

Landowner 'wish lists': are they compatible with national government objectives?

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From November 1998 to January 2001, the author was the Coordinator of the Central Moran Petroleum Development Project (through the Coordination and Liaison Branch of the Petroleum Division of the Department of Petroleum and Energy), which covers Petroleum Development Licence 5 and is the newest petroleum development field in Papua New Guinea. This petroleum field was initially producing under the Extended Well Testing (EWT) program from early 1998 in the PDL 2 portion of the field and commenced EWT in the PDL 5 side in early 2000. As such the Moran oil field is a unitised petroleum licence field in that it is producing oil from two different licence areas.

By early 2001, the Moran oil field will have moved from EWT to full-field production after consultations through a Development Forum (as required under S.48 of the Oil and Gas Act 1998) and signing of a Development Agreement with all relevant stakeholders, including the landowners, respective local-level governments and the Southern Highlands Provincial Government and the National Government of Papua New Guinea.

As the Central Moran Petroleum Development Project considers a Development Forum that would pave the way for full-field development in PDL 5, the Government of Papua New Guinea, through

the Department of Petroleum and Energy, becomes more and more wary of the 'wish lists' (also known as 'shopping' or infrastructure lists) with which it will be confronted.

These wish lists can provide the basis for negotiations during the Development Forum, but are they compatible with national government objectives? There is also the question of whether the wish list items, if agreed, will be honoured.¹

It is not a question of whether these commitments are impossible to honour, but rather, whether they are in line with the government's planning framework; as the Departments of Planning and Monitoring and Treasury and Finance will only honour commitments that are in line with government policy initiatives and planning framework.

This paper explores whether separate wish lists or a combined landowner, local-level government(s) and Southern Highlands Provincial Government Position Paper, when tabled during the Moran Development Forum, will be compatible with the Government's planning framework.

Mining and petroleum development

After political independence in 1975, Papua New Guinea began working towards attaining economic independence. This was

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an enormous challenge, given that more than 85 per cent of the indigenous population are rural-based agriculturists. As well, Papua New Guinea's terrain poses difficulties for communications and economic development. Moreover, there are more than 800 languages and with a multitude of cultures, the people are divided by tribalism. Of real concern also is a lack of skilled labour and a general lack of financial resources for development. Overlaying these challenges has been an escalating law and order problem.

With Papua New Guinea's heavy dependence on imports and a limited supply of export goods, the Budget was largely supported by development assistance, such as Australian aid, and other international and domestic funding from donor agencies including the World Bank and International Monetary Fund (IMF).

The development of resource projects, particularly mining and petroleum projects, to generate much-needed export revenue, became the prime concern of the government. The Panguna Copper Mine, which began operations in 1972, was initially the most important single contributor to export earnings and internal government revenue. Panguna was later supported by the Ok Tedi mine in 1984 and Misima Goldmine in 1989.

After Misima came the Porgera goldmine in 1990 which allowed the Hides Gas Project to produce gas, which was converted to electricity for the power needs of Porgera. Lihir and the Tolukuma goldmines followed, and later other smaller mines emerged.

In the petroleum sector, the Kutubu Project commenced oil production in 1992, followed by the Gobe Project, which began producing oil in April 1998. The Moran Extended Well Test (EWT) program in PDL 2 also commenced in February 1998 and EWT in the proposed PDL 5 commenced production in April 2000. By early 2001 Moran Oil field is expected to move into full-field production.²

In addition, the Frieda Copper Mine and the Ramu Nickel and Cobalt mine are expected to commence production in the next five years or so. In the petroleum sector, the PNG Gas Project will commence production and sale of dry gas to Australia between 2003 and 2005.

The current mining and petroleum projects in Papua New Guinea have maintained the economic viability of Papua New Guinea in the face of the loss of export income and tax revenue with the closure of Panguna, coupled with a general slump in the economy. In fact, these projects have more than made up for the loss of production from Panguna. For example, in 1993, export incomes from minerals and petroleum was more than twice the level during 1988, before the premature closure of the Panguna copper mine on the island of Bougainville. The mining and petroleum sector's contribution to economic growth and development of Papua New Guinea went from nothing in 1991 to 25 per cent of total exports by 1994 (AusAID 1996).

