



# The Development and Current State of Landowner Businesses Associated with Resource Projects in Papua New Guinea

RICHARD T. JACKSON



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# EXECUTIVE SUMMARY

## Summary of introductory chapters

- It is estimated that more than 5,000 business entities in Papua New Guinea have, to date, been established in and around mining and gas/oil resource sites. This study selected four hundred of the largest of these which appear in the Investment Promotion Authority's [IPA] register and looked at 130 of them which had, in 2014, contracts with resource companies. Of these 47 were interviewed between May and October 2014. Also, out of the 130 only 25 landowner companies [Lancos] were not exempt, under the *Companies Act 1997*, from submitting audited returns and for which, therefore, reasonably full financial details were available.
- Other Lancos that have grown up independently of the resource companies (or by 2014 no longer had contracts with them) are not covered in this study which, therefore, provides a very conservative set of estimates regarding the significance of mining and oil/gas extraction in the national and local economies.
- Many companies are tardy in submitting their Annual Reports to IPA required by law. In addition S171 of the *Companies Act* permits small companies not to submit audited returns whilst S212 of the Act allows, providing all shareholders agree, companies not to reveal directors' fees and expenses. **Thus the total amount of information available to the study – and, more importantly to most company shareholders – is rather limited.** In the relatively few cases where directors' overall costs are available and on public record, there is – at least in some cases - cause for concern that Lanco directors' receive very much more benefit than do shareholders. The fact that many of the gas project Lancos are of rather recent establishment means that very few of them have submitted reports to IPA.
- The *Oil and Gas Act* has many more prescriptive requirements of resource companies than does

the existing *Mining Act* (a revised *Mining Act*, whose drafts include prescriptive requirements, is likely to be presented to Parliament shortly). However, the MOAs associated with all mining projects (plus the special Act under which Ok Tedi operates) do lay out what companies are expected to undertake in the area of local business development [LBD]. It seems clear that, given the wide range of types of mining projects (in terms of capital expenditure, length of life, financial prospects etc), that one size of LBD requirements will not be appropriate for all of them. **Each site's mix of potential host community benefits (employment, infrastructure investment, training, and business development) might best be tailored to the site's individual circumstances and the project's varying characteristics.**

- In judging whether a Lanco has been successful or not, at least two key measures need to be used: a) on the one hand, they must rigorously comply with commercial best practice especially in the area of governance; b) on the other hand, their success or failure needs to be assessed in terms of the Lanco's aim (does it intend to accumulate assets? Or are dividend payments a priority? Does it intend to restrict shareholding to certain groups of individuals? Etc.). Such aims will certainly vary from one Lanco to another although general types of aims will recur. So, **it is critical that such aims, and the means the Lanco proposes to adopt in order to achieve them, are explicitly laid out in its Constitution. Only one –quarter of the companies examined in detail have a Constitution of their own making.**
- The small and medium enterprise sector is now a core policy of the PNG government; a major study of SMEs nationwide was released just as this report was going to press (Tebbutt Research 2015) and the importance of the sector was emphasised in the Prime Minister's address to the 2014 Mining and Petroleum Investment Conference. In it, he urged established projects to re-engage

with LBD and for new entrants to plan for LBD from the earliest stages of their projects.

- For many years, the term 'umbrella companies' has enjoyed wide currency among all resource sector stakeholders. The PNG LNG project preferred the term 'representative companies'. The function of an 'umbrella company' was originally envisaged – and still is by many – as one which would be communally owned, would undertake its own business activities on behalf of its shareholders and (this is where the 'umbrella' comes in) help infant local businesses to grow by providing with guidance on all aspects of business development. This umbrella function, the report concludes, remains of critical importance but the record shows that – with one partial exception – **to expect a large Lanco which is tasked with growing its own business to wholeheartedly assist other businesses to grow is unrealistic.** Whilst this report, so as not to confuse matters, uses the terms umbrella companies and representative companies, it also concludes that those Lancos that are owned by a large community covering the whole of the project impact area or, in the case of very large impact areas (such as those involved in the LNG project or the Ok Tedi mine) distinct, large regions within the impact area, the term 'representative' is the term far more in line with what actually happens, and is the more realistic term to use. The umbrella function should remain with the resource company (or at least with an organisation that does not have its own, separate business functions).

#### Individual sites

- Ok Tedi:* The site has experienced repeated failures of its 'umbrella' company (first, Cloudlands; later SMIHL) and has had limited success in establishing what this report would prefer to call representative companies in downstream areas. It further appears as if businesses in Kiunga have largely been left to develop on their own, outside of most OTML LBD plans for the sector. In Kiunga there are a large number of businesses which, although they owe most of their prosperity to OTML (but increasingly also to gas and oil exploration), do not have contracts with the company. Even though Ok Tedi has no equivalent company to Anitua or IPI, the distribution of companies, by assets, is similar to that at Lihir and Porgera: there are two companies with assets of more than K20m whilst the great bulk of Lancos have assets of less than K10m.

Despite the failure of 'umbrella' companies (or, perhaps, because of this?) a reasonably impressive

array of smaller companies, focussing more or less wholly on the mine's needs, have grown up and now employ over 3000 people (this excludes the numerous businesses not having direct links to OTML). The average age of these companies is 15 years (half that of the mine) and collectively they have accumulated K130m in net assets. This needs to be compared with the assets reported by MRDC to be held in 2010 (there are no more up-to-date figures publicly available from MRDC) in the two funds managed by MRDC on behalf of landowners' and the Province at approximately **US\$140m (or almost three times the value of Lanco assets)**. Because of the fact that very few Lancos associated with Ok Tedi have diversified geographically to operations elsewhere in the country, most of them appear, at first sight, to have a life expectancy no longer than the mine itself. However, developments relating to gas in the North Fly promise an ongoing role for many of them.

- Porgera:* The mine spends approximately K600 million annually on services and contracts of which around K100m goes to Porgera Lancos and K280m to other PNG businesses. The PJV has almost 600 PNG business entities on its books of which 121 are in Porgera and 246 in the rest of Enga. Porgerans were prepared well in advance of mine construction for business, fought for local business guarantees in the Development Forum and have concentrated all their efforts on a single company IPI and its ancillaries. IPI came close to bankruptcy in the mid-1990s and needed PJV help to rescue it. Since then it has gradually succeeded and now employs 1200 people, had a turnover in 2013 of almost US\$90m and had accumulated US\$34m in net assets. A key feature of IPI is indicated by the fact that only one-third of its employees are in Porgera itself; around ten years ago the company acquired a base outside Lae and since then has continued to expand geographically with one subsidiary operating in Australia. The key to its recent success appears to have been this expansion away from its original site into the wider commercial opportunities of the country as a whole. There are questions regarding who precisely owns shares in IPI. Other than IPI there are almost no significant Porgera Lancos, most not even being registered as companies but operating rather as family concerns. Several of the larger contractors are Engan but most of these are exempted from the need to provide audited accounts, and as few have constitutions. It is difficult to identify the numbers of Lanco employees but these are estimated at between 2000 and 3000.

- *Lihir*: In terms of both the investment of their share of mining revenues (by MRL Capital – Lihirians are the only resource landowners who run their own investment arm) and the development of a representative Lanco (Anitua and its subsidiaries), Lihir landowners have created the most successful and potentially most sustainable financial entities of any mining site in PNG. However, in its earlier years (then named Lakaka) Anitua had to be rescued by the mine from bankruptcy and its success has only been marked since 2008. Anitua is easily the most dominant Lanco associated with the Lihir mine and also (like IPI) much of its success can be attributed to its expansion off site, particularly by concentrating on mass catering around PNG. The components of Anitua in all employ nearly 4500 people; as at all other mines, therefore, Lancos based on Lihir employ far more people than does the resource company on whose back they have grown.
- *Petromin (Tolukuma)*: Access to Tolukuma is amongst the worst of any resource project in the country and, in addition, the mine is both small and has proved unprofitable for its three sets of owners. Despite ambitious plans for LBD laid out in the original MOA and its later revisions, it is unsurprising that Lancos have been no more successful than the mine's developers; the main Lanco collapsed and has yet to be successfully revived.
- *Oil Search*: Oil Search has made very extensive inputs to the Lancos associated with it and also provides close supervision over their operations. It has exercised the most consistent set of support procedures for Lancos at any resource site in the country. It has what seems to be a far greater knowledge of how its associated Lancos are managed and what progress they are making than any other resource company covered in this study. It was the only resource company able (and willing) to say with precision how compliant with national regulations its contractors are; **in this respect it deserves to be regarded as a model for all resource companies to follow.** However, although it has a number of successful mid-sized Lancos, no large representative OSL-linked company has emerged and the rate at which its Lancos have accumulated assets is low.
- *PNG LNG*: This massive project dwarfs all previous resource projects in PNG in terms of capital expenditure. In terms of LBD it has been slightly less overwhelming (if still impressive), but has been especially innovative in terms of LBD management. Between 2009 and 2014 the project issued contracts within PNG valued at K12.4 bn

(US\$4.4bn) of which K4.5bn (US\$1.7bn) went to local Lancos. ExxonMobil aimed from the start to establish Lancos that could stand on their own feet and to minimise the support they would need directly from the project. The project thus developed a National Content Plan that clearly set out what it would attempt to do for local business and was especially careful to plan for the fact that most of the business opportunities that the project would generate would occur in the construction phase (which ended by mid-2014). Further, it invested heavily in LBD training at what had been the Banker's College in Port Moresby to provide a capacity building and capacity assessment centre. It also established 'representative companies' each of which covered a specified region of its very extensive impact area which stretches from the highlands right down to the capital. Most of these representative companies (and as stated earlier, the term is much more appropriate than 'umbrella companies') covered a wide range of ethnic groups and, drawing on OSL's experience perhaps, had very carefully designed constitutions which paid special attention to shareholding arrangements. **All other resource projects can learn a great deal from a perusal of the measures set out in these constitutions.** Further, ExxonMobil required all of its major, non-local contractors to align their capacity building training for Lancos with those of the project overall.

One of the regional representative companies established, Laba Holdings, has the unique advantage of being located in and around the capital itself where its component communities are major landowners. Most other LNG project representative companies have also established themselves in Port Moresby to some degree – with the exception of the largest, Trans Wonderland which is based in Lae.

LBD received very significant financial support from the State – far greater than for any other project. K120m was granted to a large number of business groups as 'seed money'. This is almost as much as OTML-linked Lancos have accumulated in net assets in over 30 years of operation.

Because so many LNG Lancos were only established after 2009 and because they are no more prompt than other regional Lancos in submitting returns to IPA, very little information relating to their financial circumstances is publicly available. Even if the data were available, given the history of Lancos failing at other sites several years after their establishment and given the fact that, with the end of construction, leaner times



face the LNG Lancos, it is as yet too early to assess the extent to which the innovations introduced by ExxonMobil have had more or less success than the models used in the mining industry.

- *Ramu*: A cascade of ‘umbrella companies’ dominates the structure of LBD at Ramu NiCo. A ‘unifying umbrella company’ (Raibus) sits at the top of the structure. Its directors are drawn from members of the boards of four ‘area umbrella companies’ (AUCs) which cover the different regions occupied by the project. In turn these AUCs are supposed to both pursue their own business interests and support the growth of local level ‘clan companies’. The structure is also supported by a management assistance section within the resource company. So far, the structure has not functioned very well. Raibus has had some difficulty in surviving and only rarely provides business assistance to lower tier Lancos, while the clan companies under at least two of the AUCs companies complain that they are left to their own devices. Whilst this is partly because the real power of ownership rests with the various landowner associations who appoint directors to the boards of the AUCs which in turn control Raibus, it is also because of the tendency noted at almost all other sites: ‘umbrella companies’ are too busy pursuing their own interests to offer much support for lower level companies. All AUCs do have the apparent advantage of having access to the wider market offered by Madang town and some have made good use of this in widening their register of clients. The inland AUCs, especially that at the mine site, Kurumbukari, have performed poorly so far in part because pre-existing social divisions which have resulted from long-term, pre-mine migration into their areas which has bedevilled the establishment of unified views on what their AUCs will aim for. This rather weak performance overall is despite the fact the project Lancos have received support from the State. In addition to the K1m for LBD which the State committed to provide under the 2000 MOA, it also provided, in 2012, a further K10m with a promise of a further K10m (not paid to date) for this purpose. In fact this generosity has caused considerable dispute in the project area over who received (or did not receive) what. No company has paid dividends since their establishment in 2008. However, on a positive note: a high proportion of Lancos interviewed for this survey, irrespective of whether they were required to or not, has had

its finances regularly and independently audited – even if they have not all been reported to IPA.

- *Simberi*: The company ascribes this project’s lack of an island community representative company to date on a lack of agreement among landowners. Nevertheless more than a dozen Lancos do exist which is something of an achievement for such a small project. It will be difficult to sustain any benefits derived from LBD on Simberi however – other than for a few families – unless a unified representative company emerges which operates a policy of investing profits in mainland locations. LBD does not offer the best available option to stakeholders in their quest to establish sustainable, post-closure project benefits even if, under the MOA governing the project, it must be undertaken and supported.
- *Elk-Antelope (InterOil)*<sup>1</sup>: Even though any production at this site is several years away and exploration is still underway, a representative company has been established at site and some LBD is being undertaken in Port Moresby.
- *Hidden Valley*: Given the long established history of enmity between the two major ethnic groups involved in this project, its developers deserve credit for having managed to keep the single representative Lanco, NKW Holdings, intact. This company has taken full advantage of the project’s location close to Lae and has, in financial terms, performed admirably to date, rivalling most older-established project Lancos in its accumulation of net assets. However, as at other mining sites with a successful representative company, it has not done much in terms of its umbrella functions as very few significant smaller Lancos have emerged. Uniquely in PNG, the Department of Trade, Commerce and Industry [DTCI] undertook, with considerable assistance from IPA and at the resource company’s request, a general audit of LBD policy and performance at Hidden Valley in 2013. This was critical of many aspects of performance but was welcomed by the MMJV which has initiated a series of reforms (insofar as it can persuade stakeholders to accept them). In particular, it is attempting to revise the Constitutions of the component lower level Lancos and to reform structures to ensure that umbrella functions are carried out. A feature of the site is that, given the location of NKWH in Lae and the relative absence of smaller Lancos at site, the overwhelming bulk of project expenditure on PNG companies has been in Lae.

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<sup>1</sup> The writer is a small shareholder in InterOil.

