



MINISTER FOR PETROLEUM AND ENERGY

Speech by the Minister for Petroleum & Energy Hon. William Duma, LLB, LLM

Mr Chairman, Chief Executives and distinguished delegates

I thank you for your introduction and to all the delegates I offer my own warm welcome to this Seminar.

I am conscious, Mr Chairman, of your role as manager of PNG's first world class LNG project. Now in view of recent events, I took the liberty of checking your activities against the undertakings you made to the State and to the people of PNG some years ago. I was heartened to see that you are adhering to your commitments, both verbal and written, to the State and to our people. I suppose this reflects the maturity and scope of your business. I am pleased to see that you are not driven by a short term share price again.

Now I could wax lyrical about your project or indeed spend the next twenty minutes or so denouncing those who do not share your consortium's ethics. Neither would be particularly informative (and you do not need me to do your advertising), but I do want to stress some of the basics upon which the State founded its support for the PNG LNG project. I do this because it is important that all participants in the industry recognise what is important to the State.

When we negotiated the LNG Project Agreement, it was not just that ExxonMobil was the driving force that encouraged us. Most certainly, ExxonMobil brings a degree of credibility to the table but so too do your partners. What ExxonMobil demonstrated to me as the responsible Minister and to the Government as a whole was that you wanted to develop a world class project, both in terms of scope and

quality. And this is important to a nation which is making its first foray into the LNG sector.

No nation, I would suggest, can hope to set its industry firmly and credibly in a global market if it does not ensure that the projects it embraces tell a strong, believable and consistent story. And that story is that our nation has world class resources; our nation has world class projects and they are run by world class Operators. To do otherwise would be, in my humble view, fatal to the long term prospects for national success. PNG LNG tells that story. I trust that the projects yet to come will tell the same story.

Clarity of public policy and clarity of purpose are sides of the same coin as you will all know. And we owe a vote of thanks to my colleague, Sir Mekere Moruata, the Minister for Public Enterprises for resolving one of the disasters created by his predecessor – the apparent existence of two national petroleum companies.

Sir Mekere in his wisdom has recognised that one company is essential but that two is an indulgence. And so by relegating the child of Kroton (NPCP) to its original role as a passive holder of the State's interest in only one, very specific project, my colleague has achieved what the Grand Chief, Sir Michael Somare, and I have always wanted: a single national oil and gas company in the form of Petromin PNG Holdings.

The creation of Petromin was a first step towards nation building. You might argue that it took too long but our nation is young and sound foundations take time to put in place. Now we are in the next phase – the growth phase. Petromin will be the State's nominee in all hydrocarbon projects and through it we will realise the potential of our nation's vast resources.

Now I acknowledge that Petromin is somewhat schizophrenic in that it holds the State's assets in both the petroleum and the minerals

sectors. I am sure that you will agree that such a level of responsibility is onerous for any entity. However, Petromin has recognised this itself and its Board has initiated a process which will see the separation of petroleum and minerals into separate entities, independently managed and with transparency and accountability which will accord with world's best practice. These separate companies will have Petromin as a service provider to avoid the duplication of overheads. It is upon this foundation that we can look to the future with confidence.

From the initial first steps in hydrocarbons driven by companies such as Oil Search for example, which claims to be an Australian company but whose assets are mostly in PNG are on the verge of exponential growth in the petroleum sector.

Clearly, PNG LNG is the first major step. But a journey comprises many steps. Following PNG LNG will be world class projects based upon the extensive resources of the Gulf of Papua – both onshore and offshore – driven by companies such as InterOil, Talisman, Horizon, and Eaglewood. But this is the beginning of the story.

Some months ago I had the pleasure of witnessing one of the most important commercial alliances our nation could envisage: that between Petromin and Royal Dutch Shell. I do stress that this is one of the most important: there will be others I am sure. Yet this particular initiative by Petromin brings to PNG the capacity to explore, finance and develop resources which but for a lack of capital should be moving towards production already. Petromin and Shell are now undertaking the most comprehensive examination of our nation's hydrocarbon potential.

Yet the growth which I see in the Petroleum sector will not come about simply by standing around waiting for seismic results and, in due course, drilling. Our national company, Petromin, has been

encouraged by me and others in its desire to take the bull by the horns and seek to assist in defining the future.

