

Esso Australia Pty Ltd
ABN 49 000 018 566
Level 5, Comalco Place
12 Creek Street, Brisbane, QLD 4000

61 7 3811 9999 Telephone
61 7 3220 3150 Facsimile



12 September 2008

The Secretary
Senate Foreign Affairs, Defence and Trade Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Secretary

**INQUIRY INTO THE MAIN ECONOMIC AND SECURITY CHALLENGES FACING PAPUA
NEW GUINEA AND THE ISLAND STATES OF THE SOUTHWEST PACIFIC.**

Thank you for the invitation to provide a written submission to the above review.

Please consider the following to be a brief submission on behalf of Esso Australia relating specifically to the inquiry's terms of reference which include analysis of employment opportunities, education and skilling, economic infrastructure, private sector development and land ownership.

We would be happy to provide further input or present to your scheduled public hearings on request.

ExxonMobil Australia (ExxonMobil), through its affiliated companies Esso and Mobil has been operating in Australia for over 100 years. We are Australia's largest integrated oil and gas company with a total cumulative investment of over A\$13 billion in place.

In our upstream business we are a major producer of oil and gas and a marketer of natural gas products. Through our Bass Strait and Gippsland operations, we have produced over two-thirds of the country's cumulative oil production and almost one-third of its gas production.

Esso Australia is also providing significant support to ExxonMobil's efforts to progress a world class LNG opportunity in Papua New Guinea (PNG). Since April 2007, the PNG LNG Project co-venturers have been working to develop the design basis and feasibility for a world class LNG project in PNG.

The Project proposes to commercialize the undeveloped petroleum resources in the Hides, Angore and Juha fields and the associated gas resources in the currently operating oil fields of Kutubu, Agogo, Gobe and Moran in the Southern Highlands and Western provinces of PNG. The gas will be conditioned for transportation by pipeline to an LNG facility twenty kilometers northwest of Port Moresby on the coast of the Gulf of Papua. There, the gas will be liquefied and the resulting LNG product (approximately 6.3 million tonnes per annum) loaded onto ocean going tankers and shipped to gas markets overseas.

The PNG LNG Project is currently undertaking front end engineering and design (FEED) and securing LNG sales and project financing. It is also consulting with government and the community on plans to address social and environmental impacts. The preliminary schedule indicates a final investment decision in late 2009 with a target of first LNG cargo in late 2013 or

early 2014. Once fully constructed, the Project lifetime or production phase is expected to be around 30 years.

An economic impact assessment by independent economists, ACIL Tasman¹, found that the Project has the potential to transform the economy of PNG, boosting GDP and export earnings, providing a major increase in government revenue, royalty payments to landowners, creating employment opportunities during construction and operation, and providing a catalyst to further gas-based industry development.

According to the ACIL Tasman PNG LNG Economic Impact Study the Project is the largest private sector investment ever contemplated in PNG. The potential benefits include:

- Total capital investment more than US\$10 billion
- Recurring operating expenditure of more than \$US195 million per year
- Doubling of PNG Gross Domestic Product (GDP)
- Four-fold increase in oil and gas exports
- Direct cash flows to Government and landowners over 30-years of more than \$US31 billion
- Direct employment (national and expatriate) of more than 7,500 during construction and 850 during production

ACIL Tasman suggests that,

“Appropriately handled, PNG LNG will provide the government of PNG with an opportunity to maintain a responsible program of expenditure on social programs and productivity-enhancing infrastructure development yielding long-term improvements in quality of life and economic stability for the people of Papua New Guinea”²

The PNG Government is very strongly supportive of the PNG LNG Project. The Prime Minister stated in Parliament after his reelection in 2007 that,

“The commercialisation of the vast gas resources of our country would be the number one priority of this government and would underpin the future economic and social aspirations of our people”.

He has subsequently addressed Parliament on at least two further occasions reiterating this commitment and pledging his government's support for the Project.