## Conclusions

- Data weaknesses mean that the conclusions below should not be taken as being entirely precise; too much should not be read into them.
- The challenge of establishing Lancos in remote areas of a developing country is a major one and should never be underestimated.
- **Weaknesses of the system to date:**
  - o Tardiness in reporting to IPA – 84 of the 127 Lancos for which data are available were more than one year in arrears in reporting.
  - o Exemptions in *Companies Act* allow 81% of companies surveyed to avoid having independent financial audits.
  - o What seems to be an unpoliced loophole in the Act allows many non-exempt companies not to reveal directors' fees or expenses. On this and previous points – these omissions result in key financial data being unavailable to the public at large; it is even worse that, often, they are not available to shareholders.
  - o Only 26% of the companies surveyed had constitutions. Given that virtually all Lancos have special aims and special provisions re such things as goals and shareholding, then virtually all should have constitutions tailored for their own needs.
- **Strengths of the system to date**
  - o Survival rates are rather good – average age of Lancos at OTML which has operated for over 32 years is 16 years and the rate is higher at other, younger sites.
  - o The almost universally held view that PNG resource projects are poorly linked to the national economy requires questioning in terms of both employment and financial flows. In employment, while the mining companies included in this study in 2014 employed around 10,000 people, the Lancos directly associated with them employed at least 11,000 (and probably, allowing for omissions in the data, more like 15,000), while landowner owned business entities that did not have contracts with mines in their vicinity would add at least another 4,000 and probably many more than that. Further, given the purchases made by mines of goods and services from PNG businesses other than Lancos it may well be that these companies employ, as a direct

result of mines' purchases, another 15,000 people. The three oil/gas projects considered (PNG LNG, OSL and InterOil) now employ collectively around 4,000 or so people. The Lancos associated with them employ at least 6,000 and other PNG businesses relying on oil/gas company needs employ another 6,000 or so. This gives us totals of:

EMPLOYMENT	DIRECT	INDIRECT
Mine employment	10,000	
Contract Lanco employment		15,000
Non-contract Lanco employment		4,000+
Mine generated employment in other PNG companies		15,000
Oil/gas company employment	4,000	
Contract Lanco employment		5,800+
Oil/gas generated employment in other PNG companies		6,000
Totals	14,000	45,800
<b>TOTAL</b>	<b>59,800</b>	

*This is not an inconsequential number and it is a conservative one.*

- o In 2014, it is estimated that payments by the resource companies in the study to local near-site Lancos, excluding payments by PNG LNG, totalled around K1.6bn (or US\$640m) while their payments to other PNG companies were in excess of K1.8bn (or US\$740m). Again, this is not evidence of the weak links so often claimed. PNG LNG in the last quarter of 2014 alone paid out K97m to Lancos and a further K148m to other PNG companies.
  - Asset accumulation rates by Lancos are in general respectable but not especially good. Weak data, especially that derived from MRDC makes comparison rather difficult, but it appears that investment by MRDC (and certainly investment by the independent Lihir capital investment fund) has shown a faster rate of asset accumulation than Lancos (with MR Enga being the apparent exception).
- Other points:**
- Umbrella functions are not well carried out by representative companies whose prime interest is in pursuing their own interests. It is concluded that is better if these functions are vested in resource companies or an independent agency.



- Large representative companies, especially once they become increasingly independent of the resource site that gave them birth, are a major potential source of sustainable funding for their community shareholders providing they report openly and frequently to those shareholders. The monitoring of representative company: shareholder links should be a function of normal State-run business monitoring agencies.
- Smaller companies entirely or more or less dependent on the resource company are not well suited at present to provide sustainable benefits for the community either because they are not owned by the community or because they tend to be poor at accumulating assets, preferring instead to pay out profits as dividends. Resource companies and the State working together might consider providing means of persuading such Lancos that these short term profits could be invested so as to allow both some immediate consumption and some longer term investment.
- Smaller resource projects (which will almost always be in the mining sector) and especially those in remote locations which will remain remote even when mining is completed, should be allowed some flexibility by regulators in the development of local business development.
- While in the initial stages of any project, joint ventures (or alternatively, management contracts) between local and outside companies will be essential, very great care must be exerted in the development of the contracts that govern such ventures to protect the longer term interests of local parties.
- All the components for an even more efficient LBD push at resource sites are in place in Papua New Guinea, but more effort is required not just from some resource companies but also from key government agencies.
- **The push by PNG, which began at Ok Tedi nearly four decades ago, to get resource companies to support PNG businesses both in the project areas and across the country, has had its failures, but it has generally worked fairly well. It is hard work for the resource companies – but they rarely complain about it. It is also hard work for the Lancos themselves and by no means the easy way to wealth that some entrants at new sites imagine it will be. It doesn't create (or hasn't so far created) many millionaires. It is open to abuse but such abuse is rather rare nowadays – even if it happens. It is certainly open to failure. But in general it has been a success financially and perhaps rather more of a success in terms of training thousands of PNG entrepreneurs the hard way. And when one considers the challenges that have to be faced to achieve any success at all, then it can be concluded that the policy has been very well worthwhile.**

# FOREWORD

Whether or not this report is of any value for the reader, it was a great pleasure to research and write it.

I have worked on and off in various capacities on the mining and oil/gas industry of Papua New Guinea since 1973 when I first went to Kiunga to undertake part of a study on urban migration in the country. Since then, over the years, first from the University of PNG and what is now the National Research Institute, then from James Cook University, and, since 1997, mainly as an independent consultant, I have had the privilege of visiting almost every mining and oil/gas site in PNG. I am very grateful to the PNG Chamber of Mines and Petroleum (PNGCOMP) for their asking me to undertake this study which enabled me, in the course of four months, to revisit nearly every still-operating resource site, some of which I had not seen for more than a decade. I hope that the attached report is of as much value to them and the industry as doing the work was for me personally.

A very large number of people assisted in the production of this report including, at my base in Manila, Angie Raborar; and at PNGCOMP, Leah Warupi, Emmanuel David, Dolorose Aisi and Greg Anderson; and in PNG generally including Mel Togolo, Bill Searson, and Tim Omundsen; Carolyn Blacklock and Serah Sipani (of the IFC); Musje Werror and Jeff Ransley (of Ok Tedi); Joy Dutton (of Kiunga); Nick Bainton and Colin Vale (Lihir); Gibson Na'au, Jolson Kutato, Tim Andambo, Fred Posenu (of Porgera), Scott O'Reilly (of IPI); Don

Flanagan (formerly of Porgera); David Wissink and Robert Grimwade (of Morobe Mining JV) and Neil Stuart (of NKW Holdings); Daniel Worrall, Kim Hahn and Sisa Kini (of ExxonMobil); Steve Grey (of InterOil); Peter Minai and Tim Richards (of Simberi); Callum Skeet (of HGDC); Peterson Pipi and Michael Baitia (of Gigira DC); David Ganai'i of the PNG Department of Trade, Commerce and Industry; Glenn Banks (of New Zealand); and especially Willie Kupo (of OSL), Francis Chibelle (of OTML), Stotick Kamy (of Ramu NiCo), Ivan Pomaleu (of IPA) and John Brooksbank (formerly of OSL). Many others kindly allowed me to interview them and some of them showed considerable skill in managing, despite that, not to provide me with any information whatever.

Although we have never met, the person who provided me with most information was Alex Tongayu, of the Investment Promotion Authority whose PNG business database, accessible on the Internet, is extremely impressive and about to improve even further.

It is not false modesty to state that there is a great deal to be modest about in this report; what follows barely scratches the surface of a fascinating area of economic endeavour in PNG and one for which a wealth of information, thanks to IPA, is available. I urge others to make use of that data and to improve on what follows – it should not be difficult.

**Richard Jackson, Manila, February 2015**

## Abbreviations and Acronyms Used

ADB	Asian Development Bank	IPA	Investment Promotion Authority of PNG
APCM	Asia Pacific Christian Mission	JV	Joint Venture
AR	Annual Return to IPA	KBK	Kurumbukari
AusAID	Australian Aid for International Development	LBD	Local Business Development
BCL	Bougainville Copper Limited	LBS	Lihir Business Services
BDO	Business Development Office(r)	LGM	Lihir Gold Mine
BDG	Business Development Group	LNG	Liquified Natural Gas
BDP	Business Development Plan	LOTIC	Lower Ok Tedi Investment Company
BEC	Business Enterprise Centre	m	million
BHP	Broken Hill Proprietary Ltd	MoA	Memorandum of Agreement
bn	billion	MRA	Mineral Resources Authority
CEO	Chief Executive Officer	MRDC	Mineral Resources Development Company
DPE	Department of Petroleum & Energy	MRL	MRL Capital
DTCI	Dept of Trade, Commerce & Industry	NCP	National Content Plan
ECPNG	Evangelical Church of PNG	NEC	National Executive Council
EITI	Extractive Industries Transparency Initiative	OSL	Oil Search Limited
EPC	Engineering, Procurement and Construction	OTDC	Ok Tedi Development Company
FS	(Audited) Financial Statement to IPA	PDL	Petroleum Development Licence
FY	Financial Year	PG	Provincial Government
GDP	Gross Domestic Product	PRC	People's Republic of China
GR	Growth Rate	RN	Ramu Nickel
HGDC	Hides Gas Development Company	SLOB	Strategic Landowner Business (Ok Tedi)
IFC	International Finance Corporation	SME	Small/Medium sized enterprise
ILG	Incorporated Land Group	SMIHL	Star Mountains Investment Holdings Ltd
IOTPR	Impact of the Ok Tedi Project Report 1979/80		

# Contents

## PART I - OVERVIEW..... 15

### 1. Introduction..... 15

- 1.1 A general introduction..... 15
- 1.2 Defining a Lanco..... 17
- 1.3 The need for caution in the interpretation of this report ..... 18
- 1.4 The study's Terms of Reference (TOR). . 20

### 2. General Matters Relating to Local Business Development..... 22

- 2.1 The emergence of LBD policies ..... 22
- 2.2 The challenge today..... 23
- 2.3 How is the success of a Lanco to be measured..... 23
- 2.4 Some recurrent themes..... 25
- 2.5 Layout of this report..... 27

### 3. The Investment Arms of MRDC ..... 28

## PART II - LANCOS AT SPECIFIC SITES.. 31

### 4. Ok Tedi ..... 31

- 4.1 Background..... 31
- 4.2 Present situation ..... 36
- 4.3 Restoration stage three..... 43
- 4.4 Ok Tedi summary ..... 44
- 4.5 Conclusions, a question and a potentially happy ending..... 46

### 5. Porgera ..... 48

- 5.1 Introduction..... 48
- 5.2 PJV's inputs to LBD ..... 49
- 5.3 The present situation ..... 50
- 5.4 Porgera summary..... 54

### 6. Lihir ..... 56

- 6.1 Background..... 56
- 6.2 Project contract payments ..... 59
- 6.3 Components of the LBD structure on Lihir ..... 60
- 6.4 Lihir summary ..... 63

### 7. Petromin (Tolukuma) ..... 64

### 8. PNG LNG and Oil Search ..... 65

- 8.1 Background..... 65
- 8.2 The historical evolution of LBD in the PNG oil sector..... 65

- 8.3 The Gas Project (PNG LNG) and LBD innovations ..... 71
- 8.4 Payments by the LNG Project..... 75
- 8.5 Lanco performance ..... 75
- 8.6 Conclusions..... 80

### 9. Ramu Nickel ..... 81

- 9.1 Background..... 81
- 9.2 The theoretical and actual structure of Lancos at different levels of operation..... 81
- 9.3 Lanco performance ..... 86
- 9.4 Conclusions..... 88

### 10. Simberi: LBD for a Small Project ..... 89

### 11. Elk-Antelope (InterOil) ..... 91

### 12. Hidden Valley..... 92

- 12.1 Background..... 92
- 12.2 LBD structure and progress: a unique government audit..... 92
- 12.3 MMJV reaction to the audit: new LBD strategies ..... 94
- 12.4 MMJV Hidden Valley payments to contractors ..... 96
- 12.5 Lanco performance ..... 96

### 13. Conclusions and Suggestions ..... 98

- 13.1 Two qualifications ..... 98
- 13.2 The organisation of this chapter..... 98
- 13.3 Statistical summary: governance ..... 98
- 13.4 Statistical summary: financial performance and economic impact..... 104
- 13.5 Outcomes of various LBD strategies. . 110
- 13.6 The future of Lancos ..... 116
- 13.7 Final observation ..... 120

## APPENDIX A: Lanco Data ..... 123

## APPENDIX B: Terms of Reference for a Study of Resource Project Landowner Companies and Businesses in PNG..... 129

## BIBLIOGRAPHY..... 131

## Tables

1. Assessment of report's fulfilment of TOR requirements. ....	20
2. Net asset value of MRDC subsidiaries in 2009. ....	29
3. Indicators of OTML financial performance: 1984-2001 and 2002-2013 ....	34
4. Selected financial data for some Ok Tedi companies. ....	45
5. Ok Tedi Lanco directors' fees and expenses. ....	46
6. Annual average value of PJV contracts 2011-2013. ....	50
7. Some (outdated) financial data for Kupiane Yuu Anduane ....	52
8. Some (outdated) financial data for Kupiane Investments Ltd ....	53
9. Financial data for Total Cleaning ....	53
10. Financial data for hydrocarbon Lancos ....	78
11. Ramu Lancos: basic data. ....	87
12. Numbers and proportions of Lancos with and without constitutions ....	100
13. Reporting by Lancos of Annual Returns to IPA. ....	101
14. Data on Lanco directors ....	102
15. Types of Lanco shareholding structures ....	103
16. Likely flows of payments from resource companies to Lancos in 2014 ....	108
17. Net assets of Lancos and of MRDC subsidiaries. ....	108



# Figures

1.	OTML: Purchases of goods 1989-2013 . . . . .	32
2.	OTML: Lanco numbers and revenues 1988-2010 . . . . .	33
3.	OTML: Contract numbers and values by geographic source of contractors . . . . .	33
4.	OTML: Financial benefits by recipient 1984-2013 . . . . .	34
5.	OTML: Proposed Lanco structure 2002-04 . . . . .	35
6.	OTML: SMIHL structure . . . . .	37
7.	OTML: Lanco assets . . . . .	45
8.	PJV: Geographical distribution of contract value 1990-2013 . . . . .	50
9.	PJV: Selected financial indicators for IPI . . . . .	52
10.	Lihir: Payments to contractors . . . . .	59
11.	Lihir: Growth of Anitua 2001-2013 . . . . .	60
12.	Lihir: Idealised structures of Lihir Lancos . . . . .	61
13.	OSL: Payments to Gigira Development Corporation 2004-2013 . . . . .	66
14.	OSL: Payments to Lancos 2002-2013 . . . . .	70
15.	LNG: Shareholdings in HGDC and Trans Wonderland . . . . .	76
16.	Ramu: Idealised structure of Lancos . . . . .	82
17.	Ramu: Actual structure of Lancos . . . . .	85
18.	Ramu: Payments to Lancos . . . . .	86
19.	Hidden Valley: LBD structure . . . . .	93
20.	Hidden Valley: Biannual payments to all contractors . . . . .	96
21.	All sites: Promptness of AR submissions . . . . .	101
22.	All: Survival rates of Lancos . . . . .	105
23.	All: Annual average rate of asset accumulation by Lancos . . . . .	110



# PART I - OVERVIEW

## 1. Introduction

### 1.1 A general introduction

At the December 2014 PNG Mining and Petroleum Investment Conference held in Sydney, the Prime Minister of Papua New Guinea, the Honourable Peter O'Neill, towards the end of his address, called on resource developers in the country to do more to encourage business development among both the people impacted by their operations and in the country in general through:

‘substantial engagement from the outset by new projects and new engagement for existing projects’.

All resource companies commencing operations in Papua New Guinea today are expected to assist in the establishment of, and to offer support and preference to, companies owned by people in their areas of impact. This is relatively unusual in the resource industries world-wide since such expectations are rarely encountered in other jurisdictions; requiring support for *national* business is common, for local businesses is rare. This report is focussed upon the emergence and progress of such ‘landowner companies’ or Lancos, and on the challenges faced and policies adopted by all the stakeholders involved in their development, including government agencies and resource companies.

