

ExxonMobil gas project a disaster for Papua New Guinea's people

John Braddock**4 May 2018**

The massive \$US19 billion ExxonMobil-led liquid natural gas (LNG) project in the Hela region of Papua New Guinea (PNG) has failed to deliver a promised economic boom for the country, a non-government organisation report has found.

The Jubilee Australia report, titled “Double or Nothing; the Broken Economic Promises of PNG LNG,” says the project “has contributed to PNG going backwards on most economic indicators.” According to the author Paul Flanagan, a former Australian treasury official, the country’s impoverished population would have been better off “on almost every measure of economic welfare” without the project.

ExxonMobil, the lead operator, is supported by the Australian-PNG company OilSearch. Both have stakes of just under one third in PNG LNG. The PNG government also has a large stake, as does Australian gas company Santos. The project, expected to run for 30 years, ships liquefied gas to Japan, South Korea and China.

The operation was substantially financed by the US Export-Import Bank, backed by a \$A500 million loan from the Australian government’s Export Finance and Insurance Corporation. ExxonMobil invested primarily in order to profit from low labour and start-up costs. The company began exporting LNG in 2014, amounting to 7.9 million tonnes per year, delivering an initial boost to the country’s output. In 2016, however, the global economic crisis saw a precipitous drop in LNG prices to \$US6.45 per million British thermal units (Btu), from a peak of \$19.70.

The facility remains vital to Washington’s geo-strategic interests in the Asia-Pacific. Speaking to a Congressional committee in 2011 following a visit to PNG, then US secretary of state Hillary Clinton declared: “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.”

Donald Trump’s nomination of ExxonMobil’s former CEO and chairman Rex Tillerson as US secretary of state in 2016 was welcomed by PNG Prime Minister Peter O’Neill, who declared him to be a “very good and genuine friend” of the country.

PNG became nominally independent from Australian colonial rule in 1975. US and Australian-based banks and conglomerates, however, still dominate much of the country’s economic and social life. Almost 5,000 Australian companies do business there, with total investments worth \$A5.8 billion. PNG’s military and police are funded through Australian grants and trained and advised by Australian forces.

Proponents of the LNG project boasted it would be a “transformational” initiative for the PNG economy, contributing to a doubling of gross domestic product (GDP). The Jubilee report, however, catalogues a litany of economic failures. These included a GDP gain of just 10 percent, all “focused on the largely foreign-owned resource sector.”

The decline in the social position of ordinary people has been stark. A “significant recession” hit the non-resource sector from 2015. By 2016, household incomes fell by 6 percent, employment by 27 percent and government services, including education, health and infrastructure, by 32 percent. Imports fell by 73 percent, and agricultural exports by 40 percent, due to exchange rate increases following the expansion of gas exports.

The report notes that the “extremely disappointing” government revenues from the project cannot be put down to low global gas prices or cost blowouts in construction. Revenue, predicted to be around 1.4

billion PNG Kina (\$A567.8 million) per year in 2016, despite low gas prices, was less than K0.5 billion. Including the interest costs of buying the government's equity share and direct payments to landowners, the project had a negative impact on the budget of at least K200 million in 2016 alone.

Several reasons are advanced for the project failing to deliver on its promises. There were serious flaws in the Exxon-commissioned modelling produced in 2008 by consultants Acil Tasman. The model failed to take into account, among other factors, generous tax concessions and the "aggressive tax avoidance methods" of ExxonMobil and OilSearch, including their use of subsidiaries, shell companies and tax havens.

Luke Fletcher, executive director of Jubilee, told the *Guardian* there was generally little or no transparency about the assumptions made by economic modellers hired by resource firms proposing large-scale projects.

The report claims the PNG economy performed worse than would have been expected without any new gas projects at all. "Poor policy decisions" were made by the PNG government in response to the gas boom. They included ramping up expenditure on what the Sydney-based Lowy Institute criticised as "prestige projects" as gas prices fell, contributed to the largest budget deficits in the country's history.

The only beneficiary has been a corrupt layer of business leaders and politicians who operate in the interests of the US and Australian-based banks and corporations, looting the country's extensive natural resources at the direct expense of working people. While O'Neill has been embroiled in corruption allegations, his government's austerity measures have further impoverished the working class and rural poor.

With none of the promised benefits to improve living standards realised, the government has turned to police-state methods to suppress social tensions that have produced student protests, workers' strikes and, in the remote Highlands region, armed unrest.

In April 2017, the government intensified a police and military operation, involving 300 personnel, to protect the ExxonMobil operations. Traditional landowners in Hela province carried out protests and blockades over the non-payment of promised royalties, development levies and dividends from the project, estimated at over K1 billion.

During 2017, ExxonMobil and OilSearch boasted

sharp jumps in profits on the back of rebounding energy prices and cost-cutting. OilSearch reported a net profit rise of 405 percent to \$US129.1 million, from \$25.6 million, for the first half-year, mainly from its PNG operations. ExxonMobil's quarterly global income spiked to \$8.38 billion, up from \$1.68 billion in the same quarter a year previously. The result included a \$5.9 billion non-cash benefit from recent US tax cuts.

While the transnational energy corporations amass huge profits, PNG remains ranked at 154 out of 188 countries on the UN Human Development Index. Nearly 40 percent of the population live in grinding poverty, subsisting on less than \$1.25 a day. PNG has one of the world's highest rates of maternal deaths. Nearly half the people live in squatter settlements, and illiteracy is rampant. PNG has the highest percentage of its population in the world—60 percent—without access to safe water.



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