Today I am pleased to announce that I have nominated Petromin as the State Nominee in nine (9) PRLs in the area as tangible evidence of my strong support for getting all the resource owners together and to see how best to make a project from the resources we know are there. These are;

1. Petroleum Retention License (PRL) 1 – Pandora;
2. Petroleum Retention License (PRL) 3 – P'nyang
3. Petroleum Retention License (PRL) 4 – Stanley;
4. Petroleum Retention License (PRL) 21 – Elevela & Ketu;
5. Petroleum Retention License (PRL) 8 – Kimu;
6. Petroleum Retention License (PRL) 9 – Barikewa;
7. Petroleum Retention License (PRL) 10 – Uramu;
8. Petroleum Retention License (PRL) 13 – Kuru; and
9. Petroleum Retention License (PRL) 14 – Iehi, Bilip & Cobra

Imagine if you will what PNG's future might hold if such initiatives succeed. From one LNG project, it is conceivable that PNG could have two, three or perhaps more centred upon the Gulf. And if we consider Petromin's exploration activities with Shell over the New Ireland Basin, it would take a lot of courage to say that there are not more projects to be developed on the northern side of our country.

I wish to make special mention of companies such as Talisman, Horizon Oil, Eaglewood Energy and Sasol who despite some discouraging results, continue to persist in exploring for hydrocarbons. I commend these companies and remain committed to assisting them where possible.

Yet ladies and gentlemen, projects are not the whole of the story. We want to build capacity within our nation and not be dependent upon skills and capacity brought in on a project-by-project basis.

The future of the Petroleum sector must cater to the needs and aspirations of our indigenous population.

Now I readily acknowledge that we have no one in PNG at the moment for example that could hold a position in the crew of an LNG tanker let alone set foot upon the bridge of one. We do not delude ourselves. We have to learn to crawl before we walk and then run.

But it would be almost criminal if we didn't take steps now to ensure that in ten or twenty years' time Papua New Guineans will hold such positions of responsibility. Through our association with world class players such as ExxonMobil, Shell and the like, we will achieve this sort of outcome.

By extension, this approach to the development of our petroleum sector must encompass all the value adding steps along the value chain.

PNG has gas. We all know that.

PNG can export that gas as LNG. We all know that as well.

But what more can we achieve?

Let me provide some initial thoughts which you might like to consider.

Gas could provide a cleaner, cheaper source of fuel for power generation.

Gas could provide power for the major new mining projects which are in the development stage such as Yandera, Wafi-Golpu and Frieda River. But the point is that PNG's gas can fuel new projects as a feedstock and we need to develop a strategy which examines such potential.

As nations in the Middle East have recognised, being simply an exporter is not the answer. Yet as those nations have realised, neither can they be all things to all people. There has to be a balance and a very critical reality check.

I have encouraged Petromin to think outside the box and to look at where it might position itself and its partners along the petroleum value chain. Apart from the obvious such as gas transmission and fuel substitution, Petromin is in the process of examining a wide range of possibilities from greenfield generation to mini-LNG/LPG for coastal shipping, cement and fertiliser manufacture for example. Some of these will prove viable and some will not. But the point is that Papua New Guineans should not be narrow-minded or short sighted: given time, patience, good partners, solid training and investment, Papua New Guineans can hold their own in any company.

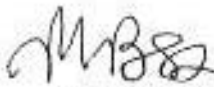
My stewardship of our petroleum resources as Minister is a matter I take very seriously. My colleagues and I want to see our resources developed. But we want to see that development occur under sound and proven management in the upstream, the midstream and the downstream. We will not embrace the “rape and pillage” mentality of the past when it comes to our natural resources. And we will not permit anyone to exploit those resources and sell them at less than full market value. PNG’s gas is available for development but not at a discount.

Lastly, but not the least, it would be remiss of me not to mention the exciting InterOil LNG Project. On 21 September 2011, the National Executive Council reviewed the progress of the Project and did not approve of the staged development being progressed by InterOil. This Cabinet decision has not been changed. However, my Department and I are working together with InterOil with a view ensuring that the developments are consistent with the Project Agreement of 2009. The State and InterOil remain committed to delivering the Project that was agreed in the 2009 Project Agreement. I also expect InterOil to work together with the State nominee Petromin in delivering this important project. The State regards the InterOil Project as the next project of national importance, and we stand ready to enter into dialogue with

InterOil in an attempt to find a way forward during the next few months.

What is worth achieving does not come easily, but this I know: if we work together for the common good, if we are not limited in our vision and if we recognise that our resources are finite, then we can secure the future for the generations of Papua New Guineans to come. This is not a vision ladies and gentlemen: this is our duty.

Thank you for your attention.



Hon. William Duma, LLB, LLM, MP
Minister for Petroleum & Energy

Date: 29th November, 2011