There is a vast literature on small and medium sized enterprises (SME) world-wide which, for reasons of time, this study will largely ignore<sup>2</sup>. One central aspect of the findings of such literature needs mentioning from the start of this study however: establishing and then growing an SME is difficult. There is considerable argument about SME survival rates; whereas much of the media coverage tends to indicate very high ‘failure’ rates (at 80% in some

cases), several important commentators have pointed out that there is a definitional problem: ‘failure’ in a business is not the same as ‘terminating’ operations. But even when that is allowed for, and even when one also allows for the apparent fact that termination rates tend to be higher for businesses with smaller numbers of employees, the rates are reasonably high. According to one recent study by the Reserve Bank of Australia, of all Australian businesses operating in 2007, 25% of those employing more than twenty workers, 27% of those employing between five and nineteen workers and 32% of those employing fewer than five workers had ceased operations four years later (Connolly et al., 2012). Another earlier study in Australia suggested that once a business survives for four or five years, survival becomes easier (Veda Advantage, 2007), whilst the Australian Government’s Department of Treasury recently rather confirmed that finding when it concluded that whilst SMEs in the service sector had a ‘termination’ rate of 30% and those in the product sector had one of 40% in the first three years of their operations, that rate began to decline after that. Whatever the range of the survival rates of SMEs and however one defines it, all agree that, in general terms, starting up a business is hard and transitioning from being small to any larger size is even more difficult....

....and that is in metropolitan areas of well-off countries. How much more difficult is it to establish SMEs in mountain fastnesses or offshore islands<sup>3</sup> where Papua New Guinea’s mining and hydrocarbon industries are clustered? And where peoples with rich cultures that have enabled them to survive and sometimes prosper but previously without roads, schools, health services or money are expected to become instant entrepreneurs (‘just add capacity building’). Under these specific circumstances, it is asking a great deal

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<sup>2</sup> The extremely valuable Tebbutt report on PNG SME’s was published too late (March 17th 2015) for comparison with this study. However, what is clear from that report is that the enthusiasm shown for small business among Papua New Guineans seen in and around resource sites is repeated across all areas of the country.

<sup>3</sup> With apologies to John Burton who has argued with his usual forthrightness and clarity against the tendency of resource developers to overstate the remoteness of such sites (Burton, 1997).

of all involved - whether in the resource company or in the villages that host the projects – to expect them to have *any* degree of success. It goes beyond that into the realms of churlishness to then add, if by any chance some degree of success is achieved, that such businesses also need to demonstrate sustainability if they are to deserve to be judged successful.

It also needs to be stated at the outset – as a call for ongoing research into the Lanco phenomenon – that both the extent and the complexity of local business developments (LBD) in association with resource projects are very considerable indeed. Nick Bainton, who has worked for years, both as a researcher and mine employee on Lihir, has described the situation of Lancos in association with that island's gold mine as 'byzantine' – almost suggesting that even someone as experienced as he cannot really grasp what is going on. Peter Johnson, who spent six months or more on a study for the PNG National Research Institute on the benefit flows associated with the Porgera gold mine (Johnson 2012) and hoped to include business development as one of such benefits, could ultimately give only a couple of paragraphs to the topic pointing to the grave difficulties he faced in attempting to gather accurate information on it. This was despite the fact that he could estimate that almost 30% of the value of the resources extracted from the mine was represented in business contracts (page 72) and that he concluded that at Porgera business opportunities for Lancos:

*'were only a way of maximising access to financial benefits, not as a long-term source of income' (Johnson 2012, p.91<sup>4</sup>)*

In commissioning the present report, the PNG Chamber of Mines and Petroleum (PNGCOMP) originally hoped that it could cover all operating PNG mining projects and oil and gas fields<sup>5</sup> in a period of forty days. Even allowing for the very generous assistance provided by John Brooksbank in respect of oil/gas Lanco issues and the extension by the Chamber of time allowed for the report, the report writer sympathises with the views expressed by both Bainton and Johnson – the matter is indeed complicated. This study only scratches the surface of a set of issues that has largely been ignored in the past and which is worthy of far more intensive study. Such studies could throw light not only on, what to me is, the ingenuity and adaptability of Papua New Guineans in some of the country's remotest

areas in taking advantage of entirely new concepts and opportunities, but on how the structures of their communities are radically (and sometimes not so radically) adjusting to such changing circumstances.

Local businesses of all types, whether connected to resource projects or not, have flourished, in numerical terms at least, in Papua New Guinea in recent years. When the first 'umbrella company', Cloudlands Investments Ltd, registered with the PNG Investment Promotion Authority (IPA) in November 1975, it was incorporated as '1-5421(local)' – that is, it was the 5421<sup>st</sup> PNG company to be listed. In July 2009, when Sakura Osura Investments – the Lanco representing people around the remote Elk-Antelope hydrocarbons site – was incorporated it was assigned the number 68551. On average, more than five PNG companies per day (or more than seven per working day) had registered in the intervening 34 year period. As at the time of writing this section (August 2014), there are now approximately 110,000 such companies – so the rate of registration has accelerated even more (to over 20 per day) in recent times. This rate of registration is one source of weakness in this report - the IPA has great difficulty in keeping up with the flood of registration papers although that situation is currently being addressed.

Companies associated with resource projects are already astonishingly numerous throughout PNG. Bainton and Macintyre reported some years ago that over 650 Lancos were registered as being based in the Lihir group of islands alone at a time when the adult population was perhaps 6,000<sup>6</sup>; allowing for multiple board members and ignoring, for the moment, women, perhaps one in five or more of adult males could claim to be company directors. At Porgera, at present the company regularly deals with 300 local contractors and its business development staff estimate that there are at least 1,000 other 'companies'<sup>7</sup> in the area – which would suggest that perhaps one in every ten adult males there could claim to be a company director. In one graticular block (83.5km<sup>2</sup>) on the Moran Field, Oil Search investigators established that approximately 300 Lancos (or business groups) existed.

It might be imagined that the great majority of these companies are inactive or have failed. This may be the case but without carefully sifting through the IPA records (itself, as will be seen, not a simple task), one

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<sup>4</sup> This view (or rather the view that maximising access to [short-term] financial benefits) will be, to some extent, challenged in this report

<sup>5</sup> Mines: Ok Tedi, Porgera, Lihir, Hidden Valley, Tolukuma, Ramu Nickel and Simberi. Oil/Gas: taken as a single project.

<sup>6</sup> By the end of 2013 there were 9,152 Lihirians aged 18 years and over.

<sup>7</sup> 'Entities' would be a better word since most of these 'companies' at Porgera (see below) turn out not to be formally registered as companies.

should hesitate to reach this conclusion. It may equally NOT be the case. The Lihir project classifies its Lancos under five broad headings. One of these headings refers to 'Specific Issues Companies' and it includes 271 companies or groups, of which 141 are listed with the IPA. Virtually none are 'inactive'; if they do not have contracts of their own, they are busy knocking on doors seeking them. Further, the six major clans on Lihir between them control close to 30 companies all of which are active. So 'inactivity' probably does not explain the remarkably high number of registered businesses. It seems safe to reach the rather interesting conclusion that there is probably a higher proportion of the populations of Lihir, Porgera and probably all PNG resource sites who can genuinely claim to be Company Directors than is the case in more famous commercial centres such as London, Zurich, New York or Melbourne.

One should also note in passing that the Lihir and Porgera examples illustrate the fact that there are hundreds of groups or associations that are not listed with IPA who see themselves as being involved, or wishing to be involved, in business. **In other words even the impressive IPA data sets understate the eagerness of people in PNG's resource areas to be involved in business<sup>8</sup>.**

## 1.2 Defining a Lanco

For the purposes of this report a Lanco is defined as:

- a limited company (thus excluding Business Groups or other unincorporated entities) which is...
- ... recognised by a resource project operator as a local contractor/supplier (and there are several cases where such recognition seems to have been granted to companies that may not meet other conditions)....
- .... as being largely under the control of local people ('local' as defined by the applicable agreement)....
- .... which provides services to, and fulfils contracts awarded to them by, the resource company (as opposed to companies that do not depend on funds from the resource company for their operations).

This is a very limited definition which many would disagree with. It excludes business groups; it includes

some companies that on close inspection should not really be classed as 'locally controlled'; it means that what is not considered a Lanco at one stage of a project might become recognised as such as the impact area of the project changes; and it excludes many entities owned by landowners whose establishment was facilitated by and whose continued existence remains heavily but indirectly dependent on the resource company.

Further, unless a Lanco has a direct link with a resource company it is also excluded from this study. This is of considerable significance for quite different reasons.

- a) For the purely pragmatic one that in the time available for this study as many limits as were reasonably possible had to be imposed on the companies to be included;
- b) Because even if unlimited time were available, a precise but all-inclusive definition of a Lanco would prove difficult to arrive at;
- c) Unless such a link exists, then it is difficult to know if the 'Lanco' owed its origin and/or ongoing support to the resource project.

In this last case, one might point to the fact that there are scores of small business entities operating in and around Kiunga (for example), from whence the OTML product is shipped, or Porgera that are owned by landowners from that area (as well as many others that are owned by migrants, including foreigners, to the town) and that would not exist if OTML or PJV were not operating<sup>9</sup>. Ideally, these – when owned by local landowners – might have been included in this study, since they are businesses, developed as a result of a resource project by persons who were resident in the project impact prior to the arrival of the project (and, therefore, must be defined as 'lancos'). In fact, the remit for this study, as outlined in its Terms of Reference (see Appendix B), did suggest that they be included, but the time available for the study was simply inadequate to cover them.

The major implication of the adoption of this definition here is that this study **understates the significance both of the benefits of the resource industry to not only the local but the regional and national economy and also understates the significance of small businesses in resource project areas.**

It is debatable whether the investment arms of landowners fit this adopted definition. Most of those

<sup>8</sup> It is beyond the scope of this report to investigate why there is this zeal for individual business in PNG communities but the established strand of work by economic anthropologists started by Finney and Salisbury should be noted.

<sup>9</sup> The situation has become more complicated as oil and gas companies have met with success in the region. But in the late 1970s, just before OTML started operations, only half a dozen companies (at most) were based in Kiunga.



managed by the Mineral Resources Development Company [MRDC] have boards of management dominated by non-landowners and fall outside the definition adopted; in these cases, the MRDC entity managing the landowners' funds has more in common with a bank or other financial management agency – and such organisations would surely not be classified as Lancos even under the broadest definition of the term. But at least one investment company, MRL Capital, is entirely (since early 2008) owned and managed by the Lihir landowners; MRL Capital clearly would fall within the definition. Consequently, a special, brief section of this report is devoted to such investment arms where all MRDC management companies will be described insofar as the data available allows a description to be made.

One other point needs to be made here (and it will not be mentioned again elsewhere in this report): Lancos are about commercial business not *bisnis*. The latter word may often be glossed as the Tok Pisin equivalent of the English word; but the equivalence is not exact. Just as the English word 'business' does not always refer to commercial dealings, so *bisnis* frequently refers to political or social activities. As Nick Bainton put it to me in correspondence arising out of this study – “even if a ‘business’ fails, the ‘*bisnis*’ may be successful”. The report has deliberately ignored *bisnis* for two reasons: a) I don't claim to be an anthropologist and b) the report is solely concerned with commercial aspects of LBD even if this might appear culturally insensitive.

### 1.3 The need for caution in the interpretation of this report

The writer is aware of numerous reasons why findings in this report – and indeed the data on which such findings are based – have their flaws and must be regarded as largely tentative. Here are some of those reasons:

#### 1.3.1 Sample size

In Appendix A of the report details of approximately 130 Lancos are shown. Although that Appendix includes all the largest of Lancos, the number shown is a tiny percentage of the total number of IPA-listed resource project Lancos that are believed to exist (perhaps 5000) and an even smaller proportion if groups not listed by IPA were to be allowed for.

#### 1.3.2 Audited financial data

Under Section 171 of the PNG *Companies Act*, smaller, 'exempt' companies may opt not to have their accounts independently audited. The great majority of Lancos exercise this option, are classed as exempt companies and thus do not produce audited information. The sort of business analysis usually done on companies world-wide can really only be done of a small minority of PNG Lancos. But even for these normal analysis is problematic, because their shares are not publicly traded and their market value is thus not readily calculable.

#### 1.3.3 Data sources

Four sources of data were used in the compilation of this report. None can be regarded as either full or entirely reliable. They were:

**1.3.3.1 Interviews with Lancos:** Forty-seven interviews were undertaken with the bulk being with OTML, Ramu Nickel and Porgera businesses<sup>10</sup>. This enabled their offered details to be compared with those on the IPA website. In general, frequent nonconformities were uncovered in such a comparison, partly because of delays in the entering of data on the IPA site, but more often through inaccuracies in interviewees' statements. Despite this, the interviews were very valuable in giving a human picture of the struggles many Lancos had gone through; a genuine sense of commitment was transmitted in the great majority of cases. It should also be stated that in a handful of cases, it appears that the interviews might have been granted as a means of exhibiting an apparent willingness to participate in the study without in fact providing any information.

**1.3.3.2 IPA database:** This is an extremely valuable source. It is likely to become even more useful once the current IFC-funded assistance program to the IPA is completed. At the time of writing (third quarter, 2014), the IPA cannot process the Annual Returns that all registered companies are supposed to submit to it within six months of the end of their financial year. This means that in some cases Lancos have actually produced returns but they do not appear on the website. This situation should be cleared up by mid-2015 by which time all registered companies will be required to have lodged up-to-date Annual Returns. One implication of this (if the program is successfully carried out) will be that fuller and more accurate data will be available in late 2015 in regard to LBD than was

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<sup>10</sup> The availability of Lancos for interviews depended heavily on the willingness of project staff to arrange them in advance of the short visit made by the consultant to the sites. Staffing resources in some instances made such a task excessively onerous at several sites, while at some others (oil/gas) there was simply not enough time to even attempt many interviews. Special acknowledgement must be made for the efforts of Gibson Na'au (Porgera), Stotick Kamya (Ramu Nickel) and Francis Chibelle (OTML) in this regard; Francis even interviewed ten companies for inclusion in this report when the field visit by the consultant had ended. It should also be noted that the Lancos at Ramu Nickel were especially well prepared for the interviews presenting more and fuller information than those at any other site.

available at the time this report was being prepared. On the IPA site there are occasional contradictions between the stated date for the last submission of an Annual Return (on the General Information page) and the date shown on the Filings page. It is not always (or often) possible to tell whether the absence of an Annual Return on the IPA site is due to its non-entry by IPA or non-submission by the Lanco.

A much more significant weakness, in terms of data gathering for this project, arises from the fact that many companies do not submit Annual Returns in the timeframe required under the IPA's rules, often being many years in arrears. The evidence on the IPA site itself suggests that only when companies are issued with ultimatums (attached to the threat of de-registration) do most feel it necessary to comply – and submit several years' worth of returns all at once. Some of the very largest Lancos are several years behind in their AR submissions. The large number of 'nil AR' in Appendix A is partly due to the fact that many of the gasfield Lancos are of recent origin, but, even so, this only accounts for a small portion of the delinquency in reporting. While there are existing provisions for IPA to de-register nonconforming companies, this seems to occur only rarely.

Important obstacles to data gathering via the IPA website arise from the provisions of the *Companies Act* (1997). The principal one is the provision in that Act that allows companies to dispense with the need for independent audits providing that at least two of the following three criteria do not apply to them:

- Total assets of more than K5m;
- More than 25 shareholders;
- More than 100 employees.

