

Papua New Guinean landowners end blockade of major gas project

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Traditional Papua New Guinean landowners blocking access to the \$US20 billion liquefied natural gas (LNG) project at Hides in Hela Province agreed to end their two-week protest following talks with a government team last Thursday. The parties signed a memorandum of understanding after the government promised to meet its outstanding financial commitments to the landowners.

The landowners are owed \$1 billion kina (\$A400 million) in royalties from the LNG facilities operated by an ExxonMobil-led consortium. Leader of the Hides landowner group, businessman Larry Andagali, said the government took more than six years to kick-start the LNG payments after signing the benefits-sharing agreements in December 2009.

The dispute threatened to erupt into another major crisis for the government of Prime Minister Peter O'Neill. It followed the violent suppression by police of an eight-week student strike calling for O'Neill's resignation over corruption charges and a series of unofficial strikes by sections of workers. The government faced and survived a no-confidence motion in parliament brought by the opposition parties.

The LNG project is one of the largest investments in Papua New Guinea (PNG). ExxonMobil started shipping exports to Asian markets two years ago, delivering a massive boost to the country's output. According to the Asia Development Bank, the first full year of gas production in 2015 saw PNG's economy grow by 9.9 percent.

The global economic crisis has, however, produced a precipitous drop in commodity prices. LNG prices have fallen to less than half of what they were in early 2014. Asia's LNG market has fared worse than slumping oil markets, tumbling by 67 percent. The price has dropped as low as \$US6.45 per million British thermal units

(Btu) from a peak of \$19.70 in 2014, amid a surge in supply, especially from Australia. LNG imports into China, Japan and South Korea have all fallen due to the slowing world economy.

The LNG project was predicted to ultimately double the size of PNG's economy. Developers claimed benefits from direct cash-flow to the government and landowners would amount to \$1 billion a year over three decades. Under the LNG Umbrella Benefits Sharing Agreement (UBSA), a number of the state's revenue streams, including royalties, development levies and equity dividends, were to be shared with landowners and local and provincial governments. The UBSA was negotiated under the Oil & Gas Act as a precondition for awarding licenses for the project.

The extraction of natural resources, including oil, minerals and gas, accounts for 60 percent of PNG's gross domestic product (GDP). Total government income, including from these sources, has dropped by 20 percent in the past 12 months. According to Australian economist Paul Flanagan, many of the benefits of the production phase of the LNG project have "vanished" for at least a decade. There will be no tax revenue from the project "for many years," he predicts.

Massive increases in government borrowing on the back of the short-lived resources boom produced combined budget deficits of 24 percent of GDP over 2013–15. Public debt is set to increase this year to 32.2 percent of GDP.

The PNG ruling elite is under pressure from global financial agencies to devalue the currency and accelerate attacks on workers and the rural poor that have already produced widespread popular opposition. The government has imposed austerity measures similar in scope to those in Greece, with health and

education budgets slashed by 40 and 30 percent respectively. Thousands of public servants have not been paid properly since the beginning of the year and government services are collapsing.

O'Neill told parliament early in the dispute that money owed to the landowners would be paid, but failed to confirm when. The protesters successfully disrupted the flow of gas out of Hides by closing down some valves at the site. When a gas shipment was loaded at the Marine Terminal in Port Moresby on August 12, the LNG flow rate had reduced by half. Landowners from the neighbouring Southern Highlands province were ready to join the protest to demand their entitlements.

The government deployed nearly 60 police to beef up security at the LNG sites. Petroleum and Energy Minister Nixon Duban declared the police would remain in place "to give comfort to all stakeholders, including the investor, while the issues are being worked on." According to the New Zealand-based Asia Pacific Report on August 14, ExxonMobil was planning to shift financial losses accruing from the protest onto stakeholders, including the government and landowners.

The turmoil is symptomatic of a worsening economic and social crisis in PNG. None of the promised benefits flowing from the LNG projects to improve the lives of ordinary people has been realised. ExxonMobil was attracted to invest heavily in PNG in the first place chiefly because of low labour and start-up costs and the prospect of windfall profits.

A former Australian colony, PNG has one of the highest levels of income inequality in the Asia-Pacific, with over 80 percent of the rural population employed in subsistence or semi- subsistence agriculture. The proportion of people living on less than \$US1.25 per day is entrenched at 30 percent, with around 2 million living below the breadline.

O'Neill has responded to the escalating social disaster by ramping up preparations for further repression. After a National Security Advisory Council meeting last month, Chief Secretary Isaac Lupari threatened to invoke the Internal Security Act and Essential Services Act. "Politicians, landowners, public, students, and any members of the community who issue threats will be investigated, arrested and prosecuted," he declared. A new National Security

Joint Task Force, including police and military personnel, was established to "quell increasing internal security threats."

The fate of the LNG project is a key concern in Washington. In November 2010, then US Secretary of State Hillary Clinton visited Port Moresby, as Chinese investment and aid was growing. China's state-owned Metallurgical Construction Corporation was involved in developing the huge Ramu nickel and cobalt mine. Noting that the US Export-Import Bank was helping finance the ExxonMobil project, Clinton declared that the US was ready to assist in the development of the country's resources.

Speaking to a Congressional committee in 2011, Clinton declared: "Let's put aside the moral, humanitarian, do-good side of what we believe in, and let's just talk, you know, straight realpolitik. We are in a competition with China ... ExxonMobil is producing it [natural gas]. China is in there every day in every way trying to figure out how it's going to come in behind us, come in under us."



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