Provincial government systems and the reforms

At independence, Papua New Guinea inherited a large, centralised bureaucracy. Soon after independence, secessionist pressures, mainly from Bougainville and other districts in the New Guinea islands, led to the decision to transfer certain government powers and functions to the districts, together with the financial resources necessary to carry out these functions. These arrangements were embodied in the Organic Law of 1977, and were effected over the next three years. As a result provincial governments today are largely responsible for recurrent expenditure related to their transferred functions. This, in essence, is the 'financial autonomy' of the provinces. Only capital expenditures are still controlled by the national Government (Goodman, Lepani and Morawetz 1988).

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However, numerous provincial governments have failed miserably in performing their functions satisfactorily, which included the delivery of much needed services to their constituents. Costs of running provincial governments have risen dramatically but these have not translated into the delivery of essential services and the overall development in the Provinces. This situation is complicated by poorly equipped and trained personnel, lack of infrastructure and equipment, and nepotism, cronyism or ethnocentrism (*wantok*-ism) in the recruitment and promotion of personnel. Bribery and corruption are the norm within administration and are major contributing factors to the running down of the provincial government system (Goodman, Lepani and Morawetz 1988). As a direct consequence, many provincial governments have been suspended and investigated for alleged maladministration or mismanagement and misappropriation.

In light of the above, provincial government reforms were introduced as part of the structural reforms encouraged by the World Bank and the International Monetary Fund (AusAID 1996).

The Organic Law on Provincial and Local Level Government (OLP&LLG)—passed in July 1995—introduced a new system of provincial and local-level governments. The origin of these reforms was disillusionment with the former provincial government system. The reforms resulted in a radical restructuring of the system of government and included the abolition of separately elected provincial governments which were replaced with provincial assemblies headed by a Governor, who is also the sitting Provincial member (AusAID 1996).

The Organic Law requires a considerable amount of enabling legislation to make it operational. The Law has already been subject to numerous amendments, which reflect both weaknesses in the legislative

drafting and operational difficulties. Administrative weaknesses are particularly evident in planning and budgetary functions. The task of developing an effective planning capability has been complicated by the fragmentation of responsibilities inherent in the reform (AusAID 1996).

It was, therefore, not surprising that Prime Minister Mekere Morauta commented at the National Governors' Council conference in Rabaul

The decentralised system of government under the current reforms is at a crisis point in terms of delivery of basic and essential services...there was a dire need to re-examine the system with a view to repairing its most glaring weaknesses (*The National*, 10 August 2000:1).

Prime Minister Morauta reiterated that the time was now ripe to '...re-examine the relationships between Waigani, the provinces and local-level governments'.

The Development Forum

In the late 1980s, the national government, under the direction of the then Prime Minister, Sir Rabbie Namaliu, developed a number of policies aimed to increase provincial government and landowner involvement in the development of resource projects. One of these policies was Development Forum. The forum concept was then first applied to the approval process for the Porgera gold mine in April 1989 and is now accepted practice for all major mining and petroleum projects (West 1992).

In the petroleum sector, all current projects have undergone this process, and the Moran Project will also have its own Development Forum. Each of these projects has approached its Development Forum differently, depending on considerations such as costs, timing, political interference, landowner cooperation, cooperation from provincial governments, sister government

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departments and line agencies and other factors.

The purpose of the Development Forum is to establish a position on issues related to a proposed development project. However, over the years this process has not been followed. For some participants and organisers, the Forum became more to do with how benefits, initially due to the government, would be split between national government, provincial government(s), and in more recent times, local-level government(s) and landowners. In particular, the question of equity participation in the project was seen as a primary concern. However, to others the Forum was seen as the ideal avenue for political-bureaucratic interaction (West 1992).

The Forum has evolved to become the venue where all stakeholders come together to discuss 'benefit packages' that will be handed over by the national government to respective provincial government(s), local-level governments and landowners from the State's share in the project. In the petroleum sector, with the passage of the Oil and Gas Act of 1998, this has now become mandatory.

This practice was succinctly expressed by Anthony Power as

...a 'Melanesian' government's approach to provide benefits to landowners to persuade them to allow the government and the developer access to their land to extract the resource for the benefit of the country as a whole (Power 1997:17).

The end product has been agreements reached between the various stakeholders. These agreements usually took the form of Memoranda of Agreements (MOAs) and now Development Agreements (S.50 of the Oil and Gas Act, 1998) and are reached between

- the State of Papua New Guinea and landowners
- the State of Papua New Guinea and the respective provincial government(s)
- provincial governments and landowners.