Very few Lancos have more than K5m in assets and more than 100 employees and most do not undergo independent audits and do not submit audited financial statements to the IPA – they simply provide an Annual Return where the only financial details included are the Lanco's assets and liabilities in a simple summary form. No other significant financial details are included in the Annual Return. So, for the great majority of companies shown in Appendix A very limited financial data is made available in the IPA records. However, almost by definition most Lancos do have more than 25 shareholders – at least nominally so. **So one potentially (and in several cases actual) unlooked for consequence of the exemption provision is that communities who are supposedly the owners of Lancos cannot be assured that independent audits of their companies' finances are carried out. They have to place their trust in their directors and, human nature being what it is, sometimes that trust is not justifiable.**

Further, even those Lancos which do submit Financial Statements, based on independent audits, can avoid disclosing some of their financial details under Section 212 of the Act, for example payments to and fees earned by directors (in addition to being, frequently, late in being submitted).

**It is arguable, but it may be possible, that a Lanco could avoid such a situation as has just been described without the need to amend the *Companies Act* simply by laying out in its constitution that, regardless of any provisions in national laws, their company shall have independent financial audits and shall release to its shareholders the details of such audits which shall include directors' fees and expenses. It certainly seems to be desirable that this be done.**

Nevertheless, the IPA records represent an extremely valuable source of data and could be used for further (and more in-depth) research into the workings of Lancos and other businesses across Papua New Guinea.

**1.3.3.3 Resource company records:** Presumably all companies keep precise records of what funds they pay out for awarded contracts. Yet not all companies have been able to supply such data to this study (irrespective of any willingness or reluctance to do so). Increased demands have been made on companies by governments and various international agencies to report a wider and wider range of data and one hesitates to ask them to extend that range even further.....but, there is clearly inconsistency across operating companies in PNG in the reporting of local business development within their areas of impact. One reason for this may well be that PNG emphasis on LBD is, as noted earlier, significantly greater than it is in most other operating environments; so what is demanded in terms of data requirements of companies by the international community tend not to give the emphasis on LBD that is adequate for PNG circumstances. This is unfortunate not merely for the parochial purposes of this study but because – as the study attempts to show – NOT reporting such activity does a disservice to the benefits the resource industries create and, further, by leading to an understatement of resource industries' impacts and linkages, helps perpetuate the stereotypical view, widely held and constantly re-circulated by many commentators, that resource projects are isolated, sealed-off enclaves with little positive ties into national economies.

Where companies have made considerable effort to collect data on local business development (and Ok Tedi and Porgera deserve credit for having done this) there appears to have been a falling off in the integrity and accuracy of that data in recent years. Only Oil Search was able to provide this study with a full

and internally consistent (and therefore presumably accurate) set of contract payments by year to specified Lancos (though Ramu, Simberi and PNG LNG have also provided overall data). Partial data is available for Porgera and Ok Tedi. It would seem desirable that it be compulsory for resource companies to make public such information, providing that this does not breach commercial confidentiality. The most obvious central location for such data to be compiled would be the Chamber<sup>11</sup>. In any case, the Chamber, if it is to properly do its work of representing the industry, should be supplied with such information.

#### 1.3.3.4 Anecdotal/accidental data collection:

This has been more common than might at first be imagined. For example, in order to search the IPA site the exact name of the company looked for must be known (in many cases). Consequently, a mention in one Lanco record of another (as a part owner or as a JV partner, for example) is often the way in which

reasonably significant Lancos, not mentioned in resource company records were located. The Business Enterprise Centre's annual reports also provide useful insights into Lancos.

**1.3.3.5 The reader should bear in mind that this report only deals with data that have either been voluntarily provided by resource companies and Lancos or is already in the public arena (normally the IPA website).**

## 1.4 The Study's TOR

The Terms of Reference for this study are shown in Appendix B. In the light of the comments made above regarding constraints on data collection the following table shows in summary how such challenges have, in the opinion of the writer, impacted on the completeness of reporting in this study on the individual items specified under item 2 of the TOR:

**Table 1:** Assessment of report's fulfillment of TOR Requirements

TOR Group	TOR Item	Quality and source of data in the report
Business	Structure	Adequate; IPA records supplemented by interviews where undertaken
	Location	Good; IPA
	Size	Good; IPA
	Diversity	Fair: only available for interview; IPA records cannot show this
	Subsidiaries	For main companies, good; IPA Financial Statements
	Joint Ventures	For main companies, good; IPA Financial Statements
	Number directors	Good; IPA
	Management	Weak; IPA data rarely covers this. Interviews only
	Start-up aid	Fair; interviews, press reports
	Future outlook	Fair but only for interviewed companies
Board	Composition	Good; IPA records
	Turnover of members	Good; IPA records
	Background	Weak ; interviews only
	Training	Weak ; interviews only
	Board fees	Weak because even some of those with FS do not disclose
	Gender	Fair: IPA ARs – but depends on name being identifiable as M or F
Compliance	Compliance	Fair in terms of punctuality of reporting to IPA (which is the main indicator of transparency available); weak in other respects
	Constitution	Very good – but usually in the sense that most do not have one

<sup>11</sup> Only after this conclusion had been reached did the consultant become aware that the Chamber staff have been circulating annually a request to members to provide basic statistical data of this form – with limited success – for many years.

**Table 1: Continued**

<b>TOR Group</b>	<b>TOR Item</b>	<b>Quality and source of data in the report</b>
Financial	Turn over	Not good; good only for interviewed companies and those with FS
	Profit	Only available for those with FS
	Dividends	Only available for those with FS + some interviewed
	Dividends policy	Weak; some interviewed companies only
	Assets and liabilities	Good from IPA ARs – but many ARs are not punctually lodged
Shareholders	Numbers	Good from IPA ARs
	Origins	Fair from IPA ARs – but place of residence does not tell the origin
	Gender	Fair from IPA ARs – but depends on name being identifiably M or F
Employees	Numbers	Good from IPA ARs
	Expat/PNG	Good for larger companies only
	PNG origin	Weak
	Gender	Fair only for larger companies; not available from ARs
	Training	Weak
History	History	Quite good; many clues in ARs. Good for interviewed companies

## 2. General Matters Relating to Local Business Development

### 2.1 The emergence of LBD policies

The establishment of local landowner businesses in association with PNG resource projects can be traced back to the 1979 study, Impact of the Ok Tedi Project (IOTP), of which the present consultant was a co-author. That study urged the PNG Government and Damco<sup>12</sup> to support Lanco development as a matter of fairness to local landowners in the Kiunga and Telefomin Districts. 'Fairness' because such landowners, under the then prevailing conditions, were not guaranteed more than a small amount of direct income (other than compensation for damage) from the project – a mere one-twentieth (5%) of project royalties, for example, would flow to them under the then arrangements with 95% going to national government.

Looking back, it is clear that the concept as then proposed was not as clearly thought through as would have been desirable. There was no consideration of some of its longer-term implications:

- What (and whose) were the responsibilities if a Lanco ran into financial difficulties?
- For how long should local companies have preference in the gaining of contracts (for ever?)?
- Given the remoteness of the area, was it not inevitable that such Lancos would be entirely dependent on the resource company as their sole customer? And, would not this simply add to the local community's dependence on the project?
- Why would local people want to work for Lancos (except as bosses and board members) when they might have priority in better paid employment with the resource company itself? Would not this automatically mean that most Lanco workers would probably be migrants?

More than thirty years and lots of experience later, it is by no means clear that the answers to these and other questions have been sorted out even now or that different resource companies and government agencies are agreed on the answers.

Not only were there significant weaknesses in the concept of LBD and Lancos championed in the IOTP, but it was implemented in the specific, local circumstances of the time and of Ok Tedi's geographical setting. No-one at that time imagined the emergence of a future Anitua or IPI landowner company with branches across the country (and internationally). 'Sustainability' was not an issue in the mining industry (or in most other activities of the time) in 1979; improving the share of immediate benefits flowing to local people was the key challenge. Even within the context of OTML itself, it was not envisaged at the time that the impact of the project would spread all the way down the Fly River; it was thought then that giving preference to two whole Districts (Kiunga and Telefomin) was perhaps spreading the benefits too far.

In short, the 1979 Ok Tedi model for LBD was time and place-specific and was not especially well-thought out. And yet, although the model has evolved somewhat over time, its essential emphasis on the right of local impacted people to be supported in efforts to establish their own businesses which receive preferential (some would say cosseted, risk-free) treatment, has become embedded in project development thinking in PNG. This principle is probably unassailable but the specific applications of it do not *seem* to have been much thought about in the more than 35 years that have elapsed since IOTP.

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<sup>12</sup> Damco = Dampier Mining Company the wholly owned BHP company that represented BHP in the earliest stages of Ok Tedi development.



## 2.2 The challenge today

The wording in MoAs relating to resource project obligations regarding LBD remain more or less the same as those that were developed for the Ok Tedi project; if anything they offer less guidance to the project developer now as to what is expected of them than was the case thirty years ago. No guide is available for developers to follow in implementing their programs that will fulfil their obligations in this regard.

Such a guide would need to combine general principles with implementation guidelines that take account of the specificities of each project; **such a guide is urgently needed even if one size will not fit all.** For example, it is fairly evident that the sort of business development program that could reasonably be expected to be implemented at, say, Porgera, a large, long-life mine would not be appropriate at, say, Simberi, a much smaller, short-lived project. While LBD might be a major plank in a sustainability policy for the former, would there be sufficient time or resources during the life of a small mine for LBD to have any chance of success? Might not it be better to establish both immediate and sustainable benefits at smaller projects by means other than LBD or by a different form of LBD? Similarly, it is apparent that the LBD model applicable to a large gold project would not necessarily be as applicable to a large gas project – given the contrasting nature of expenditure and staffing patterns of these two types of resource projects. The PNG LNG has indicated how important it is for Lancos to capture project benefits during construction – and, incidentally, set an extremely high standard in doing so. But is it realistic to expect all future resource projects, regardless of their size, to match the sort of attention that ExxonMobil were able to pay to local business development? It is hoped that this study will stimulate some debate as to the future nature of project approaches to LBD.

## 2.3 How is the success of a Lanco to be measured?

In this report, Lanco results are presented and discussed, for the most part, in relation to revenues, profits, net assets and other accepted measures of financial progress. Ultimately, such a focus is entirely reasonable since a company that does not continue to make a profit will go out of existence and, therefore, be unable to meet any other markers of success. However, is profit the sole rationale of Lancos? And if so, is the aim, as Johnson stated in his study of Porgera, not so much to achieve sustainable profits but to maximise flows of revenue to people impacted by resource projects during the lifetime of the projects? If

profit is not the sole aim, what are the other aims? Are these aims stated? It would seem absolutely critical that every Lanco that intends to have aims that are not solely commercial or are designed to benefit a selected portion of the public, should specifically say so in its own specially designed constitution – yet, as will be seen, although the overwhelming majority of Lancos have very restricted share-ownership rules and although many of them are managed in ways that imply a somewhat modified approach to commercial norms, they do not have such constitutions and therefore do not spell out their rules.

Perhaps the most important question is: Whose aims are we discussing when trying to measure Lanco success? Such a measurement of success must be made in the context of the goals the stakeholders in LBD have in mind when they establish, or assist in the establishment of, local businesses; in particular success needs to be measured against the aims of the landowners involved. To do this, it should be noted, one is not being patronising to locals involving themselves in business in demanding that their expectations, rather than some rigorous and universal commercial standard, be the basis for assessment. But the following observation is relevant:

*‘Venture failure will invariably [need to] be referred to the perceptions of the owner that is involved. As a result failure exhibits more subjective than objective qualities’*

because it was made by an institution not especially well known for deviating from rigorous, universally applicable commercial standards, the Australian Federal Department of Treasury (op.cit. 2012).

Unfortunately, it can be stated at the outset of this report that it remains very unclear what either resource companies or landowners seek to gain in establishing and supporting LBD other than obeying the conditions of their operational MoAs or maximising their access to financial benefits respectively. In fact, it seems clear that the resource companies need to start planning and implementing a local business development plan well in advance of the signing of any MoA (which is not applicable until construction has already started).

It can also be remarked here that resource companies operating in PNG, even if privately they may have severe reservations at taking on the challenge of supporting Lancos, rarely, if ever, complain about this aspect of PNG policy even if they are vocal on many aspects of mining policy overall. This suggests, at the least, that the resource companies accept their responsibilities in this area, and further, that perhaps they see some benefits for themselves in this requirement. Indeed, one specific advantage that local businesses have over

non-local ones – irrespective of preferential treatment – is that some of their costs, labour mobilisation and on-costs, may in fact be lower.

It was – at least until very recently - equally unclear what government's aims for LBD have been. When one looks at the State's actions in regard to LBD over the years, from the start of Ok Tedi (when the State gave no financial support to LBD) to the commencement of Ok Tedi's much smaller near neighbour, the Stanley Project (where the State handed out K30 million as 'seed money' for business groups) it could be suggested that the policy is a purely pragmatic one: do whatever it takes to get landowners to agree to get projects underway. In defence of the State, one could in response argue that such a policy has worked – would the PNG LNG be shipping gas exports, as it has now been doing for some months, without the State having invested so heavily in LBD? Fortunately, we now have clearer guidance – the government is placing a heavy emphasis on the development of small and medium-sized enterprises being developed and wants to see the resource companies help in this process.

Further, landowners themselves, in the course of the interviews carried out as part of the study, indicated that they have very mixed motives, and they appropriately demonstrate that mixture in their management of Lancos. If Lancos stated their objectives in their constitutions the situation might be clearer but, in fact, of the companies examined in this study (as shown in Appendix A) less than a quarter opted to state their goals in their own constitution.

In short, it seems that few of its stakeholders have a clear concept of how a Lanco's success should be measured.

Here are some of the criteria by which the success of a Lanco can be assessed from a resource company's viewpoint:

- i) Does the company's support for LBD enhance and strengthen community support for the project? To do this it must presumably be seen to have benefits for the majority of the community. If a Lanco fails, then it seems likely that unless the resource company helps it recover, the strength of its grip upon its 'social licence' will in fact weaken. Conversely, a Lanco that has extensive growth and profits but does not pay dividends or make significant contributions to its base community may also weaken the company's support from the community because they see no benefits and blame the resource developer for this. For LBD to contribute to maintaining 'social licence to operate' (i.e. not having operations

stopped or interrupted) then, it seems reasonable to conclude, resource companies will need to monitor its outcomes carefully, to protect their own interests.

- ii) A key aspect of such monitoring would be to establish if Lancos are being managed according to the established rules of commerce and properly governed. If they are, then it might be presumed that the balance between being successful commercially and spreading the benefits across the base community would be achieved if as many people in the community as possible were shareholders, if they were paid dividends regularly and if they – as shareholders – were able to vote at regularly convened annual general meetings. In other words, the 'normal' company rules could apply and would work, providing shareholding was spread widely amongst the base community and if this could be maintained by restrictions on who could acquire what amount of shares. However, what sorts of sanctions could be brought against errant Lancos – even if their shareholder base was both widely spread across the community and restricted to that community – whose directors do not face regular re-election, do not pay dividends, do not reveal the generality of the Lanco's accounts (let alone details thereof)? The resource company may have the responsibility to help establish and to support Lancos but it has no authority whatever to close them down. Even if it attempted to apply sanctions against what it considered to be poor governance by, for example, no longer awarding contracts to an errant Lanco, it could expect a severe backlash since Lanco directors are often local, political leaders. This is not to say that such sanctions should not be employed – only to warn of the difficulties likely to arise when they are.
- iii) Can a Lanco fulfil the contract work assigned to it efficiently? Ideally, could efficient Lancos cut project costs? How much does the commitment to support LBD cost? There appears to have been no research, whether inside or outside resource companies, to establish the answers to such questions. Yet it would not be too difficult to arrive at partial answers – what is the cost of hiring BD staff? What, for established projects, has been the total cost of rescuing Lancos that have been considered too important to fail? And it might also be possible to calculate roughly, by looking at different projects, what the cost of undertaking a specific sort of service task has been when undertaken by a Lanco or a contractor from outside the impact area.

