

The Importance of National Oil and Gas Companies in Generating Sustainable Wealth for PNG

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OUTLINE

- ❑ BRIEF INTRODUCTION
- ❑ FACTS ABOUT THE PNG ECONOMY
- ❑ WHY NATIONAL OIL AND GAS COMPANIES
- ❑ PRESENTATION QUESTION
- ❑ CONCLUSION



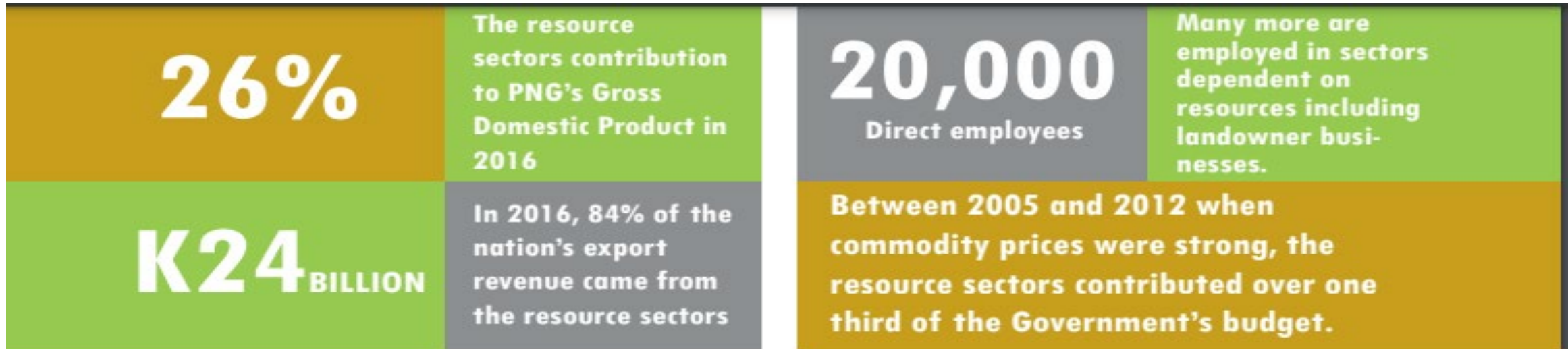
2014 onwards mining & petroleum contributed 20% GDP (ADB Economic Analysis 2016-2020)

26% of PNG's GDP and around 84% of the Nation's export revenue which totalled K24 billion in 2016 (PNGCM&P)

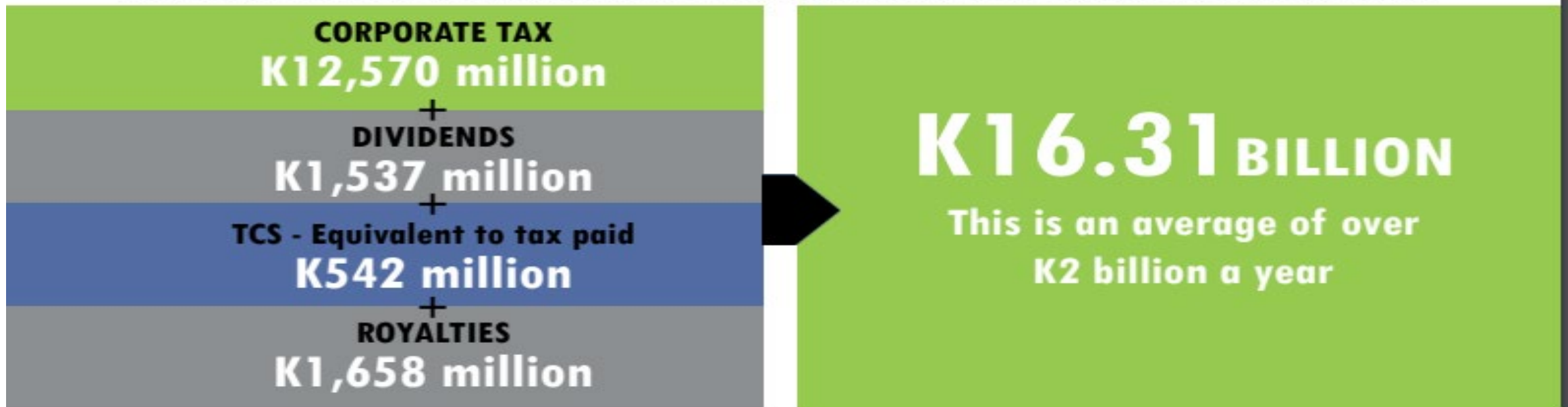
The extractive sector plays a vital role in Papua New Guinea's economy, accounting for 28% of the country's GDP and 88% of total exports in 2019. (PNGEITI)

