SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE
REFERENCES COMMITTEE
INQUIRY INTO PAPUA NEW GUINEA AND THE
ISLAND STATES OF THE SOUTH-WEST PACIFIC
SUBMISSION

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Brenton Holmes
Secretary
Senate Foreign Affairs, Defence & Trade Committee

Parliament House
Canberra ACT 2600

Dear Mr Holmes

Thank you for the opportunity to make this contribution to the Senate Foreign Affairs, Defence & Trade Committee's inquiry into Australia's relations with Papua New Guinea and the Pacific.

I make this contribution in my capacity as Managing Director of Oil Search Limited, a company listed on the Australian Stock Exchange (ASX) but whose principal assets are all based in Papua New Guinea (PNG). I am also the elected President of the Papua New Guinea Chamber of Mines & Energy.

It may also be of note to the Committee that since 26 March this year when the shareholders of Orogen Minerals Limited voted to support a merger with Oil Search Limited, the Government of Papua New Guinea has been a shareholder in Oil Search. Hence our company is in some ways a barometer on economic perceptions of PNG.

In this respect, I wanted to draw to the Committee's attention the vital importance of a proposed pipeline bringing the rich natural gas reserves of the Southern Highlands of PNG to Australia's east coast energy markets. Oil Search at 37% is the major shareholder in the proposed pipeline which will join the Australian energy grid at Momba and supplement Australia's existing gas fields with a competitively priced, clean and reliable new source of natural gas. In the process it will open up major value adding opportunities, especially in Queensland.

The Committee may be aware that the other significant shareholder in the project is the pipeline operator, Exxon Mobil, but they may not know that the Gas Project Agreement also granted stakes to the Government of Papua New Guinea, as well as regional governments and land-owner representatives along the route. Hence besides benefiting Australia, meaningful value created by the project will flow back to the people of PNG.

The Project will also allow for development of local gas based industries, such as LPG fuel distribution, fertiliser and power generation along the south coast of Papua New Guinea, creating jobs and import replacement revenues.

The pipeline has a pre-commitment from Australian Gas Light Co (AGL) to take between 40 and 50 petajoules of gas and we are negotiating with other potential clients for contracts that could help the project reach its target threshold for proceeding of 130-150 petajoules. Assuming these negotiations reach a successful outcome the pipeline operators should be in a position to move to Front End Engineering & Design (FEED) by the end of this year.

To say these commercial discussions are vital to Papua New Guinea's economic future is in some ways an understatement. PNG's existing oil and gas fields are being progressively eroded and will be exhausted completely within 10-15 years. Yet as ACIL reported earlier this year, a significant proportion of the PNG Government's revenue base comes from oil production. Indeed during the period 1992 to 1996 the contribution of the Kutubu oil fields to Government revenue through royalties and tax was of the order of 28% of total revenue.

As PNG is the largest single recipient of foreign aid from Australia, with an annual contribution of A$300 million agreed until 2005, any decline in the PNG Government's own sources of revenue, let alone the country's export dollars and foreign exchange reserves, must be of concern to Australian taxpayers.

The Committee should be in no doubt that the PNG gas project is the only resource development on the drawing board with the scale to overcome this grim revenue and export prognosis for PNG.

International ratings agency, Standard & Poors, in their most recent country risk assessment for PNG stated this in stark terms, noting:

"Should the PNG/Queensland gas pipeline project come on stream, it would alone raise the country's GDP by 15-25%. In a baseline scenario without the pipeline however, real minerals GDP are projected contracting by 5-8% annually for several successive years."

Yet what makes the PNG gas project such an enticing addition to Australia-PNG relations is that it works for both countries. **It is not an aid project - it makes good commercial and economic sense for Australia.**

To support this assertion I have included a copy of a report by ACIL consulting released earlier this year that assesses the economic impacts on Australia at National, State and Regional level of the PNG gas project. I invite Committee members to read the report to understand just how much the pipeline is in our own national interest.

In particular I would draw Committee Members to the key conclusion of the ACIL report which is that:

"the analysis demonstrates that introduction of PNG Gas will have a major positive impact on the supply of gas to meet emerging market opportunities in eastern Australia, and in reducing wholesale gas prices".

In short, absent PNG gas, and Australian gas users along the eastern seaboard face higher pries and the country faces lower growth.

This helps to put in context the sometimes sceptical, and even critical, comments made about the PNG gas project by some existing Australian gas producers. It is also a sobering message to those who may be tempted to believe that other more experimental, and far more costly energy sources such as Coal Seam Methane (CSM) somehow obviate the need for PNG gas.

Some of these projects have significant risks of deliverability, as they are an unproven source of significant volumes of gas and have a number of important environmental issues, including the disposal of large quantities of saline water produced as a byproduct of gas production.

It should be noted that gas usage will inevitably increase with the building of a new comprehensive pipeline system across Queensland that links major customers with a number of gas supply sources from PNG and in Australia.

The presence of a new pipeline in Queensland will promote the use of gas and increase competition from all potential suppliers. This will lead to lower energy costs within the State, in New South Wales and in Victoria as the PNG line links to pipeline networks that supply gas to southern States.

Having recently had the opportunity to brief the new PNG Prime Minister, Sir Michael Somare, his Foreign Minister, Sir Rabble Namaliu and the Petroleum & Energy Minister, Sir Moi Avei on developments with the pipeline, I would now value the opportunity to build upon this submission with a verbal briefing to the members of the Senate Foreign Affairs, Defence and Trade Committee. If such a briefing is possible, I would be grateful if you could contact me with suggested times and dates.

As mentioned, for the Committee's interest I am enclosing a copy of the ACIL report on PNG gas together with the most recent Annual Report of Oil Search Limited.

Yours faithfully

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PETER B OTTEN

Managing Director