- iv) Can LBD be a significant part of sustainable closure planning? Is it likely to make a bigger or smaller contribution than in-house training, or an MRDC-style investment? Can the business skills absorbed during mine life be extended to business after mine closure?

These are critical and practical, not theoretical, questions. One of the motivations for the present writer in undertaking this study arose from a desire to see if these questions had been answered over the many years since Lancos were first established in the PNG resource industry in the late 1970s. It was a personal (as well as a public) matter for one reason: I, together with two colleagues, Craig Emerson and Robert Welch, played a small role in establishing Lancos in the first place – and we asked ourselves those and other questions, but were unsure of the answers to them, 35 years ago, when we compiled a report on the possible impacts of the Ok Tedi Project. When I began the present study it seemed to me that the specific circumstances of Ok Tedi development had had a key influence on the proposals for Lanco development made in our report of 1979-80, but even though those circumstances have not been fully reproduced at later projects, the basic model for Lanco development there seemed to have been (roughly) followed at least until the agreements for the PNG LNG were arrived at quite recently.

In short, one of the aims of this study was to see if over the years greater clarity in the answers to the questions just posed had been achieved.

## 2.4 Some recurrent themes

The body of this report deals with LBD on a site-by-site basis. This tends to emphasise the individual characteristics and challenges of LBD at each site and, simultaneously, to leave it to the reader to spot generic features. At least five general and intertwined themes which keep on turning up in the site studies are worth indicating from the start.

### 2.4.1 The ‘weak links between mining/hydrocarbon industries and the national economy’

Most of the literature produced within the resource industries is technical in nature and, thus, of little general interest to the wider public. Most of the material that is of public interest concerns social and environmental matters, is produced by academics, international agencies and NGOs, and is generally

critical of the industries. One may be reasonably sure on picking up an article on mining or hydrocarbon activities by such outsiders that it will contain serious criticisms (if not flamboyant denunciations) of those industries. A number of ‘truths’ about the industries are taken as read by the great majority of academic and media commentators (and through them by the general public)<sup>13</sup>. It is not argued in this study that such ‘truths’ are in fact absolutely false but rather that they are neither fully true nor are they entirely universal; they need to be modified where local conditions take off some of their sharper edges.

One such basically valid ‘truth’ but one which is not the whole truth in PNG circumstances is that of resource industries’ links with the national economy. It is almost always said of the mining industry that its links to the wider national economy of the countries in which it operates, especially if that country is relatively poor in economic terms, are weak and, consequently, it has a small multiplier effect – that is, the industry does little to stimulate other forms of economic activity within the country in which it is located. In general terms, this argument is a valid one. But it is worth making three points regarding the situation in PNG. First, almost any economic activity in the country (other than small scale agriculture) which requires significant investment is likely to have to import either the investment funds or to use those funds to import equipment and human resources in order to proceed. Mining and oil/gas extraction is not all that different from any other activity in this regard (something which is rarely, if ever, mentioned). Second, in PNG all mining and oil/gas projects are contractually obliged to maximise their purchases from within the country. Even if those purchases ultimately are sourced from abroad, this means that value is added internally not merely in terms of profits earned by PNG-based companies but also in terms of expertise and skills in the supply and logistics sectors. Third, when one starts to examine LBD at resource sites, then one also starts to question, not the basis but some aspects of this ‘lack of linkage’ concept. If only because of the numbers of people employed in LBD – both at site within the impact area of the project and beyond it at urban centres around PNG. In short, this study will indicate that the resource industries have greater linkages to the overall economy than they are generally given credit for although this is not to say that even greater multiplier effects could not be achieved.

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<sup>13</sup> The present writer’s favourite stereotype is that which portrays any mining company as a ‘giant multinational’ Goliath in contrast to the community in which it operates as a gallant, powerless David. This comparison does not take into account the fact that the original David was far from powerless – indeed was almost certain of victory – when one considers Who was on his side. Whilst He (or She) may not be on the side of landowners at resource projects, to portray such landowners as powerless is just silly.

#### **2.4.2 Since projects need to develop LBD the very different circumstances (size, capital involved, project location, project life span etc.) it is unlikely that one size of LBD programming will fit all**

Some projects have won a reputation for excellence in their development of local businesses and national content planning while others seem to lag behind. The laggards need to lift their game certainly BUT it will become evident in the following pages that excellent programs cannot readily be shifted wholesale from one project to another. Small mines with a life span of ten years or less cannot implement LBD programs that large mines with long lives can. Further, given that the nature and timing of expenditure and business opportunities in the oil/gas industry are significantly different from those in the mining sector, rather different plans need to be drawn up for the two types of industry.

#### **2.4.3 What is the prime purpose of LBD?**

This has already been touched upon above but it needs to be stressed that different projects (and sometimes the same project at different periods) have different views as to why they are involved in LBD. In generalised terms, LBD is seen by some as part of the process of winning social licence (and is therefore a community relations function) while others see it as part of a long term program of sustainable development, of the creation of new, independent, stand-alone commercial entities (which makes it more of a purely commercial function). These polarised views of LBD imply different implementation strategies. The 'social licence' approach implies the ongoing responsibility of the project for LBD entities associated with it and also implies that LBD is primarily one aspect of community relations which has very significant implications for the relations a project has with the community. The obvious drawback to this approach is that it may provide a disincentive to local businesses efficiency insofar as some may feel they can always fall back on the project developer if they don't manage their businesses particularly well.

The 'sustainable' approach implies a hands-off attitude on the part of the project developer and implies that LBD is undertaken on purely commercial grounds (and therefore requires little involvement of community affairs staff). Given the very large sums of money involved (as will be demonstrated later in this report), there are very good grounds for such an approach. But its drawback is that it seems inescapable that businesses developed in the remote areas in which most projects are located could never develop at all if a purely 'hands off' approach is adopted and, further, that any failure of a major project-connected business

will, equally inescapably, reflect poorly on the project itself and require the project to step in.

The answer to this dilemma seems to be that whilst both approaches will be necessary at all times throughout the life of a project, their ratios of input will vary. That is: that LBD's significance in terms of community relationships will need to be especially strong initially – and remain strong until a degree of self-sustaining capacity has been developed by local businesses. Conversely, whilst the principles of good commercial governance MUST be insisted upon from the very start of any local business development program, it will need to permit a degree of subsidisation if any success is to be achieved. As time passes and (if) self-sustaining capacity is achieved then commercial principles will steadily come to dominate all aspects of the program.

In the descriptions of actual practice that follow two issues that arise from this are worth looking out for:

- What sort of LBD philosophy seems to predominate at different sites? Is the 'ideal' situation just outlined followed or does the approach tend to follow either one approach ('essentially community affairs') or the other ('essentially a purely commercial approach')? Has any project switched between the approaches over time?
- Are there any signs that the original commitments made by resource companies in the area of LBD are modified over time? Or, do they remain constant over the whole life of a project? For example, assuming that the resource company has fulfilled any commitment to give priority to immediately local interests in LBD, are there cases where, once some success has been achieved, such preferential treatment is wound back?

#### **2.4.4 LBD is only one component of local impact area development; what should be LBD's weighting within an impact area development program?**

Resource companies provide employment and training, pay compensation, taxes and royalties, and involve themselves in a wide range of community investments both through the TCS and their annual community budgets, in addition to developing local business. What, at any specific site, is the optimal mix of such activities? Is it the same at all sites? Would investment at Site A in community infrastructure be a more efficient way of achieving both short-term and sustainable development than any other form of input whereas, at Site B, greater emphasis on training or LBD make more sense?



#### **2.4.5 Over the life of a project community needs will change: how should community development programs, including LBD, reflect this?**

The expectations of an impacted community change as a project develops; in an extreme form such change might become one of Colin Filer's intergenerational time bombs. This, of course, is one reason why almost all project MoAs include clauses providing for periodic reviews of community development inputs or 'integrated benefits packages'. In the case of LBD, this raises the question of the life expectancy of guarantees of local business prioritisation: at what point do any original MoA provisions under which local businesses have priority have priority start to lapse – or do they last for the lifetime of the project?

### **2.5 Layout of this report**

The remainder of this report consists of three sections:

- a) A brief analysis of the larger and more active investment subsidiaries under the management of the MRDC.

- b) A description of the present circumstances of Lancos at each major resource project. The projects are discussed more or less in order of the date of their commencement although the oilfield development under Oil Search Ltd and the PNG LNG project under the leadership of ExxonMobil are combined as one.
- c) Arising out of the individual site description, there follows a section that attempts to draw together common experiences, challenges and possible lessons and which also goes back to some of the questions asked in this introduction and attempts to answer them, together with a set of suggestions for possible improvements in the ways resource companies, government agencies and Lancos themselves might work together.



## 3. The Investment Arms of MRDC

### 3.1 Introduction

MRDC cannot be regarded as a Lanco yet it manages most resource landowners' funds derived from their equity holding in projects (and some other assets). Consequently it is included here as a separate item.

### 3.2 MRDC details – albeit outdated

When Kennecott withdrew from the Ok Tedi project in 1973/4, the responsibility for the site was taken over by a specially formed, wholly owned government body, the Ok Tedi Development Company. Once Damco (the local BHP subsidiary) took over Ok Tedi management, OTDC was renamed the Mineral Resources Development Company (MRDC) for the original, specific purpose of taking over the planning of the use of land allotments in Kiunga which were set aside by the Department of Lands for later allocation to local businesses, in line with one of the recommendations in the Impact of the Ok Tedi Project report. Many other proposals were made for the ongoing future of the MRDC, but when the Porgera landowners successfully negotiated for a share of the equity in that project in 1989, it was agreed that MRDC would take on the role of helping landowners manage the investment of their share (and that of the Enga Provincial Government) of these benefits. Lihir landowners followed the Porgera lead and in 1995 Ok Tedi landowners and the Fly River Provincial Government (FRPG) were, belatedly, also granted a similar share in the OTML equity (although, unlike the Porgera case, the Fly River Provincial Government and landowners' portions have always been kept in separate accounts). Oil and gas landowners similarly have been assisted in the investment and management of their dividends by MRDC.

At first sight it might appear that MRDC is solely an investment management agency and as such is not much more of a Lanco than would be any other organisation into which landowner funds were deposited for investment, such as a bank. Several

features do, however, distinguish MRDC from such other financial institutions:

- It is a government statutory body
- All the funds it manages are derived solely from resource projects (and the funds it makes from investing this capital)
- Further, it is not solely an investment agency; the outcome of a complex problem over the future of two of Ok Tedi landowners' largest companies, Tabubil Engineering and Fubilan Catering Services, was resolved by placing them under MRDC management.
- Importantly, the directorships and shareholding arrangements of the individual MRDC subsidiaries do vary to some extent. In some cases the arrangements suggest more or less full MRDC control, in others they suggest landowners have most of the responsibility for managing the subsidiary. In such latter cases, there is a strong case for arguing that they are landowner companies. For example, whereas the board members of Petroleum Resources [PR] Gobe are three MRDC employees, two Provincial politicians and one landowner, Porgera landowners have three of the six members of Mineral Resources [MR] Enga and, given the closeness of their common interests with the Enga PG, which also has two representatives on the Board, apparent control of the company.
- In one case, landowners have decided to run their own investment fund; Lihir people took what had been Mineral Resources Lihir out of MRDC in 2008 and now manage it entirely independently.

None of the publicly available MRDC data are particularly up-to-date; the last time MRE reported to IPA was at the end of 2007 – at which time it was doing very poorly. Because the gas project has only recently commenced (plus the fact that MRDC does

not report very promptly) means that there are very few data available for those gas resources funds managed by MRDC<sup>14</sup>.

It is unfortunate that MRDC was not able to release more up-to-date data (although for a minority of the companies shown data for 2010 - and for one or two for 2011 - are in the public domain) if only because since 2009 the Gas Resource companies have taken off and may well already rival, or have surpassed in terms of assets, those possessed by the metal mining funds. It is also a pity that in the absence of more up-to-date information, it would appear that MREnga (and thus one of the most important sources of funding for

sustainable development at Porgera) had close to zero assets when it last reported in 2007<sup>15</sup>.

A third reason why the absence of more up-to-date MRDC data is unfortunate is that despite the many public criticisms that have been made of the organisation and despite the fact that it has made some unfortunate investments, in general its performance has been not bad - especially when compared to that of the use to which other forms of mining benefits have been put.

Finally, the tardiness of MRDC in submitting reports to IPA hardly sets a good example for lesser companies.

**Table 2:** Net Asset Value in US\$ of some major MRDC resource subsidiaries to 2009

Company	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>MR Enga</b>	15.3	15.1	13	12.6	16	18.3	14.9	2.7	3.5	NA	NA
<b>MR Ok Tedi 2</b>	0	0	0.7	1.2	4.1	8	16.1	31.8	50.7	62.2	71.3
<b>MR Star Mountains</b>	4.1	4.5	3.1	?	7.2	10.8	17.8	31.1	40.5	47.1	60.1
<b>MR Lihir</b>	-11.8	-22.5	12	23.9	33.4	21.2	83	144.6	181.6	156.3	178.0
<b>PR Gobe</b>	5.1	4.6	6.1	6.5	7.5	9.1	9.9	6.5	9.9	13.6	14.5
<b>PR Kutubu</b>	34.1	42.1	34.5	36.4	65.3	80.4	118.5	134.2	199.6	282.8	262.0
<b>PR Moran</b>	NA	NA	NA	NA	NA	2	0.8	1.8	4.3	4.7	8.8
<b>GR Kutubu</b>	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	--0.8
<b>GR Gobe</b>	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-0.2
<b>GR Hides No.4</b>	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	2.3

<sup>14</sup> When they do report these funds usually take advantage of Section 212 of the *Companies Act* that allows companies not to reveal certain forms of data which include payments to Directors. However, the Financial Statement for GR Kutubu for 2010 does include a line item indicating that from the time of the inception of the company (July 2009) up to the end of December 2010 directors' fees totaling US\$1,864,077 were paid out. The board of GR Kutubu had seven members at the time, including the Governors of the two affected Provinces, at least two MRDC employees and at least two others (seven in all). The line item does not distinguish individual payments but simply states the total paid.

<sup>15</sup> As shareholders in the PJV, the landowners and Enga PG (in the form of MRE) were empowered to market their share of project production as they saw fit. It appears that they committed to future gold sales at prices well below what turned out to be market prices in 2007, thus losing considerable revenue. In addition, since that time especially, cash calls on shareholders made by the JV have eaten heavily into MRE net revenues. One knowledgeable insider informed the author in early 2015 that cash calls accounted for more than 90% of MRE income in the previous year and that MRE had indeed minimal funds at its disposal.



## PART II - LANCOS AT SPECIFIC SITES

### 4. Ok Tedi (including some comments on Bougainville Copper Ltd)

#### Introductory note

The sites are described in chronological order of the dates of their establishment, with one exception: the oil operations of Oil Search Ltd (which commenced before the mining operations at Lihir) are amalgamated with those of the PNG LNG and these are dealt with together.