The extractive resources the largest contributor of export revenue and account for 60.0 per cent of national GDP. (PNG Budget 2022)

RESOURCE SECTOR CONTRIBUTION DIRECTLY/INDIRECTLY(PNGCM&P)



CONTRIBUTION TO GOVERNMENT TAX REVENUE BETWEEN 2005 AND 2012 WHEN COMMODITY PRICES WERE STRONG





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WHY NATIONAL OIL AND GAS COMPANIES????

□ IF DEMOCRACY WAS
GIVING THE UNITED
KINGDOM, BETTER
ROADS, HOSPITALS, BRIGDES
, EDUCATION, ACCOUNTABILI
TY, WHY IS THAT THE SAME
DEMOCRACY APPLIED IN
MY COUNTRY NOT GIVING
THE SAME RESULTS???

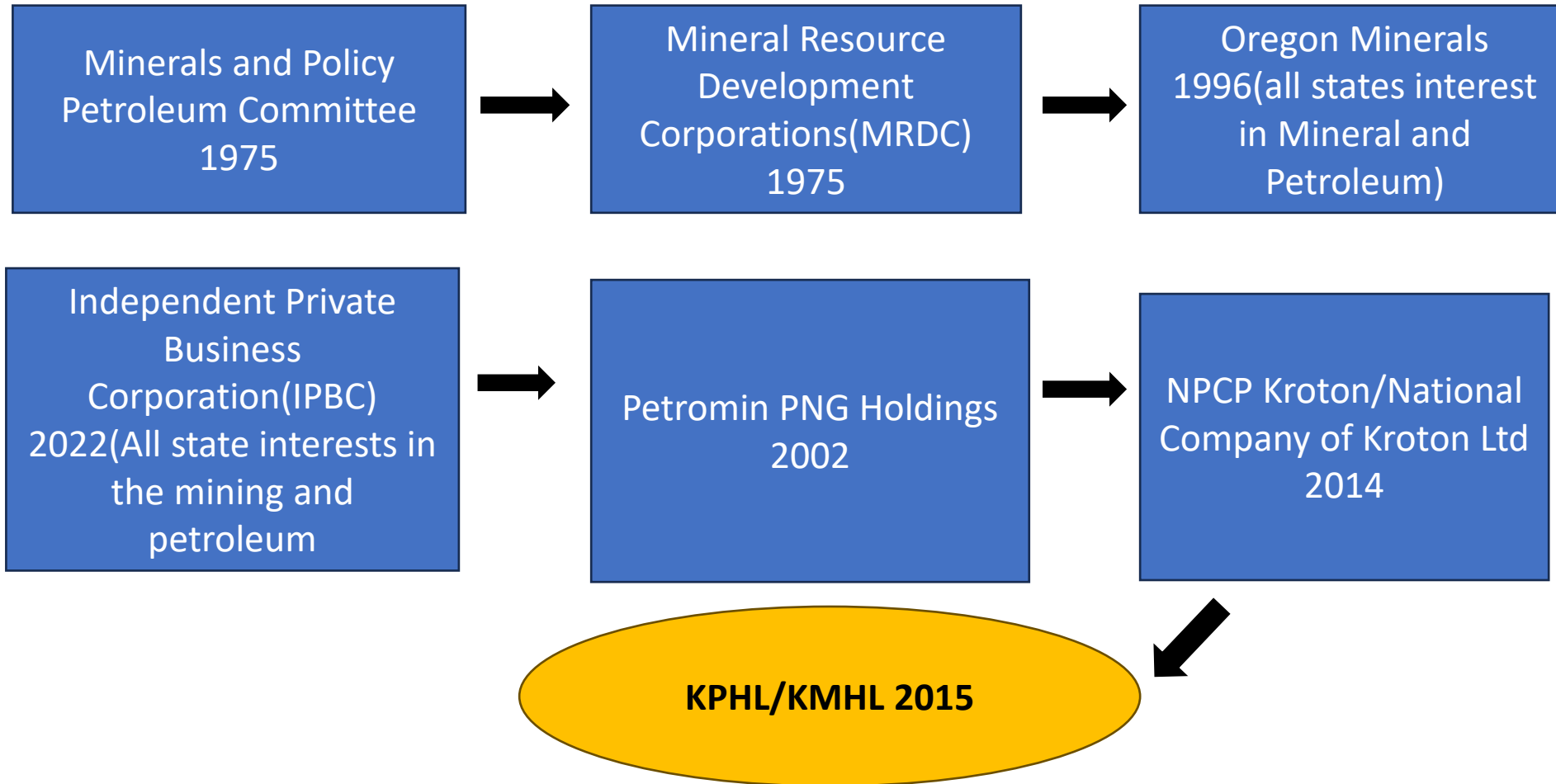


WHY NATIONAL OIL AND GAS COMPANIES?

- THE STATE OWNS THE MINERALS IN PNG(per s 5 of the *Mining Act 1992*)
- State has the right to acquire participating interest(s16 A)

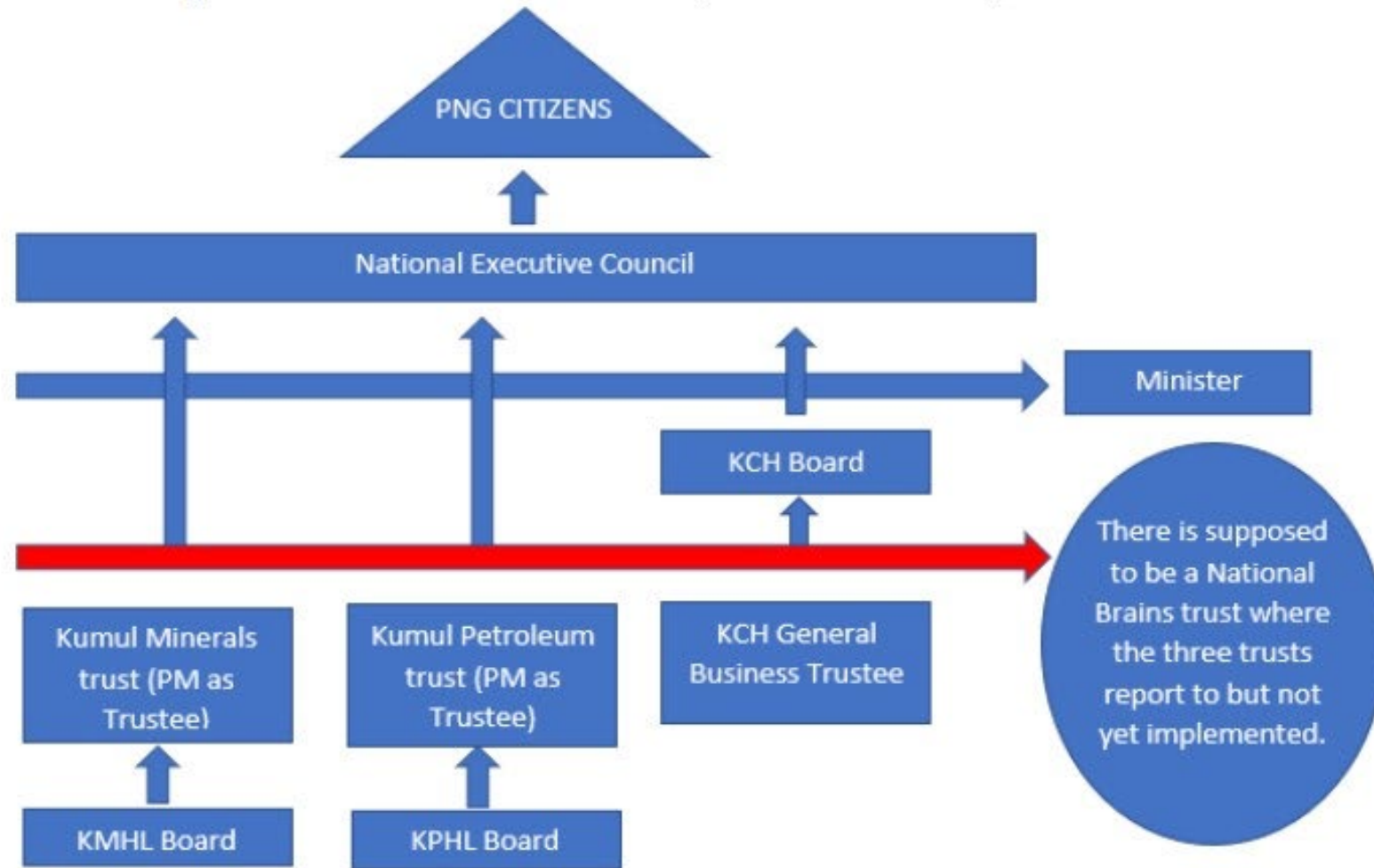
- THE STATE OWNS THE PETROLEUM IN PNG(per s 6 *Oil & Gas Act 1998*)
- State has the right to acquire a maximum of 22.5 % participating interest(s165)

