

Benefits sharing agreement

Background

PNG law governs which landowners, Local Level Governments and Provincial Governments are entitled to benefits from the PNG LNG project. These benefits include royalties, equity entitlements, a development levy and state project grants.

The law also describes the process that the Department of Petroleum and Energy must follow to reach agreement with all parties on the fair distribution of the benefits.

The law acknowledges that in addition to the resource owners, landowners along the pipeline route and near the LNG plant are entitled to a certain share of project benefits.

Key considerations

- The PNG LNG project is larger than previous oil projects so there are many more landowners and governments (national, provincial and local) who will need to share the benefits.
- Benefits from the PNG LNG project will be paid out gradually and over a longer period of time than for oil projects.
- No benefits will be paid until at least 2014 when construction is completed and the first tanker of LNG is sold.
- Benefits will be shared from 2014, irrespective of when gas actually starts flowing from a particular license.
- Cash benefits are not the only benefits from the LNG project. There will also be opportunities for some people to work on project construction and operations, and for some landowner companies to supply the project.

Umbrella benefits sharing agreement

On Saturday May 23, 2009, the Independent State of Papua New Guinea, representatives of project area landowners, and the four provincial and ten local level governments executed the PNG LNG Umbrella Benefits Sharing Agreement (UBSA).

- The UBSA is an overarching agreement which outlines how a number of the State's project revenue streams (royalty, development levy and equity dividends) totaling some 15-20 billion kina over the 30-year project life will be shared. In addition the UBSA will commit the State to a number of infrastructure projects in each project area.
- The negotiation of the UBSA was a major undertaking involving close to 2,000 people over five weeks. The negotiation process, with three eminent PNG citizens as facilitators, commenced with the Department of Petroleum and Energy making a formal proposal on the sharing of benefits.
- A key element of the UBSA is agreement on the split of benefits between the development licenses, pipeline licenses, the LNG plant and between provincial and local level governments.
- Two areas of particular focus in the negotiations were project equity, and infrastructure grants. The UBSA grants 7% project equity (out of State's total 19.4%) to landowners and provincial governments and commits 1.2 billion kina over the next 10 years for infrastructure development.
- Landowners had been seeking 10% equity versus the minimum 2% provided under the Oil and Gas Act. The final agreement includes 2% free carry by the State, with the remaining 5% equity provided via an option in 2016 to be paid for by landowners/provincial governments. The infrastructure grants include monies designated for specific roads, bridges, airports, a port, townships, etc.

License agreements

With the umbrella agreement finalised, the License Agreements focus on how benefits allocated under the UBSA will be distributed to bona fide landowners within each license area or within a buffer zone around the pipeline and LNG plant.

Development Forums will decide how benefits will be shared within specified licenses/regions. Communities will be entitled to choose their own representatives for each Forum.

Issues and questions may include:

- Should the different parts of the Project (PDLs, pipelines, LNG facility etc) be receiving different benefits?
- What is the amount of each of the different benefits (royalties, development levy and returns to equity)?
- How will the different types of benefits be allocated between Project Area landowners, provincial and local-level governments?
- Who will be responsible for benefits distribution? Will ILGs and agents still be used or will benefits be paid to individual beneficiaries?
- Once a region receives its share of benefits, then how will it further distribute it to the various ethnic groups, clans, families or individuals within that region?

Further information

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Q&As

How are Project Area Landowners decided?

Project Area Landowners are those landowners recognised by the Government as owning land within a petroleum development or pipeline license (PDL or PL) and those who own land within a buffer zone which may be up to 5km from an LNG pipeline or processing facility.

Will resource landowners get more benefits than pipeline or facility buffer area landowners?

That will be decided at a Development Forum but it is important to recognize that all parts of the project are important and the gas resources are not worth anything without the 700km pipeline to get them to the coast and an LNG plant to turn the gas into LNG.

What sort of cash benefits will Project Area Landowners get?

The Oil & Gas Act requires that 30% of royalties and equity dividends be paid into a Future Generations Trust, and a further 30% be paid into a Community Investments Trust. The remaining 40% will be paid to Project Area Landowners.

Can landowners establish trust companies and manage their own equity?

No. The law requires MRDC to be the corporate trustee of the landowner equity interest.

How can I be sure that I receive all the benefits I am entitled to?

To ensure payment transparency, all Incorporated Land Groups (ILGs) and MRDC will be subject to strict governance, including regular independent audits. ILGs will provide annual benefit statements. Auditors will check that the benefit amounts are correctly calculated and individuals should check the benefit amounts are correct when received.

Will landowners have an equity share in the LNG Project?

Yes. PNG interests in the LNG Project will be 19.4%. Landowner equity will come out of this 19.4%, (note that 1.2% is already held by landowners of the existing oil projects). In addition, the State will provide landowners equity in the licenses associated with the gas fields (Hides, Angore and Juha).