In each case sub-sections are arranged as follows:

- a) Background – development of Lanco at the site
- b) ‘Umbrella’ or ‘Representative’ Companies - usually with audited Financial Statements where available
- c) Other companies in the sample (as shown in Appendix A) – usually with only general statements regarding assets and liabilities

#### 4.1 Background

This site is dealt with in much more detail than others for the simple reason that not only has OTML been operating much longer (since 1984) than any other site, but because, in addition to the material available in terms of the original establishment of LBD at the site, there have been two extensive internal reviews of Lanco and one is underway at present. In other words, there is a great deal of material available.

##### 4.1.1 The first umbrella company

The bloody aftermath of the failure of BCL's operations necessarily tend to block out any positive results that project might have had. It certainly generated major financial benefits for the infant Independent State of Papua New Guinea, whilst operating mines across the Asia Pacific region are even today beneficiaries of BCL's very fine training program for Papua New Guineans (if not so much for Bougainvilleans). Individuals at the top of the BCL management structure also did make concerted efforts to push for local business development<sup>16</sup>. However, Craig Emerson (who was the main author of the Business Development section of the Impact of the Ok Tedi Report) concluded that the overall efforts by BCL in area of business development were too bound up with the labour management interests of the company and, consequently, he proposed a different approach for Ok Tedi: he strongly recommended that the model envisaged by Cloudlands, and in operation by the time he was writing, should be the one to follow. Cloudlands was the original ‘Umbrella Company’ in PNG<sup>17</sup>.

Cloudlands Investment was established in 1975 by ex-Kennecott employees whose employment transferred to the State-owned Ok Tedi Development Company (later MRDC) when Kennecott withdrew. Funding of Cloudlands was raised by share issues among OTDC employees including some Wopkaimin, the people on whose land the project developed. After 1977 share ownership was both widened - residents of Kiunga District were allowed to buy into the company – and narrowed since no-one outside the District could buy<sup>18</sup>. By 1980, the control of the company passed

<sup>16</sup> Information provided by Mel Togolo who was the Bougainville Provincial Planner for some years during the period of BCL operations.

<sup>17</sup> The term ‘umbrella company’ as well as the idea of a company that would help local businesses during their infancy to overcome the more difficult challenges facing any small business were the personal inventions of Les Kewa and Charlie Cole. I cannot be sure, but I believe that this was not merely the first time the concept was put into action in PNG but was also the first time anywhere in the world such a scheme had been implemented and such a phrase used. The term (as well as ‘Cloudlands’) was singularly appropriate for Tabubil, the recipient of 10 metres of rain a year.

<sup>18</sup> One of Cloudlands’ founders, Les Kewa, who is from the Minj area, was still, as of September 2014, the owner of one share (of 22,000 or so) in Cloudlands Investments.

into local hands with major clan leaders becoming directors.

Cloudlands received considerable (if irregular) assistance from OTML but received none (and certainly no funds) from the State. One commentator at the time of mine planning reported that Cloudlands was viewed with some suspicion by State officials<sup>19</sup>. Whether or not this allegation was well grounded, the simple fact of the State's need, for financial reasons, for Ok Tedi to proceed goes a long way to explaining its desire not to surrender the mine's benefits to landowners. The Wopkaimin were to receive only one-twentieth of any royalties from the project (which was the main reason why the IOTP report championed local business) since the State's exchequer needed to maximise its own receipt of benefits.

The Ok Tedi Impact Report recommendation had been that Cloudlands be the umbrella company for the project, but that this should not exclude independently operated, landowner companies from competing for contracts. In fact, while Cloudlands played a leading role early on, it did not really take on an 'umbrella' role; most Lancos established preferred to act independently or with assistance from the Business Development staff of OTML. This both undermined Cloudlands and simultaneously placed a greater burden on OTML business staff members, who, it is fair to conclude, over time had varying levels of competence – sometimes excellent, and at other times not so good. This weakness in the implementation of the umbrella function has been repeated throughout the subsequent history of LBD at almost all other sites.

#### 4.1.2 OTML Lanco records and mining's linkage to the regional and national economies

OTML is one of the few mining companies which has published its expenditures not only on contracts awarded for services (which Porgera also does) but on goods purchased. The graph below shows the annual expenditure (converted into US\$) of OTML on supplies other than of services. In the period between 1989 and 2013 OTML purchased goods valued at US\$4.22 billion and of this total exactly half (worth US\$2.11 billion) were sourced from PNG suppliers – an average of US\$84 million a year.

This is far from being an insignificant stimulus to suppliers around the country. These may not be landowner businesses but they owe at least some of their prosperity (and in some cases all their prosperity)

to OTML and other mining companies. Moreover, it can be seen from the graph that whilst the quantum of PNG purchases made by OTML (but not the share in the overall total) fell on average by 5% a year between 1989 and 2002 (the year BHP withdrew), between the latter date and 2013 it grew (as did purchases as a whole) by an annual average of 14%. For most of its period of operations OTML also kept precise (though not necessarily entirely accurate<sup>20</sup>) records of those landowner businesses with which it had dealings. After 2006 however its records - which before then were based on a survey of Lancos – are based on estimates because an increasing number of Lancos did not respond to the company's request for information. From 2011 onwards the data were in fact not collected. Thus Figure 2 shows data from 1988 to 2010 inclusive (with that part of the graph after 2006 presenting doubtful data). Because the vertical scale applies both to the number of Lancos OTML dealt with and the gross revenues (in US\$ millions) of those Lancos, the relationship between the two lines gives an indication of the average annual revenues of the Lancos included.

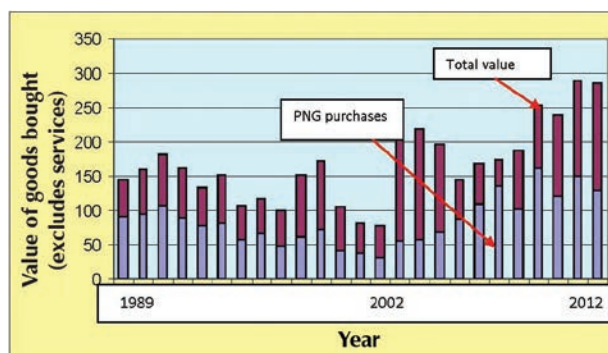


Figure1: OTML purchases of goods 1989 to 2013 in US\$.

Between 1988 and 1994, revenues and numbers of Lancos grew steadily and in parallel. By 1994 there were 66 Lancos having contracts with OTML and each (on average) had an annual revenue of roughly one million US dollars. The number of companies continued to grow reaching a peak of 81 in 1999, but average revenues fell by half to around half a million US dollars.

<sup>19</sup> Russell Hunter, 1st July, 1981, 'Mixed fortunes at Ok Tedi', New Internationalist

<sup>20</sup> This is not necessarily a criticism of OTML; the more that any Lanco became independent of OTML, the less likely it was to provide good data. Note also that OTML could not collect data on landowner companies which ultimately depended on its presence but with which it had no contractual dealings.



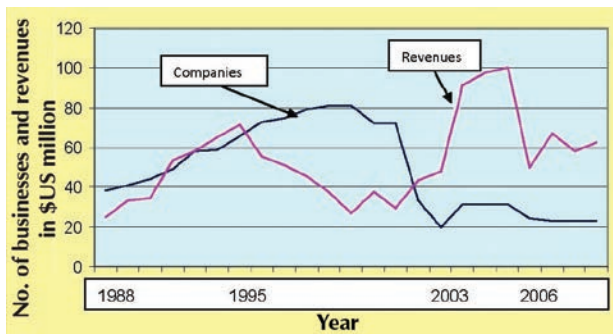


Figure 2: Landowner business numbers and revenue, Ok Tedi 1988-2010.

**Notes:** 1. No record available pre-1988; 2. data for years after 2006 is doubtful, some companies.

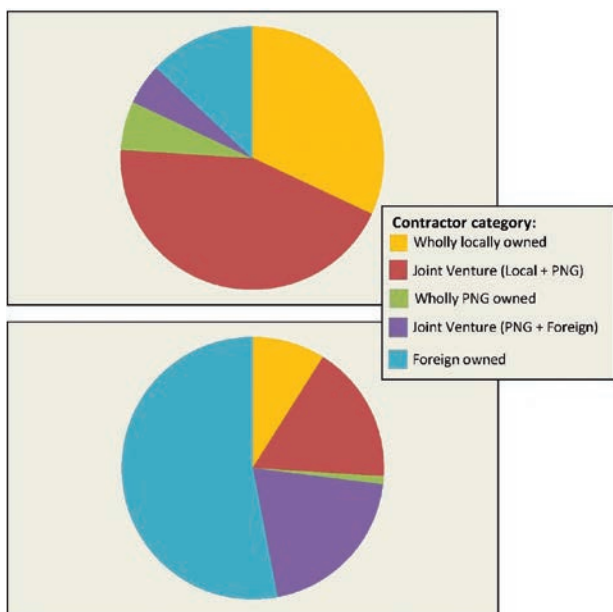


Figure 3a: Number of contractors per contractor category 1988-2010.

Figure 3b: Value of contracts per contractor category 1988-2010.

Then companies' numbers collapsed, from 72 in 2001 down to a mere 20 in 2003<sup>21</sup>. Since then the number of companies (on OTML's records) has slightly increased while their revenues have grown rapidly; by 2006 (the last year in which records can be regarded as totally reliable) the 31 Lancos had turnovers of US\$100 million, or in excess, on average, of US\$3m each.

#### 4.1.3 'Dismal' performance and Lanco rescue stage one

The performance in purely financial terms of Lancos at OTML overall until the early 1990s, as shown by

the red line on Figure 2 above, looks as if LBD was proceeding well. Such was not the case, however. In 2008 the Asian Development Bank (in association with AusAID) published an important paper by Paulina Siop which was a case study on economic capacity development among communities around the Ok Tedi mine. By 2000, according to Siop:

- The mine area community had developed an unhealthy dependence on the mine
- Had squandered many economic opportunities through lack of control and poor management
- Had developed no form of culture of savings and investment
- 'the hierarchical leadership structure has not always performed in the best interests of the community'
- Had developed no alternative economic base
- And local businesses had performed 'dismally'. 'Even the joint ventures [had] shown no real partnership spirit in their working arrangements with their local partners'.

In 2001 Siop became:

'the team leader of Business Development [BD] with OTML Community Affairs Department'. She 'took charge of the local Business Development Program to assist landowners to benefit from mine-related business opportunities...[and] developed strategies for addressing economic sustainability....As a result the Mine-area Community Investment Program ....was developed...The key components of [this] program included development of an investment structure, support for....[the establishment of] a representative umbrella company...that would take control of existing business opportunities,...to create a context in which other local business activities could be supported.'

The focus of the new business development effort was to be Star Mountain Investment Holding Ltd (SMIHL) which would act as a true umbrella company for investment by clan companies. This would involve the streamlining of 'local businesses under SMIHL because there were too many small but unsustainable businesses demanding work from OTML'.

<sup>21</sup> This may be a function of record keeping but it is much more probable that it is a reflection of the difficulties OTML faced at the time. It is also noted that the number represents those Lancos doing business with OTML which is not the same as the number of Lancos doing any business.



**Table 3:** Indicators of OTML financial performance: 1984-2001 compared to 2002-2013

Indicator	% 1984-2001(18 years) Share of total	% 2002-2013(12 years) Share of total	Total
Profit	8%	92%	K14.3bn
Net revenue	22%	78%	K46.9bn
Company Income Tax	6%	94%	K5.5bn
Other taxes	22%	78%	K2.8bn
Copper produced	55%	45%	4.4bn t
Gold produced	54%	46%	12 mn oz
Dividends paid (US\$)	17%	83%	US\$4.8bn

**Note:** In this table values are current and, except for the last row, in kina; they have not been converted into US\$ values.

What had happened to the original hopes, plans and companies? In answering this question one needs to consider not only the points Siop raises but the general circumstances of the mine, of which by far the most important was that it was barely profitable – the whole project was looking to be in jeopardy. Table 3 illustrates this important point – and also shows how the overwhelming majority of the mine's financial benefits to all stakeholders only started to accrue once BHP left.

Under this rather important circumstance, the OTML managers were in no position to coddle contractors and may have needed to cut back significantly on support, whether direct or indirect, to local businesses. The desire by local companies to run their own businesses rather than operate under any umbrella company (touched on earlier) was exacerbated by rivalries within local leadership. Cloudlands Investments did relatively poorly under these circumstances; but the OTML-sponsored and owned Star Mountains Holdings, had done even worse – it was wound up in August 1995.

In terms of the project's general circumstances, worse was to follow. There was the acrimonious and highly publicised legal action brought by downstream riparian landowners that began in 1995/6. One of the more important outcomes of that action was that OTML took on the responsibility of encouraging the establishment and support of a series of communal business groups along the length of the Fly River. In the midst of this, the drought in 1997 prevented products (and supplies) being shipped along the Fly causing production to be cut in half for the year. And throughout the nineties, the kina's value continued the precipitous decline it had begun in 1989; what in that year had been worth US\$1.15 was to fall to a mere US\$0.25 by 2002.

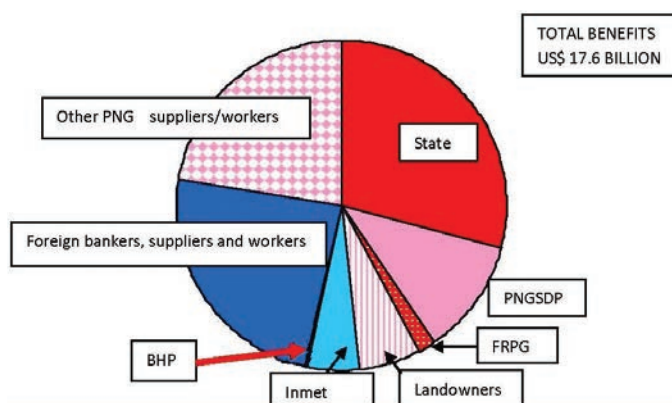


Figure 4: OTML financial benefits by recipient 1984-2013.

Contrary to both public opinion among its critics and its own statements concerning its withdrawal from the project in 2001/2, there are strong grounds to believe that BHP probably abandoned Ok Tedi in the fashion it did for purely economic reasons. Not, however, because it had 'made its pile' as many nowadays allege. Figure 4 which is derived from the Historical Statistics pamphlet issues annually by OTML indicates that BHP received less than 1 percent of the profits the project had made 1984 to the end of 2013. The irony of BHP's withdrawal from Ok Tedi has been that within a few months of that event, metal prices began to rise and the mine became financially successful after years of near failure.

In short, in 2001 when Siop took up her position, it was not just the contractor businesses attached to OTML that were performing 'dismally'; rather, the whole project was in serious (and many thought terminal) trouble.

In business development, the way forward proposed by OTML was heavily dependent on its main

umbrella company. To quote Siop: 'SMIHL, being locally controlled, is seen as the main commercial arm to harness and manage the current economic opportunities for further business and investment growth'. In other words, despite the 'dismal' failure of the earlier 'umbrella-company-focussed' business model, there was no loss of faith in the concept – that failure was put down to lack of early preparation of communities for business and poor leadership. The conclusion was that properly managed umbrella companies have 'the potential to develop into large scale investment vehicles for the community....[and] to contribute significantly to the overall development of the country...[as well as having]...the capacity to finance business investment and growth activities'.