History of Management Structure of State Interests in Mining and Petroleum



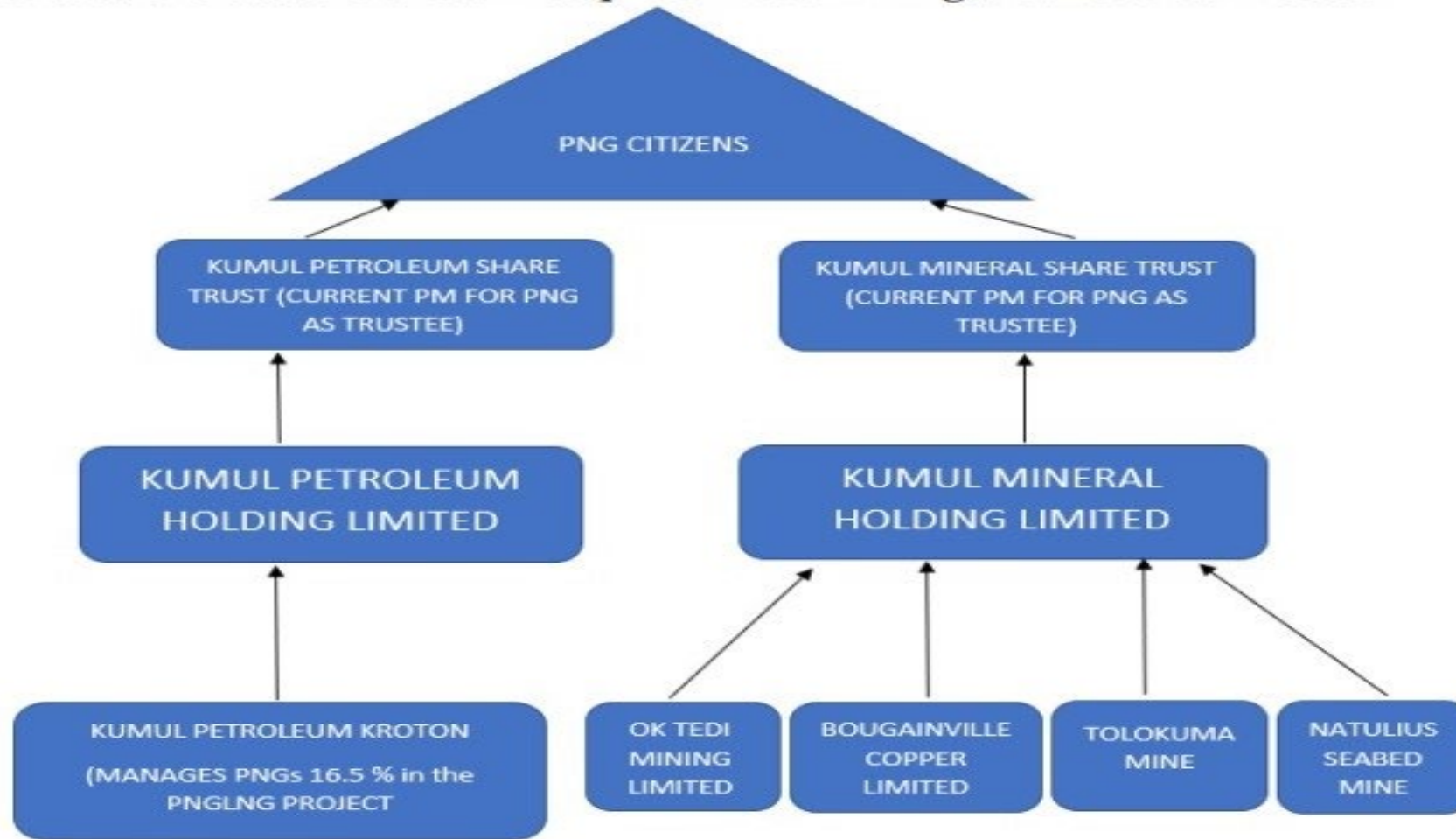
The Kumul Structure

Trust arrangement for Kumul Consolidation, Kumul Petroleum, and Kumul Minerals



The Kumul Structure

Figure 1
Structure of State-Owned Enterprise in the Mining and Petroleum Sector



- Government Shareholding Better Managed at Ministerial Level
- Direct Political Influence
 - ✓ PM is the trustee who also is the chair of the NEC that appoints directors
- Lack of Explicit Commercial Objectives
 - ✓ Tolokuma Mining
 - ✓ Solwara One Project
- Improvement of Accountability Institutions

IMPORTANT ROLE OF KPHL/KMHL IN FINANCING THE SOVEREIGN WEALTH FUND

- ❑ Definition of Sovereign Wealth Funds At the request of Congress, the United States' Government Accountability Office defined SWFs by four criteria:
 1. They are government-chartered or government-sponsored investment vehicles.