ExxonMobil has been very grateful for this support but is conscious that while the PNG LNG Project provides a great opportunity for economic and social improvement in PNG, it also poses great challenges for prudential government. The requirements of the Project, legislative, financial, commercial and practical will place a significant regulatory and management burden on the Government. We believe that the PNG Government will need to grow both its size and its governance capacity significantly if it is to properly support the Project and truly reap the community rewards possible from a major project like this.

¹ ACIL Tasman (2008) “PNG LNG Economic Impact Study. An assessment of the direct and indirect impacts of the proposed PNG LNG Project on the economy of Papua New Guinea”. Available at www.pnglng.com

² Mr. Paul Balfe, Chief Economist, ACIL Tasman, 27 June, 2008, Presentation to PNG Chamber of Commerce and PNG Business Council breakfast.

Worldwide experience teaches policy makers that large resource projects generate large cash flows, but careful, early planning by Government is needed to ensure these translate to generalised wealth and economic prosperity in the host country.

ACIL Tasman characterised the challenge for PNG as thus;

“Responsible government expenditure policies and strong governance will be required to ensure that economic gains from project translate into lasting economic and social benefits. “Dutch Disease” effects will need to be managed with appropriate sectoral assistance, structural adjustment programs etc. Planning needs to be done and measures put in place before the resource revenue starts flowing in”³.

They suggest that a useful comparator for PNG is the nation of Botswana which has carefully managed its diamond wealth (and its impact on the economy generally) and is now a middle income country that for a number of years achieved the world’s fastest growth rate, averaging around 7% pa.

As the largest bilateral donor to PNG, ExxonMobil believes that the Australian Government has the opportunity to significantly assist the PNG Government in supporting the initial development of the PNG LNG Project, through capacity building partnerships and embedded consultants in relevant departments and agencies like the LNG Coordination Office, the Department of Petroleum and Energy, the Department of Lands and Physical Planning and the Department of Environment and Conservation.

Early support for the State’s macro and micro-economic planning for the Project revenues, particularly when and if the State’s attention is drawn to more immediate needs, will also pay significant economic dividends for PNG in the mid and long-term.

Turning now to the more direct impacts of the Project, ExxonMobil (and the PNG LNG joint venturers) do have a commitment to provide long term, sustainable benefits to the community. We intend to have in place a National Content plan which will focus our efforts on three areas;

- **Workforce Development** – creating local jobs and training people in technical and professional skills that are needed during the construction phase and for future operations.
- **Supplier Development** – purchasing local goods and services, transferring knowledge and skills and increasing targeted local suppliers’ capability to help them meet global standards and qualify for contracts with PNG LNG and others.
- **Strategic Community Investments** – helping to improve living standards and build community capacity via support for targeted community investments focused on sustainable health, education and agriculture projects.

ExxonMobil believes that there are significant opportunities for the Australian Government to assist in particularly the first two of these objectives – workforce development and supplier development

³ Ibid.

Specifically in the area of supplier development and equipping PNG businesses to supply the Project in place of overseas suppliers there are several developing countries around the world, most notably Malaysia and Chad, who have had significant success, through careful Government planning and industry support, in growing local businesses and industry specialisation and expertise off the back of oil and gas development in their country and we suggest that lessons learned in these countries could potentially be well utilised in PNG.

ExxonMobil has had an ongoing dialogue with the bilateral donor community including AusAID personnel in Port Moresby in relation to its national content plans and as the Project progresses we look forward to cementing some formal partnerships in these areas to the benefit of the PNG community.

In conclusion, ExxonMobil welcomes the Australian Government's interest in economic growth as a means of promoting community development and thanks the Standing Committee on Foreign Affairs, Defence and Trade for the opportunity to contribute to this inquiry.

For further detail on any of the above please contact the PNG LNG Public Affairs Manager, Anna Schulze, anna.j.schulze@exxonmobil.com, phone: +675-322-2195.

Yours sincerely



Peter M Graham
Venture Manager

For and on behalf of
Esso Highlands Limited