The restored system, whose structure is shown diagrammatically in Figure 5, did not overthrow the original umbrella concept or the communal orientation that underlaid it; it re-instated it with what was thought to be better planning. The new umbrella was to be SMIHL whilst individual business activities in Level III, even though they were 'somewhat detached from those in level I and II.... [were] nevertheless recognised and supported'. This was, in effect, the 1979 approach resurrected but, hopefully, better implemented. Landowners were persuaded to re-invest some of their mine incomes in SMIHL. When Siop's paper was published (in 2008) she was able to be optimistic: SMIHL 'has progressed very well as a business with solid performance over the last three years. The company is currently worth over K7 million...[and] there are exciting future growth opportunities...its success [can be credited] to good business leadership in the board and effective management'.

#### 4.1.4 Lanco rescue stage two

Even before the ADB booklet authored by Siop was published, the program it outlined was no longer operative<sup>22</sup>. In 2006, OTML's Economic Programs Department issued a 'high level work plan' entitled *Back to Basics*. It was designed with a 2011 closure of the mine in mind. It was based on two simple principles: OTML is a business but OTML economic programs are 'fundamentally a community relations function...that seeks to mitigate social risk to our business'. Its opening statement was that:

*'through the process of redefining OTML's community obligations (from 2000 to 2004), the function of what was then the Business*

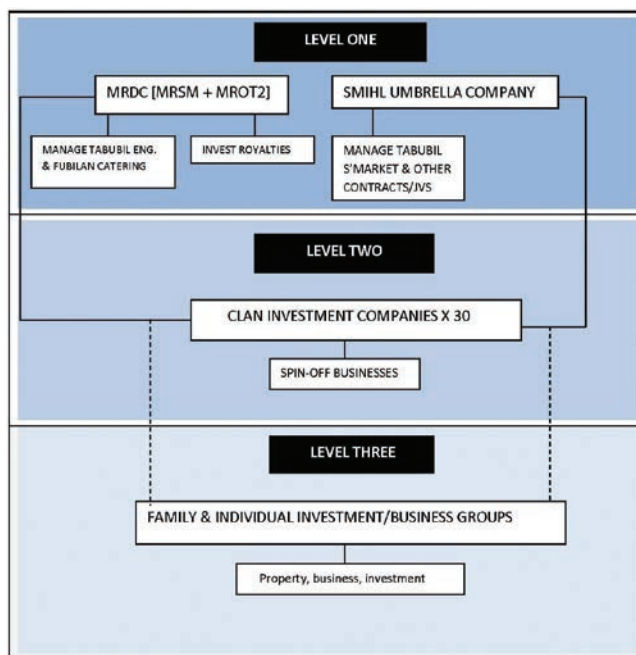


Figure 5: Revised structure for business and investment.

Source: Adapted from Siop (2008) p.13.

*Development Department for OTML had become confused with the shared task of... regional economic development.....The purpose of this work plan is to focus the work effort of the Economic Programs Department back to what was the original intention of Business Development as outlined in the Ok Tedi Act.'*

This document set out the principles on which this new plan would work:

- It would operate under accepted commercial principles
- Contractors would deliver goods and services both to OTML and the general public at competitive rates
- Local businesses would develop the capacity of being viable after mine closure
- Their board and staff would be fully accountable to shareholders
- They would need to show that any wealth they generated flowed back to shareholders in a transparent and equitable manner.

<sup>22</sup> This is not the only example of a PNG mine concept being championed by an international multilateral lending agency, only to then be set aside by project managers. The Misima Closure Plan was cited by the IFC on several occasions as a model worth following across the world before Placer changed their minds and abandoned it. The IFC also sought to publicise the Project-Induced In-migration Management Strategy for the Frieda Project just before Xstrata ceased its work there. In PNG's case, therefore, praise from the World Bank and its sister agencies has often been the kiss of death.

There is no mention of 'clan companies' in this new plan and although 'umbrella companies' are referred to they are more generally referred to as 'local strategic businesses'. Sustainability, a key feature of the Siop paper, was given even greater emphasis in its replacement whose slogan was **Skills Transfer And No Dependence**. Three levels (as earlier) of companies were identified:

A. Local Strategic Businesses with whom OTML will build an active relationship since they are considered to 'be at the forefront of creating a sustainable economic base' for the host communities. 79% of the Department's available resources will be devoted to these companies which are specified as:

- 1.1 A future South Fly representative company
- 1.2 Flood Plains Ltd the Middle Fly representative company
- 1.3 Hore Binkia Engineering and the Highway Development companies set up by villagers along the Kiunga-Tabubil road
- 1.4 Lower Ok Tedi Investment Company around the dredging operations at Bige
- 1.5 Star Mountains Investment Holdings Ltd (SMIHL from the previous review) for mine area villages.

No company is specified that relates to landowners in Kiunga township.

B. Local businesses other than strategic ones that were (in 2006) receiving support from the Department and were regarded as 'key local businesses'; 20% of its resources should be devoted to such support in future. The companies are listed as: Azobelle Electrical, Bultem Holdings, Camp Administration Ltd, Ela Motors JV, Faiwol Investments, Fubilan Catering Services, Kiunga Catering Services, Kiunga Security Services, Ningerum Holdings, North Fly Rubber, Star Clothing Company, Star West, Tabubil Engineering, Tabubil Security Services, and some minor contractors. In addition, a number of local businesses which at that time did not receive support but were to be regarded as 'key' were Tabubil Automotive, Tabubil Bakery, Tabubil Hotels, Tabubil Pharmacy, Tabubil Traders and Tawap Kamen Investments.

C. All other local businesses were grouped as being at level three. For these individual and small businesses the policy was to be that while they might seek advice on commercial matters from the OTML Economic Projects Department, they should be encouraged to seek any other

sort of active help from the Provincial Business Development Office.

In addition a series of Economic Program activities designed to support different levels of business, each with its own sunset clause (in the light of the then assumed 2011 closure date) were adopted:

- Directors' training would be facilitated for levels 1 and 2 but would cease after 2-3 years being then outsourced.
- On-the-job training for level 2 businesses would continue also for 2-3 years after which such companies would have to either stand on their own feet or use government services.
- Assistance in meeting compliance requirements for level 2 companies would cease after one year pushing them into using accounting firms.
- Levels 1 and 2 companies would continue to be assisted for a period of 3-6 years in the appraisal of business proposals.
- All levels would be informed about new business opportunities.
- Levels 1 and 2 would continue to be provided with advice on operational matters for a further 3 years.

It will be noted that neither in any of the above points nor elsewhere in the document is there any mention at all of clan companies. The document implicitly accepts that companies can choose who will be their shareholders and explicitly emphasises time and again both that leadership in what it refers to as 'The Big Man' style should not be tolerated and also that there must be strict adherence to the accepted rules of company management and organisation.

## 4.2 The present situation

### 4.2.1 OTML purchases and contracts

Between 2002 when BHP withdrew and 2012, OTML purchases overall rose by almost four times in value. The company's purchases within PNG averaged K300m per year in the period 2011-13. Total expenditure on contracts (for service) from all sources in each of 2012 and 2013 was K1.1 billion. Of this amount approximately K230m (or about US\$107m) each year was expended on contracts fulfilled by either wholly locally owned (as opposed to PNG-owned) companies or local companies in joint ventures with other PNG companies. There is a degree of vagueness about these numbers because, as noted earlier, since 2006, OTML has experienced some difficulties in collecting accurate data on the numbers or turnover of local businesses. Even though the estimates just

provided fall somewhat below the levels of flow of contracts to local businesses in the period 2004-06, they are nevertheless healthy.

#### 4.2.2 The umbrella companies

What has happened to the 'umbrella' companies of 1979 (Cloudlands) or of 2001 (SMIHL)? How are the 2006 Local Representative Companies faring?

**Cloudlands:** Cloudlands Investments still exists but is the very opposite of an umbrella company – 77% of its shares are owned by one person, the son of the late MP for North Fly, Bob Bubec, who had bought a majority of shares from other shareholders shortly before his passing. Almost all Cloudlands' subsidiaries have now been sold off<sup>23</sup>. The last AR for the company was submitted in 2010, at which point Cloudlands' had remnant net assets of K1.9 million and a single employee. Its major asset is its 71% ownership in Tabubil Hotels.<sup>24</sup>

**SMIHL:** This was, under the 2002 plan for restoring LBD to health, to be the new umbrella company for project-associated business. It was originally funded with K12m just over half coming from the

re-investment by villagers of their royalty payments together with a K5m loan. Thirty two village/clan groups (which together have 85 directors including five women and around 500 shareholders, including 120 females, in all) contributed to it, mainly in 2002. Wangbin villagers only signed up in 2006. Some of these village/clan investment groups do have investments elsewhere (notably in Tabubil Traders Ltd) but for most their SMIHoldings represents their only investment. It has been a poor one.

Its last AR submitted to IPA (it is an exempt company and does not have an independently audited FS lodged with IPA) was for 2010 when it reported itself to have 20 employees, assets of K3.7m and liabilities of K2.2m. It may be that its financial situation has improved since 2010 (something devoutly to be wished in view of its original funding), since in the course of an interview with the company in August 2014 it reportedly had increased its workforce to 70 and had a gross turnover of approximately K6m. It is involved in a small joint venture with Kwembu (one of the three component landowners at Hidden Valley); precisely what value this might be to the Kwembu landowners is unclear. However, its representatives stated that the company

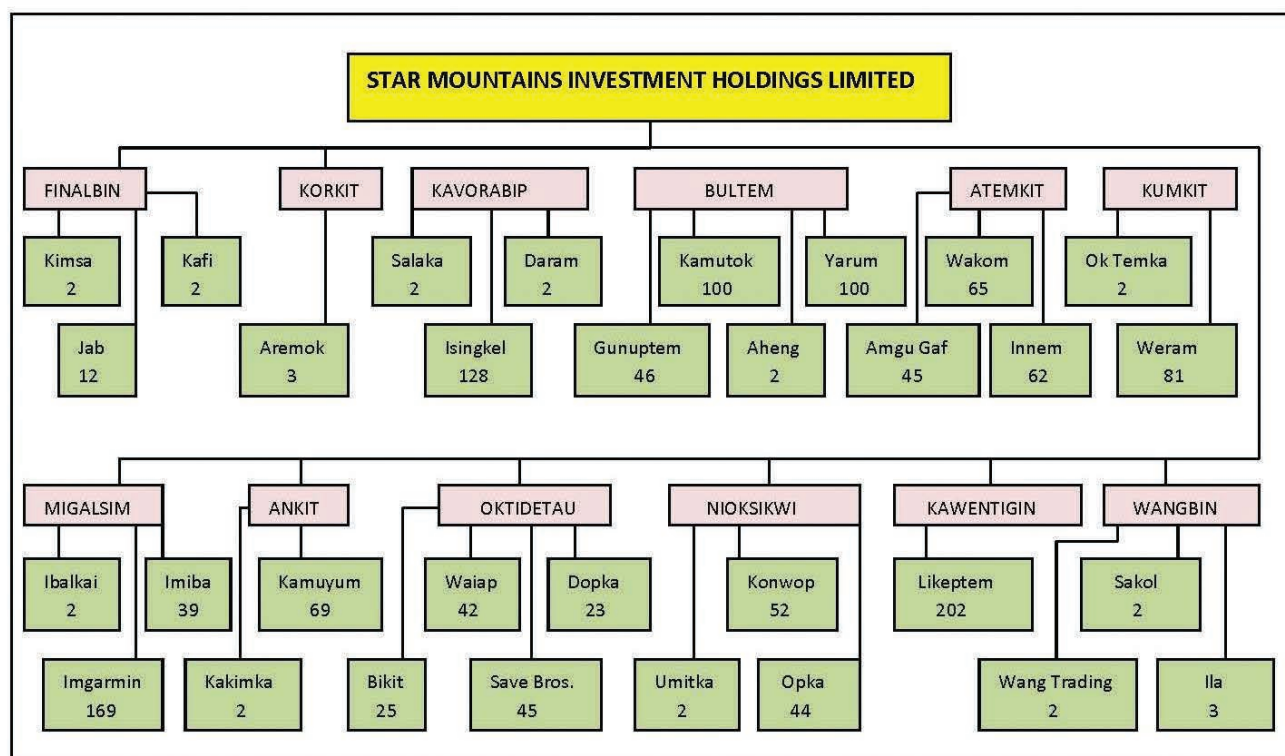


Figure 6: SMIHL structure, by village, sub-group (clan?) and shares held.

<sup>23</sup> This raises two important points: the first, which is not addressed in this report, is that because shares in Lancos are not publicly traded, it is difficult to know – especially in companies that have no audited reports, what the 'fair value' of the shares is; in any case there is no record of the price paid for the shares. The second is that as far as I can establish Cloudlands has no constitution and therefore there is no bar to its being turned into a sole proprietorship company.

<sup>24</sup> The Cloudlands Hotel at Tabubil charges its guests slightly more than do some of the premier hotels in Port Moresby (which are themselves expensive in international terms). It provides rather less in the way of service and amenities than they do.



had not held any recent Annual General Meeting, could not afford to offer training for its employees, was 80% dependent on OTML for its revenues, has paid no dividends and had no investments (other than some cash on deposit). In short SMIHL has lost money and is barely viable.

**The MRDC-managed companies:** Under the 2002-04 plan, SMIHL was classed as a Level 1 company alongside MRDC (MRSM and MROT2) managed companies. Together these Level 1 companies were to be the leaders for all LBD. MRSM is unusual in terms of MRDC components insofar as it plays an important business management role (as opposed to an investment management role) at Ok Tedi. It effectively runs Fubilan Catering Services (which it owns) and has a lead role in managing Tabubil Engineering and a significant one in managing Highway Transport Company. The first two can be regarded as Level 1 (in terms of the 2002 Plan).

**a) Fubilan Catering:** This is the third largest company at Tabubil in terms of net assets (after Tabubil Engineering and Camp Administration). It bought out its original joint venture partner (P & O). While all but one of its five directors are from local landowner villages, its two shares are both owned by Mineral Resources Star Mountains. However, these observations are based on [financial] data for 2007 which was the last year for which such records are available on the IPA website and on a 2010 submission to IPA showing changes in directors. A wide-ranging interview in April 2014 did not reveal any more recent basic financial information. It did however indicate that the assets include various properties, including a part share in a Port Moresby hotel, and a share portfolio valued at K4m; that the company has no policy on dividends; that 98% of revenues are directly from OTML; that no AGM appears to have been held since 1997; that training programs for employees are extensive; and that at any one time the company will have food worth K7m in its warehouses and K3m worth in transit (on water). Not only is FCS almost entirely dependent on OTML for its revenue, but this dependence is entirely on OTML Tabubil; FCS is not involved in catering for OTML at either Bige or Kiunga.

**b) Tabubil Engineering:** An AR for this company was lodged with IPA covering 2011 as was an audit for 2010. The company commenced operations and was originally named Kiunga Engineering; the change of name may be telling. MRSM holds half the

shares while two small village/clan-based companies (one from Bolangong and one from Migalsim) hold the remainder. In terms of turnover, assets, and net assets it is the single biggest company at Tabubil. Whilst it regularly pays a dividend (unlike FCS), it has also been successful in building up its assets, thus achieving a comfortable balance between growth and return to shareholders. Further, it has played a significant role in supporting the development of other locally-owned companies, in which it holds equity sometimes together with Fubilan Catering (as in the case of Fubilan Security Services). It is the nearest thing at Ok Tedi to a Star Mountains Anitua or IPI – but such a comparison is but a pale one since landowners here depend on MRSM for management, whilst the company's assets, though substantial, in no way compare with those of the Lihir and Porgera companies. Perhaps most important of all, while Tabubil Engineering has investments outside Tabubil, it has relatively little non-investment activity beyond the township and none outside of Western Province. It cannot, therefore, be termed either a fully-fledged umbrella company (which shelters infant local businesses) or a representative landowner company (given its shareholding). It is, to date, both generating immediate benefits for landowners in the form of employment and accumulating assets for the future use of two landowning villages, but it is not what planners for the mine at various stages in its life had envisaged as an ideal Lanco.