 2. They invest some or all of their funds in assets other than sovereign debt outside the country that established them.
 3. They are funded through government transfers arising primarily from sovereign budget surpluses, trade surpluses, central bank currency reserves or revenues from the commodity wealth of a country.
 4. They are not actively functioning as a pension fund
- ❑ The International Working Group of Sovereign Wealth Funds (IWGSWF) defines them in the following way in the Generally Accepted Principles and Practices: sovereign wealth funds are: **Special purpose investment funds or arrangements that are owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage or administer assets to achieve financial objectives and employ a set of investment strategies that include investing in foreign financial assets**(2008).

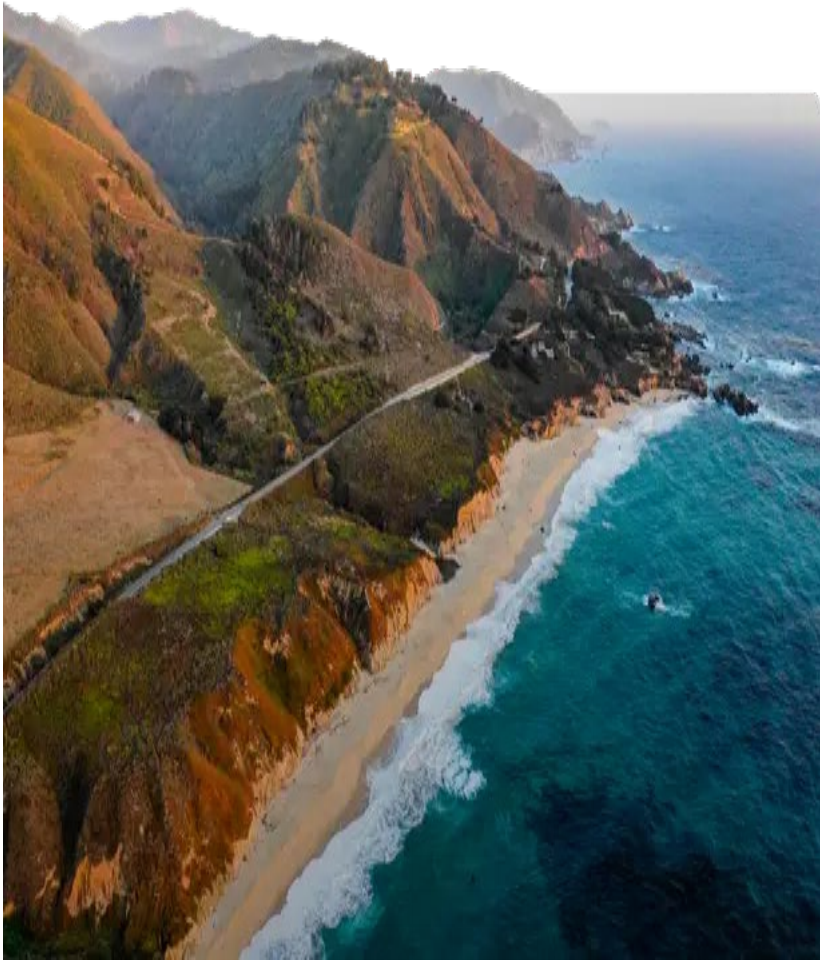
COMMENTS ON PNGSWF(Organic Law on the PNG Sovereign Wealth Fund 2015)

