



# **PNG Chamber of Mines and Petroleum**

**Helping Papua New Guinea to Develop its Full Potential**



## **PNG CHAMBER OF MINES AND PETROLEUM ANNUAL GENERAL MEETING 2 May 2008**

### **President's Address**

**Ladies and Gentlemen:**

**Firstly, let me thank you all for coming to this Annual General Meeting of the Chamber.**

**We live in interesting and challenging times. We, collectively, are experiencing an unprecedented period of sustained high commodity prices, which is fuelling an economic resurgence in Papua New Guinea, strong profit growth amongst producing companies and again, unprecedented growth in exploration activities in both the petroleum and mining sectors in this country. Interest from companies, not presently represented by investors here, is also very high, helped by broad political stability under the Somare led Government, where the regular changes of government between elections appear to be a thing of the past.**

**It would appear that things are going well, the macro economic environment driving investment and unprecedented interest in our sectors.**

Things are going well within the industries, but with this success comes some major challenges and real problems that companies individually and collectively must address. The Chamber wishes to play its role in addressing some of these issues. Cost inflation in doing our business is significant in the petroleum sector. In PNG we are seeing aspects of our costs increasing on average at over 15% per year. Yes, we are receiving record revenues and spending significantly on development and exploration activities, but what we get for our spending is diminishing substantially as inflation hits. Things do not appear to be moderating, exacerbated by events such as disruption to transport along the Highlands Highway. With strong revenues from high commodity prices comes a necessity to also control our cost base through cost reduction.

Related to this is the growing skills shortage and inflation in remuneration. The resource companies in PNG have been very successful in developing and training two generations of Papua New Guinean workers to where they are now internationally competitive in the employment market. We have seen a broad drain of skilled Papua New Guinean staff to the international market, many heading to work with our Asian neighbours, taking their families - whilst gaining higher remuneration and commonly better housing and education for their children. Good on them for earning the opportunity to change their lifestyles and potentially improve their outlook.

The challenge for us is to progressively restructure our remuneration to appropriately reflect international competition for our skilled staff. It is my view that our companies should cooperate in reviewing and coordinate how this can be done, with the Chamber playing an important role in bringing these issues and possible solutions to its members. The ad hoc and commonly reactive approach by a number of companies is not, in my view, delivering a long term solution to how we keep and further

**develop our national workforce. If we wish to continue with significant growth in our industries we must commit to train and keep our skills base as a fundamental. Co-ordination of our efforts across the industry is essential for success in this area.**

**Related to this is the efficiency of our major training institutions in PNG. It is sad to note that some of these key institutions that provide the basis of our skilled local workforce are struggling to give students basic teaching to appropriate graduate levels. Despite maintaining a core of dedicated technical staff, UPNG is in desperate need of further funding and Unitech, as far as resource sector course delivery is concerned, has effectively ceased operations. Without efficient tertiary education in this country that provides our sector with its skilled graduates, growth in our business will suffer and we will be forced to go overseas for higher cost labour, into highly competitive markets, each seeking good qualified people.**

**We will struggle to maintain our business, let alone grow, unless this critical aspect of labour supply is addressed. The Chamber has embarked on a review of the state of tertiary institutions in the country and will analyse a number of options as to how industry may contribute to make long term sustainable reforms to existing and new education institutions sufficient to underpin skills needs in our sectors.**

**This is clearly an area that requires an industry approach rather than just individual company efforts in this area.**

**The Chamber has already had discussions with possible sources of funds to help education, including as recently as the Australia PNG Ministerial Forum last week in Madang. Material help is potentially available but it must be channelled and coordinated to bring maximum benefit. This is a high priority for Chamber activities for 2008/09.**

**Again, the surge in resources development in this country has brought considerable strain on various Government departments that facilitate investment and regulate our industries. We have seen a broad deterioration of their capacity to meet industry needs over the past few years and it is now clearly impacting industry growth aspirations from exploration to a range of developments. Reconstitution of the Government/Industry Committee on reviewing impediments to business is now essential. This was successful in the last Government in addressing key issues such as visa approvals, immigration and labour issues, as well as providing an excellent forum to discuss and resolve a range of issues that impact the efficiency of our industries. I hope that the work of this committee can resume quickly. The Chamber also wishes to improve dialogue with a number of Departments to help them capacity build to meet a growing workload. Again, support is available from government sources in Australia to address a number of technical, financial and regulatory issues that are holding up the pace of development in this country. The Chamber will play its part in helping departments access relevant skills and do what it can to improve efficiency.**

**I am sad to say that there is growing evidence that corruption is creeping into the dealings in the resource sector. It is incumbent on companies and all stakeholders to report when these events do occur, a difficult and delicate issue, but one that will have a huge impact on growth in this country unless driven out at this early stage.**

**These challenges come before what is likely to be a country changing event in the development of PNG LNG. To date the Government has taken a strong and professional approach to determine a fair fiscal balance required by the developers in this enormous project to underwrite a project of this magnitude,**

**whilst ensuring that the people of PNG benefit appropriately from this huge development. I congratulate the Prime Minister on his leadership on this issue on what is a generational legacy project for which he can be proud. Although still not committed, the FEED stage should commence immediately the final wording of the Gas Agreement is concluded with Final Investment Decision in the second half of 2009 and first cargo shipped towards the end of 2013, into 2014. This is a project that will cost over US\$10bn to first gas, employ over 7000 people during construction and have a massive financial impact, estimated to double the country's GDP in its first full year of production. If we have a skills shortage now, if we think our costs, based on tight supply of things like accommodation, transportation etc. are going up, this Project will exacerbate all these issues. Business will boom and many opportunities will be created, but many of the challenges I have described above – cost pressures, remuneration issues, skills availability etc., will require close cooperative and coordinated management – a role in which the Chamber should be significant.**

**Again, further capacity building in Government institutions is essential to support LNG and further gas developments.**

**The LNG Project and further developments in the minerals sector will provide a very strong backdrop to the Investment Conference planned for December this year. The conference programme is being finalised over the next few weeks, with a range of sessions dealing with policy direction, operating environments and of course, summarising the status of major projects. There will also be a Trade Show, where service suppliers can show their wares in what is likely to be a very well attended event.**

**I encourage you to attend this premium event to showcase investment in resources in PNG.**

**With these major challenges and opportunities the Chamber must continue to be mindful of servicing a growing member base.**

**There are clearly things that are best addressed by individual companies, however there are growing number of issues that require a co-ordinated and possibly less personal approach, where the Chamber can play a major role.**

**Finally, I would like to thank you, the Members for your continued support and equally to thank Greg and his dedicated team for their efforts through this year.**

**It is a period of major change and challenge, I believe the Chamber is ideally placed to make a meaningful contribution to further development of our industries in PNG.**

**Thank you.**

**Peter R. Botten  
President**