAS SALES CONTRACTS WITH THE QUEENSLAND STATE ENERGY COMPANIES AND ALSO THE OPTIMAL ROUTE OF THE PIPELINE THROUGH QUEENSLAND.

WE WERE GIVEN AN EXCELLENT RECEPTION IN BRISBANE. ONE OF THE REASONS FOR THAT MAY HAVE BEEN THAT SOME OF PREMIER BEATTIE'S STAFF WERE UNDER THE IMPRESSION THAT I WAS THE PRIME MINISTER OF PAPUA NEW GUINEA AND THAT JOE GABUT WAS THE MINISTER FOR PETROLEUM AND ENERGY !

PREMIER BEATTIE WILL VISIT PNG ON DECEMBER 9TH AND 10TH, SO THAT WILL GIVE THE REAL PRIME MINISTER AND MYSELF ANOTHER OPPORTUNITY TO IMPRESS ON HIM THE IMPORTANCE OF THE QUEENSLAND STATE ENERGY COMPANIES SIGNING SALES CONTRACTS FOR PNG GAS.

GAS MASTER PLAN

FINALLY, I WANT TO MENTION THAT I HAVE ASKED MY DEPARTMENT TO PRODUCE A GAS MASTER PLAN WHICH WILL EXAMINE A WIDE RANGE OF OTHER POSSIBILITIES FOR PNG, INCLUDING

- LNG
- GAS-TO-LIQUIDS
- PETROCHEMICALS
- METHANOL
- ELECTRICITY GENERATION.

WE HAVE SUFFICIENT GAS FOR BOTH THE GAS-TO AUSTRALIA PROJECT AND A LNG PLANT, PLUS SOME OF THESE OTHER POSSIBILITIES. I WANT TO ENSURE, THROUGH THE GAS MASTER PLAN, THAT WE MAKE THE OPTIMAL USE OF OUR GAS RESOURCES.

CONCLUDING REMARKS

TO SUM UP, I HAVE COME TO YOU TODAY WITH A PACKAGE OF FISCAL AND NON-FISCAL INCENTIVES INTENDED TO ENCOURAGE MORE EXPLORATION AND DEVELOPMENT IN THE PETROLEUM INDUSTRY IN PNG. THE NEW INCENTIVE TAX RATE OF 30% IS MUCH LOWER THAN THE CURRENT 50% AND 45% RATES FOR OIL PROJECTS, AND MUST BE ONE OF THE LOWEST RATES IN THE WORLD.

I HAVE ALSO OUTLINED THIS MORNING A NUMBER OF NON-FISCAL INCENTIVES DESIGNED TO GIVE MORE STABILITY TO PETROLEUM PROJECTS, INCLUDING GAS-TO-AUSTRALIA.

I HAVE PUT MY MINISTERIAL HEAD ON THE CHOPPING BLOCK. MINISTER PHILEMON TOLD ME A FEW DAYS AGO THAT I AM NOW THE MOST HATED PERSON IN THE FINANCE AND TREASURY DEPARTMENT.

I THEREFORE WANT A VERY POSITIVE RESPONSE FROM THE INDUSTRY TO OUR NEW INCENTIVES.

WHEN I ATTEND THE NEXT INVESTMENT CONFERENCE, I TRUST THAT I SHALL BE ABLE TO TALK TO YOU ABOUT

- THE START OF CONSTRUCTION WORK ON THE GAS-TO-AUSTRALIA PROJECT
- THE START OF DEVELOPMENT WORK ON SOUTH-EAST MANANDA
- THE START OF PRODUCTION FROM BILIP AND SAUNDERS, AND
- THE HIGH LEVEL OF EXPLORATION ACTIVITY.

MR CHAIRMAN, I THANK YOU ALL FOR LISTENING TO ME THIS MORNING AND I SHALL BE HAPPY TO TRY AND ANSWER ANY QUESTIONS.

END OF SPEECH