- ❑ The SWF will consist of a stabilisation fund and a savings fund.
- ❑ The objective of the SWF is to support **macroeconomic stabilisation, intergenerational equity and asset management concerning assets accrued from mineral and petroleum receipts.**
- ❑ The purpose of the stabilisation fund is to manage the impact of fluctuations in mineral and petroleum receipts on the economy of PNG to promote and support macroeconomic stability and to ensure that large currency movements do not affect the competitiveness of the economy.
- ❑ **The purpose of the savings fund is to provide a means of preserving the real value of extracted mineral and petroleum resources through long-term investment for the benefit of current and future generations of citizens of PNG**

- ❑ Deposits into the stabilisation fund shall consist of:
- All earnings of the investment of the stabilisation fund.
 - Fifty per cent of all mining and petroleum taxes.
 - Sixty per cent of the proceeds of sale of any entity holding an interest or the state interest in an entity either directly or indirectly in mineral or petroleum interests.
 - Withdrawals from the savings fund.
 - Seventy-five per cent of all distribution from any of the state's holding entities.
 - Any amount allocated in the national budget

IMPORTANCE OF SOVEREIGN WEALTH FUNDS

- ❑ Historically, a key purpose of sovereign wealth funds (SWFs) has been to **help manage and minimize a range of negative economic and political consequences of natural resource wealth**, often lumped together as the “resource curse.” The term resource curse refers to a paradoxical situation in which a country underperforms economically, despite being home to valuable [natural resources](#). A resource curse is generally caused by too much of the country’s [capital](#) and labor force concentrated in just a few resource-dependent industries. By failing to make adequate investments in other sectors, countries can become vulnerable to declines in [commodity prices](#), leading to long-run economic underperformance(Invest 2023)
- ❑ SWFs (i) stabilize the financial markets in the face of financial and economic crises, (ii) increase the availability of capital, (iii) more evenly divide wealth between generations, (iv) finance development projects, and (v) diversify a country’s revenues.
(PDF) The Importance and Perspectives of Sovereign Wealth Funds in the Globalised Economy.
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- ❑ SWFs can help FX issues by investing in foreign assets and diversifying the sources of income and risk for the country(Norwegian SWF ,At the end of 2018, the fund’s biggest equity holdings were in **Microsoft** (US\$7.5 billion), Apple (US\$7.3 billion), Alphabet (US\$6.7 billion), Amazon (US\$6.4 billion), Nestle (US\$6.3 billion) and Royal Dutch Shell (US\$6 billion))



CONCLUSION

- ❑ The PNG LNG project was a catalyst and the government failed to diversify the economy and get the SWF off the grounds
- ❑ With the Papua LNG and the Wafi Golpu projects and other projects we are at the crossroads? Our SOES need to be better managed and the SWF running to manage PNGs wealth and also save this wealth for future generations

THANK YOU VERY MUCH FOR YOUR ATTENTION