In essence, the agreements consist of lists of services and benefits, which are to be made available by government, combined with a vague commitment by landowners to cooperate and consult.

Landowner wish lists or a combined stakeholder position paper?

With the realisation that the Development Forum has undertaken the approach of negotiating benefits as its underlying concern, the Department of Petroleum and Energy anticipates that the stakeholders (excluding the State and developers) will bring their position papers to the Forum. Ideally, landowners, respective local-level governments and provincial governments should come up with a single position paper incorporating their combined developmental aspirations.

This position paper should contain the following, as per the Oil and Gas Act (1998): First, the single position paper should have a section that addresses the distribution of royalties between landowners, local-level government(s) and the provincial government concerned (S.168 and S.170). It should also indicate how the equity benefits will be shared between the landowners and local-level government(s) (S.167 & S.170), and whether there will be a further sharing of the 100 per cent Development Levy that will be paid directly by the Developer to the concerned provincial government, and if so, to whom and by what percentage share (S.160). Further to this, the position paper should clarify which infrastructure projects or social needs are to be put in place, particularly within the confines of the project area boundary which may also include district (that is, local-level government) needs. Those needs should be in line with provincial government plans for those areas.

In short, a position paper developed by the three parties should address their requirements, taking into account the ability

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of the State, the developers and the provincial government to meet those requirements.

However, the reality is far from the ideal. In the Moran Project, for instance, landowner wish lists were initially prepared by Moran landowner leaders in an *ad hoc* manner and without any close consultation with the people in the project area.³ After realising that the initial infrastructure list was unrealistic, Chevron invited officers of the Resource Monitoring Branch of the Southern Highlands Provincial Government (SHPG) to conduct a fact-finding trip into the Moran area to assess the need for essential social services and other infrastructure. The SHPG team put together its findings in a position paper, copies of which were submitted to the Department of Petroleum and Energy in September 1999.

After considering this position paper, the Department commenced correspondence with the SHPG Administration. In early 2000, the Hulia local-level government submitted their own wish list of infrastructure requirements to the Department. The position paper and wish list were prepared separately, without any close consultation with the national government, through the Department of Petroleum and Energy, to establish whether these lists were realistic or if they were within means of the national government to fulfil them. There was an obvious need for a wish list to be consolidated, under the supervision and scrutiny of the SHPG, to portray a unified and more realistic expectation.

Such a position paper, when tabled during the Moran Development Forum negotiations, will guide and assist the Forum in arriving at an agreement suited to all parties, limiting opportunities for unnecessary discussion of unrealistic expectations. The position paper will provide the basis for the Forum discussions and may compliment S.174 of the Oil and Gas Act (that is, the 20 per cent limitation), if guided well. Conversely, S.174 may be the tool used to

guide the position paper to a more realistic outcome considering the ability of the State to 'spend' in that particular project area.

National Government Planning Framework

The Department of Planning and Monitoring (formerly the National Planning Office) is vested with the responsibility to plan and monitor all national government expenditures. It is the responsibility of this Department to oversee the national government's planning framework. The National Government's Planning Framework is guided by the following policies; The Public Investment Program (PIP), the Medium Term Development Strategy (MTDS), the Development Appropriation Document (1997) and Project Cycle Process (*Medium Term Development Strategy 1997–2002*).

The national government planning framework on its own is ineffective, particularly when it has planning implications for the provinces and their respective local-level governments. Only when there are planning frameworks established within the local areas, and which then dovetail into the provincial planning frameworks and subsequently into the national planning framework, can coherent and balanced development be assured. This sets the stage for 'bottom up' planning as envisaged in the Organic Law on Provincial and Local Level Government (*Medium Term Development Strategy 1997–2002*).

The Minister for Planning and Monitoring, Moi Avei, has stated that

...the Government's key planning document, the Medium Term Development Strategy (MTDS) was the country's 'road map' for creating an environment that will enable rural Papua New Guineans to achieve higher living standards through a more productive agricultural sector. In order to create this environment, the MTDS emphasises the need for the

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Government to focus on basic education, primary health care, infrastructure maintenance, law and order and on increasing the opportunities for private sector (*Post Courier*, 10 August 2000).

It is important that there is a 'bottom up' approach to planning and prioritisation of projects in the context of the overall government planning framework. Currently, it seems that provinces, let alone their local-level governments, lack developmental consciousness. Either they are not 'development conscious' or they lack the ability to plan and bring about development within their localities.

