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# PNG Government validates Papua LNG Gas Agreement

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3 September 2019

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**SYDNEY (ASX: OSH | ADR: OISHY | PNGX: OSH)**

Please see attached a release from the Minister of Petroleum regarding the PNG Government's completion of a comprehensive review of the Papua LNG Gas Agreement.

Commenting on the outcome, Peter Botten, Oil Search's Managing Director said:

*"We are pleased that the PNG Cabinet (National Executive Council), has completed its review of the Papua LNG Gas Agreement and has validated the Agreement as executed on 9 April 2019.*

*The next step for the proposed integrated three LNG train development is the finalisation of the P'nyang Gas Agreement. Once signed, the PRL 15, PRL 3 and PNG LNG joint ventures can proceed into FEED for this nationally-important development."*

**PETER BOTTEN, AC, CBE**

Managing Director

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## MINISTER FOR PETROLEUM Office of the Minister

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### MINISTERIAL PRESS STATEMENT

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#### **Additional Gains Negotiated for PNG Under the Papua LNG Gas Project**

The Government has now cleared Total to proceed full steam ahead with the implementation of the Papua Gas Project. However, the Minister for Petroleum Kerenga Kua says, this Government is committed to doing things differently from the past. Doing the same things again and again by all successive past Governments has not substantially shifted us away from poverty. If we require different outcomes we must be prepared to take different approaches.

This included a fresh new look at the Papua LNG Gas Agreement signed by the previous Government. To see if it could be done differently. Our approach was to look at firstly all the legal compliances issues, and secondly, the adequacies of the fiscal take for Papua New Guinea.

Some have argued that the sanctity of a signed contract must be respected, but all good and experienced businessman know that even signed contracts can be opened up for reconsideration. Some contracts even provide for periodic reviews too. Reviews are a normal incidence of contracts.

The NEC sanctioned review is now completed. As is typical of any such process, there was an initial impasse, but it did not escalate into a “Mexican Standoff”. Articulation of the State’s concerns, regulatory, fiscal and otherwise, led to an easing of positions, which resulted in Total and its partners becoming more forthcoming. This resulted in Total Exploration & Production PNG Limited (**Total E&P Ltd**) making concessions (at best)

or, in the worse case scenario, indicating a willingness to explore with the Government avenues for meeting the State's expectations. This came in the form of a letter from Total E&P Ltd, dated 30 August 2019 (the **Total Letter**), which was hand delivered to me on 31 August 2019.

In short the Government and Total have now agreed to the following:

1. On National Content *“Total is ready to progress immediately in preparing a detailed National Content Plan with the Department of Petroleum and Energy, as requested by the Hon. Minister for Petroleum. We are convinced that the development of this National Content Plan will provide many positive opportunities for the State and the people of PNG. Be assured that Total is fully committed to the effective implementation of such National Content Plan”*.
2. On Petroleum Pipeline Third Party Access Total will build third party access points and *“if requested by a third party, the Participants have agreed to engage in negotiations to enable access by such third party to the pipelines on mutually acceptable terms”*.
3. On Petroleum Pipeline Ownership Total has agreed that *“after all loans to the Papua LNG Project and Kumul carry and past costs have been reimbursed, if the State wishes at that time to acquire a participating interest in the pipelines, the Participants will engage to negotiate in good faith such an acquisition by the State and the conditions under which it could be envisaged.”* In particular, the State shall recognise the *“fair value”* of the investment in considering such an acquisition including a fair tariff imposition for usage of the pipeline.
4. On LNG Tankers, *“Total and Kumul have formed a commercial joint venture for the purpose of marketing their shares together. Total agrees to evaluate together with Kumul the option of using LNG carriers in which a participating interest is owned by the State for transportation of Kumul's share of such jointly marketed cargoes through negotiated arm's length contracts”*.

Most of these are substantial new concessions on potential future benefits not previously available to the country under the signed agreement.

The Total Letter raises expectations on the part of the Marape-Stevens Government. In setting out what it and its Project Partners are prepared to undertake in relation to foreign exchange exemptions, local content, pipeline ownership and third party access, and ownership of LNG tankers/carriers, the Total Letter does raise questions about whether or not the State's expectations on those matters will be adequately met.

The Government is cognizant of the Total Letter, not being a legal document or instrument. Nevertheless, the Total Letter does set out the extent to which Total E&P Ltd and its Project Partners are prepared to go in accommodating the State's position on the items of concern. This is seen as a gesture that is made in good faith and, to which, the Government and the State must respond in good faith.

It is, therefore, the Marape-Stevens Government's position that the Papua LNG Project be allowed to proceed in accordance with the terms of the related Gas Agreement, but which terms must be interpreted and applied in accordance with the Total Letter and the related expectations of the Government and the State. As Minister for Petroleum, it will be my responsibility and that of my Department to ensure that the State's expectations are met. Naturally and uppermost are the need to ensure that there is a real and tangible commitment to delivering on what the Total Letter says and the resulting expectations of the State.

These agreements now pave the way for us to see much increased National Content during the construction phase, future pipeline ownership, future shipping ownership. These are substantial gains.

It is the Marape-Stevens Government's unbending expectation that the Papua LNG Project's commitment to deliver on what the Total Letter says and the resulting expectations of the State will be honoured by Total E&P Ltd and its Project Partners.

However, the review exercise has demonstrated that the current concession based licencing system has failed Papua New Guinea in both the mining and petroleum industries. The NEC has now instructed the Ministers for Mining and Petroleum to re-write the laws forthwith to move into a system based on production arrangements (“*PSA*”). It is envisaged that a *PSA* will relieve the State of expensive loans and create early free cashflows in all future mining and petroleum projects.

Dated: September 2019.

**Hon. Kerenga Kua, MP**  
**Minister for Petroleum**