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**THE SIGNIFICANCE OF MAJOR RESOURCES PROJECTS SUCH AS THE  
GAS PIPELINE PROJECT IN PNG – AUSTRALIA BILATERAL RELATIONS**

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*(The views expressed herein are personal views of the author and do not necessarily reflect the views of the government of PNG)*

**Introduction**

The topic I have been assigned seems a simple one enough. It seems simple because on first reading, there is no doubting of the significance and benefit flows from a major resource project such as the gas pipeline project to both PNG and Australia. As with most of the major projects PNG has dealt with, the Gas Pipeline Project has had quite a number of challenges and indeed hurdles over the years since the idea to commercialize the gas in existing oil fields such as Kutubu was first floated by Chevron officials with PNG government officials while on a boat trip back to Port Moresby from Kikori in 1997. Then, the planned scale of the project was a humble one. A pipeline was to ship gas from existing oil fields through the Torres Strait to the Cape York peninsular targeting the Townsville market.

Sufficient threshold customer demand was the key parameter driving considerations for a commercially viable project. Governments of Australia and PNG have continued to support the project. However, rigorous social and environment project impact studies and standards are expected to be met by the project before commencement. Negotiations between the producers and the governments on other issues such as landowner interests and fiscal regimes with Australia, including states affected, and PNG have been substantially completed. There are residual issues relating to ACCC that need to be

agreed upon. Added to these are various issues relating to producers equity and financing interests before and after project commencement, including gas and pipeline uptakes. Given all these factors, it is certainly a wonder that the project has now reached the stage that it is now nearing completion of the front-end engineering and design (feed).

### **PNG – Australia’s bilateral relationship**

The relationship between PNG and Australia has been described as unique over the first two decades since PNG attained its independence thirty years ago, for historical reasons and because of the reservoir of goodwill between the people of both countries. This has been reflected in the relatively substantial volume and level of foreign aid Australia provides annually to PNG. However, over the last decade or so, this unique and friendly bilateral relationship has increasingly been tested by several incidents and policy changes by both countries. On PNG’s side, Australia’s aid is seen as having little value adding impact in PNG, that is, as having the “boomerang effect,” and PNG sees Australia, the World Bank, and Asian Development Bank colluding to push PNG into policy adjustments that are overly burdensome and at times infringing on its national sovereignty. The recent statement by the Prime Minister of PNG, the Grand Chief Sir Michael Somare, on PNG’s desire to diversify its relationship to other countries for trade and investment, is a reflection of PNG being tired of being treated as “under Australia’s sphere of influence.”

Furthermore, while PNG is acutely aware of today’s climate of international terror and transnational crime, PNG’s priorities remain the creation of income earning opportunities for the increasing number of unemployed youth and the domestic law and order problems. Any push by Australia to use its aid to secure its national security interests under the 9/11 definition of security will need to be carefully balanced with PNG’s domestic law and order needs.

A clear message was conveyed in the recent PNG Supreme Court ruling on ECP. While we may agree that ECP Mach1 may contribute greatly to alleviating law and order

problems and improving the performance of the PNG Constabulary, the Constitution still provides the overarching framework of the rule of law, and we cannot be selective in its application just because it is convenient to do so in some cases. I make this point because the rule of law is also a key element in contracts negotiated between PNG and investors.

In summary, the state of play between Australia and PNG's bilateral relations could best be described as cordial, but Australia needs to recognize this relationship must be based on mutual respect and fully cognizant of the sovereignty of both countries.

This is the most significant contribution that the Gas Pipeline Project can make to our bilateral ties. It will set the basis of a bilateral relationship that is mutually beneficial for our two countries and our people, for the very reason that the pipeline project will tie the two countries as mutually and commercially dependent on each other and as equal sovereign nations. It will transform the dependency relationship of PNG on Australia's aid program, which has begun to show signs of creating more and more tension between our two countries than enhancing the friendly relations that we have enjoyed in the past.

If all goes well, the first gas should be delivered around mid-2009. There have been occasions historically when major resource projects have raised hopes that PNG can realistically enter into an arrangement with Australia to reduce its volume of aid to PNG over an agreed period of time. Ok Tedi mine was one such project. The collapse of world copper prices soon after put such a thought to rest. However, the Gas Pipeline Project does provide a more realistic opportunity for this arrangement to be put in place and to provide further opportunities for other investment and trade flows between our two countries.

Finally, with benefits come the responsibilities to ensure the ongoing success of this project. This requires the ongoing effort by both governments to manage the noncommercial risks that might threaten the continuing success of the project. It goes without saying the burden of managing commercial risks essentially rests with the producers. This line of demarcation can be blurred at times for actions and policies of

governments can intrude into and directly affect commercial considerations and similarly, an overbearing on site project manager can incite social tensions that could easily threaten the project on political grounds. Of course, the days of labour-line supervisors are gone but a cautionary word is always useful.

Thank you.

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