Compatibility of aspirations

This paper focuses on the simple premise that there must be some form of compatibility between national government aspirations, as contained in its planning framework, and the aspirations, visions and plans of provincial governments and their districts (that is, local-level governments).

Therefore, only where there is some compatibility, rationality, coherence and interface between the various levels of government, in terms of their planning framework, can we be assured that much-needed financial resources are channeled from the national level down to the provinces to finance much-needed infrastructure projects within the isolated rural communities. Otherwise, there will be a continual occurrence of uncoordinated pockets of infrastructure development appearing within these communities. Such projects may seem good in the short term, but prove to be detrimental to good governance and administration in the longer term.

If a project is built because of landowner insistence or coercion and that project is not part of the national government, provincial, or district plan, how can it be sustained in the longer term? For instance, if a school is

built outside of the provincial education plan, who will be responsible for allocating teachers, materials, conducting inspection programs, maintenance and so on?⁴ These questions must be addressed if there is to be long-term sustainability of infrastructure benefits from resources projects.

It is imperative that district plans must dovetail into provincial plans, which must, in turn, dovetail into national government plans. Only then will there be compatibility between national government aspirations and landowner, local-level government and provincial government aspirations. This will ensure consistency and sustainability in the use of scarce resources and encourages proper planning, implementation and management of projects to the satisfaction of all parties concerned.

It is unfortunate that some 'mitigation' projects built by developers in petroleum project areas do not fit into any level of the government planning framework. They are 'appeasement' projects built by the developers who would rather deal with unrealistic demands by landowners than risk the possibility of jeopardising the oil or gas project by not meeting those demands.

These mitigation projects are usually considered at a time when 'the developer is anxious to get on with construction of the project and landowners are anxious to see some benefits' (Power 1997:18). This is a result of government-funded projects being slow and unreliable and the developer's money spent in this manner is 'important in building up trust with the project area people' (Power 1997:18) as well as providing early landowner involvement in business opportunities. However, proper planning is still essential for long-term sustainability and good governance.

Such an approach may assist in addressing the Prime Minister's point that

The gap in getting government services to the people is wider than at Independence...government has

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found itself at a crisis point in terms of delivery of basic and essential services. Therefore, we have no choice but to re-examine the relationship between Waigani, the provinces and local-level government (Mekere Morauta, *Post Courier*, 10 August 2000)

It is against the backdrop of these comments that there is now the need to bring the Moran Project area landowners together with their respective local-level government(s) and the Southern Highlands Provincial Government. They must then come up with a position paper that is reflective of their 'combined' or integrated plans, and which should then be compatible with national government plans.

Conclusion

The Oil and Gas Act (1998) has provided, under S.48, that a Development Forum is now a pre-requisite of full-field development of all petroleum projects. For the record, the Central Moran Petroleum Development Project will be the first project to test this legislation.

It is anticipated that the Moran Development Forum will provide the venue where project area landowners, their local-level government(s) and the Southern Highlands Provincial Government will bring to the negotiating table a consolidated position paper which should have taken on board the requirements of the Oil and Gas Act (1998), particularly S.174 (with its 20 per cent limit).

A consolidated position paper, guided by a 20 per cent limit, would curb the demands of the various parties, and set out the parameters within which the Development Forum discussions will be conducted. This will promote greater cooperation and understanding amongst the 'active' Forum participants and ensure a smooth progression of the Forum

discussions, a quicker resolution of issues and a timely closure and signing of a Development Agreement.

This process, when adhered to, should ensure that the requests in a consolidated position paper would be reflective of local-level government aspirations as well as provincial government's short, medium and long-term plans, which should dovetail into the government's overall aspirations, to the benefit of the the national economy and the local areas.

Notes

- ¹ In the past, the State has agreed to unrealistic items on 'wish lists' while under pressure to sign agreements within schedule.
- ² The Moran Oil field has two petroleum reserves of 84 million barrels of oil and is about a third the initial size of the Kutubu Project.
- ³ The Project Area is made up of the proposed PDL 5, Block 1934.
- ⁴ There are a couple of schools in the Kutubu Project Area which have been built of permanent materials under the Tax Credit Scheme but are not in use.

Author's note

The views expressed in this article are entirely those of the author and are not necessarily those of the Moran Petroleum Project or the Papua New Guinea Department of Petroleum and Energy.

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