#### 4.2.3 The Strategic Landowner Businesses (SLOB) as identified in 2006

As noted in 4.1.4 above, the 2006 OTML internal paper *Back to Basics* listed five then existing businesses and one putative one as being of strategic importance; each covered a specific geographic area (they can be compared to LNG's later 'representative companies'): South Fly, Middle Fly, the northern half of the Kiunga – Tabubil access road villages, the southern half of the access road villages, the area around the Bige dredging site and Tabubil. It is of interest that no SLOB was identified for Kiunga Town. What is the present state of these companies?

There is no South Fly Lanco. As far as the Middle Fly is concerned, a liquidator was appointed to the representative company, Flood Plains Ltd, in December 2012<sup>25</sup>. As for the Tabubil villages, and as noted above, SMIHL has not achieved success, though it still survives. Of the remainder:

**LOTIC (Bige area):** The company is operating satisfactorily with 265 employees, with ARs submitted

<sup>25</sup> This is not necessarily the end of this company. Other companies including some of what are now the most successful Lancos have faced similar situations in the past but recovered from them.

for all years up to and including 2012, and net assets valued at K2.6m (gross assets K5.1m). Its success in terms of employment and asset build up mean that it is no longer an exempt company, although, as yet, it has not submitted any FS to the IPA. It draws its directors from villages along the banks of the Ok Tedi (Alice) and Fly Rivers and on the access road (via Dande and Senamrae) to Bige from the Kiunga-Tabubil Highway. Some of the villagers so represented fall within the area to be covered by benefits arising from the exploitation of the Stanley gasfield; among benefits already provided by the State are K120m which includes K30m for business development. Thus LOTIC's representative status is likely to be overshadowed by non-OTML activities even if its 'special interest' nature will remain important for villages lower downstream.

**HWDC Ltd (southern portion of Kiunga-Tabubil road area):** As with LOTIC, HWDC covers an area of which part will also fall within the impact area of the Stanley Gas Project. Whatever was originally planned for it, it is now effectively a vehicle for people from Gi'i, Ipoknai, Miasomrae, Pampenai, Tmindemasuk and Holpenai to become 25% shareholders, along with Hore Binkia (25%) and MRSM (50%), in Highway Transport (see below). Although it draws its directors from six villages, its two shares are held by one individual from a seventh, which is not an ideal situation. It cannot be considered to have fulfilled a function of anything greater than a special interest holding company.

**Hore Binkia Engineering (northern road villages):** This company maintains a workshop at Tabubil but lives a hand-to-mouth existence. In the latest AR to IPA (2011) its assets of around K540,000 barely covered its liabilities (K450,000). This is despite the fact that it not only runs the Tabubil workshop but also holds 24% of Highway Transport (see below). Its share structure is also odd insofar as 80% of its equity is owned by a company (Totrusa Investments Ltd) which has been removed from the IPA register – the balance being owned by a single individual<sup>26</sup>.

**Highway Transport Ltd:** (Whilst never proposed as a 'representative' company this is considered here because of its links with Hore Binkia, HWDC and MRSM.) OTML is said to have provided prime movers worth K2m to help establish this company which is a JV between MRSM and the two Lancos. Given the amount of goods traffic moving daily between Kiunga and Tabubil then one might suppose this company, if it operated well and to OTML's satisfaction, to be both profitable and secure in its contractual arrangements with the mine – especially if it is effectively the

company of two of the 2006 nominated 'strategic interest companies'. This is not, however, the case – or, at least was not according both to its 2010 AR and interviews on site. Assets in 2010 at K4.4m were four times liabilities but given the potential profits to be made from moving goods to and from Tabubil are surprisingly small. One of the two interviews suggested that there is a dispute between OTML and the company.

In short, **not one of the Lancos identified in 2006 as of being of key strategic interest to OTML can even be described as being on a firm financial footing let alone being leading Lancos in their areas of operations.**

#### 4.2.4 Local businesses as identified as 'KEY' in 2006

Fourteen Lancos were identified as having 'key status' in *Back to Basics*. How are they performing in more recent times? Selected data for some of them are shown in Table 4 (and reproduced in Appendix A). They are briefly mentioned below in alphabetical order:

**Azobelle Electrical:** This company was founded over twenty years ago and survives. But by the time it submitted its 2010 AR (in 2013) it was in difficulties since its liabilities (at K1.7m) were more than double its assets. This was not the first time it had experienced major challenges. In February 2007, supposedly because it was unable to pay its tax bills, Azobelle borrowed K1m from OTML at 3% interest over a five year period. Despite this, in that year (the last for which there is a financial statement for the company) on a turnover of just under K5m it managed to run up administrative expenses of just over K2m. In 2006, on a turnover of K3.3m it had wages and staff costs of close to K2.5m, lost K1.1m but still paid a dividend of K220,000 (at a time when it couldn't pay its tax bills). It managed to slash staff costs and wages by 75% in 2007 and make a small profit (K543,000), the majority of which it then returned to shareholders as a dividend (K300,000). This does not seem to exhibit prudent management.

Azobelle is jointly owned by SMIHL and the Kafi and Kimsa clan investment companies set up in the 2002 restoration efforts whose members are predominantly residents of Finalbin. Since Finalbin is the nearest community to the actual mine, it might be especially unfortunate were this company to fail altogether.

**Bultem Holdings:** Formed in 2002, this company filed a single AR (for the last six months of 2002) reporting that it had 8 employees and liabilities (K684,000) that exceeded its assets (K607,000). No further reports were made to IPA and it has been removed from the register.

<sup>26</sup> One of the referees for a draft of this report commented: 'How can this be?' It is the same question I had, but cannot answer.



**Camp Administration Ltd:** This is the largest independently run Lanco at Tabubil and, whilst it has experienced problems a decade ago, can be regarded as the most successful in the writer's opinion. It has a widespread shareholding among a mixture of local individuals, of landowner business groups (none of whom are among the multitude of shareholders in SMIHL shown in Figure 6) and small companies. Its directors are relatively young and well-educated, are paid modest annual fees (K5000 per head), and the company (as of the end of 2011) was not owed any money by them (in the form of unre-paid advances). It trains its steadily growing number of employees (370 at the end of 2011) and has money set aside for their leave entitlements. It produces clear, readable Annual Reports for its shareholders. In the two-year period 2010-11 it made an annual average after tax profit of K2.1m from an annual gross turnover of K29.2m. This is modest in comparison with the results of some other Lancos at other sites, but in the Ok Tedi setting it is an excellent performance. Its assets totalled K25.2m at the end of 2011 and its net assets totalled K14.9m. It pays regular dividends (though not in 2013), makes small but significant community donations, and has K20m worth of investments in Port Moresby property, taxis and stores. Perhaps most significantly of the estimated K33m turnover it gained in 2013, K24m came from customers other than OTML (even if most of those other customers were themselves reliant on OTML for their incomes). Lastly, in the interview (and follow-up resulting from it) with Camp Administration, and in contrast to most of those carried out (at all sites), information was freely given. In short, Camp Administration is a bright spot in LBD at Ok Tedi. On top of all this, CAL is the only company of any size in the whole survey with a female General Manager (as of the start of 2014).

But a reservation needs to be made. Most of the circumstances in which Camp Administration operates are no different from those which apply to all Ok Tedi companies; several of its directors are involved in other, less successful local companies, its business is no easier to manage at the end of a very long supply line from Port Moresby than that of any other Tabubil business and its employees are not necessarily better qualified than those in other local Lancos. But it does seem that its management has put in place a system and a working atmosphere based on good governance, sensitivity to local needs (both commercial and social) and relatively modest, but steady, growth. The reservation is this: Camp Administration has performed so well that OTML

poached its General Manager at the end of 2013 to run its Economic Programs Department (which, as this review has indicated implicitly, has had its problems particularly once the author of its *Back to Basics* program left). Hopefully, the systems put in place at Camp Administration will survive this loss.

Faiwol Investors (including Faiwol Holdings and Faiwol General Supplies): Nicole Polier<sup>27</sup> has written of the Faiwolmin and the impact Ok Tedi she believes has had on their lives; her conclusions are almost universally bitter and unremittingly gloomy. Ok Tedi is a 'massive new center of power and wealth [in] a hinterland of colonial and capitalist expansion' where land 'is plundered for profit (land, however, 'to which Faiwolmin could once negotiate usage'), and where the montage of 'an opulent European enclave', 'carefully managed by OTML'<sup>28</sup> puts Faiwolmin 'manhood on the margins'; further, 'not only have foreign interests invaded the home of clan ancestors, they have given the Faiwolmin nothing in compensation'. She simultaneously laments the anomie that is replacing what are said to be the old certainties of 'her' Golgubip people while being angry that they themselves do not have a fair share of 'the dizzying display of goods in Tabubil supermarket'. Neither 'dizzying' nor 'opulent' are words that I would use to describe Tabubil or the contents of its supermarket; neither can they be applied to the activities of the Faiwol Investors group of companies, but at least that company's work over the years does a great deal to dispel Polier's picture of hopelessness. The story of Faiwol Investors has more than a hint of Cinderella about it.

The Faiwolmin occupy virtually the whole of the Olsobip District lying in the east of the preferred areas of the Ok Tedi project (Kiunga and Telefomin Districts). In the years when the Ok Tedi mine was being planned, the historic fear with which most of their neighbours regarded the Faiwolmin was being forgotten. But one of the most active local politicians supporting the project was Noah Daikimeng of Polier's Golgubip village; he wanted his village to become the food supplier to the mine using the airstrip then recently built by Father Bouchard of the Montfort Catholic Mission. At the same time, the Evangelical Church of Papua's pastor based in the lowland Faiwolmin settlement of Olsobip was also anxious that his people should participate in the project. The Catholics and evangelical Protestant factions of the Faiwolmin, along with Noah Daikimeng, set aside religious differences and set about establishing a District-wide company and obtaining contracts of work from OTML.

<sup>27</sup> Nicole Polier, 1996, 'Of Mines and Min: Modernity and its Malcontents in Papua New Guinea', *Ethnology*, 35(1), pp.1-16.

<sup>28</sup> Perhaps Polier flatters academe's favourite Goliath here – the idea of OTML carefully managing a montage...!

Faiwol Investors was established, without a Constitution, in November 1983 and as such is the oldest established locally managed company considered here which is not in terminal decline. This is itself noteworthy. Originally eight Faiwol villages (Dumunak, Baktamin, Kongabip, Bolivip, Golgubip, Olsobip, and Selbang) which effectively covered the whole of the District each raised K8000 (then worth US\$10,000) to float the company and each provided a director. Today, thirteen Olsobip District village-based Business Groups collectively hold 52% of the company's shares whilst a further 42 individuals (all Faiwolmin) hold the balance. Four female shareholders control just over 1% of the shares. The company has never received any financial assistance from any third party – although it acknowledges the assistance in the form of advice provided by OTML.

The contract work that Faiwol Investors obtained in 1984 and still does to this day rather confirms one of Polier's points: garbage collection and cleaning (which is a euphemism for looking after the septic tanks and toilets at Tabubil) could be regarded as 'menial'. But it has one big advantage: because no-one else wants to do it, the contract is well paid and secure; further there are always more toilets to attend to and more garbage to pick up.

Faiwol Investors has not always run smoothly. In 1999 its net asset value came close to zero and it came close to bankruptcy in 2002 (attributed by present directors to 'external mismanagement'). It also fell sharply in 2008-09. A venture to Madang (also in garbage collection and cleaning) in 2004/05 fell through. But by 2012 the company had net assets of K4m, operations spread across the North Fly (neither Bige nor Kiunga people are any keener on taking on toilet cleaning contracts), investment properties in Port Moresby, Kiunga and Tabubil, regularly elects and re-elects its directors on a four-year cycle, and has a turnover in excess of K8m a year. In three of the past four years it has paid a dividend. Faiwol Investors is not only owned by village shareholders but its Board is of village leaders and it is managed by villagers who have succeeded in getting an education. And, as a reflection of its origins, Faiwol Investors pays a tithe to the church in Olsobip.

During all interviews with Lancos, the question of long-term planning was discussed. In almost all cases this led to reasonably depressing conclusions – in most cases there was no plan. Faiwol Investments' shareholders, directors and managers have an advantage in this regard: the Pnyang hydrocarbon project, long known about but only now becoming reasonably feasible as the network of gas lines from other fields (including Juha) approaches it, is on their land.

**Kiunga Security Services:** This was identified as a 'Key Local Business' in 2006. It consisted of a three way partnership between residents of Mission Kona in Kiunga (whose company, Amboram Security Services was established in 1991 but has not made any reports of any kind to IPA) and two Business Groups from villages on the lower Ok Tedi (Dome, logi, Komokpin). KSS provided an AR to IPA for 2005 at which time its net assets were K131,000. Since then it has not submitted any further reports.

**Ningerum Holdings:** Ningerum Holdings is part of the Progress group of companies established by Warren Dutton, who was the only businessman of any significance in Kiunga town before the mine started (Ningerum Transport is the oldest established company in this study having been set up in 1969) and who, much to his credit, remains committed to the region's development. Ningerum Holdings is designed as a means for local people to own shares in Ningerum Transport which in turn owns 95% of the shares in Progress Ltd. Ningerum Holdings controls 39% of Ningerum Transport shares and Dutton controls the remainder. Effectively, therefore Ningerum Holdings/Ningerum Transport/Progress is a Dutton family business, but one with long-lasting and strong local support. As at the end of 2012 the net assets (of Ningerum Transport and Progress) were slightly in excess of K25m. In many ways, Dutton's business is a model from which local businesses could learn; the K25m has only been accumulated by steady work over a period of 45 years.

**North Fly Rubber:** North Fly Rubber [NFR] is an agricultural company buying, selling and encouraging the growth of rubber across all the lowland area of Western Province (an area the size of many European countries). It is not therefore comparable with virtually any other Lanco included here. Arguably it is not a Lanco, but under the second part of the definition adopted in this report, that a Lanco has to be a company recognised by the resource project as being one, then it qualifies not only because it was identified in 2006 as a 'key local business' but because two of its directors are senior OTML employees acting *ex officio*. There is insufficient space here to do justice to the work of and challenges facing the company.

NFR was the brain-child of Warren Dutton as a device to bring permanent sources of renewable income to thousands of people across Western Province through rubber growing. Rubber growing began in the Kiunga area in the 1950s when patrol officers brought seedlings across the border from Mindiptana and planted them in the Lower Ok Tedi villages and along the rudimentary track they were building north of Kiunga (it ended just beyond the village of Miasomrae until Ok Tedi extended it to Tabubil). This encouraged

villagers to relocate themselves to this road. However, the industry languished until Dutton revived it. He raised funds from Ok Tedi, hired a Malaysian expert for thirty years, built a processing factory at Kiunga, organised shipping collection services and slowly introduced rubber along most of the length of the Fly and Aramia Rivers and to Lake Murray, where he had been a Patrol Officer.

However, the industry needed substantial subsidies, especially in years when rubber prices were low, particularly in the form of free transport to Port Moresby on OTML barges. Without this support it probably would not have survived. In the 1990s, it was hoped that if a critical mass of growers was reached then this subsidy would no longer be needed; it was thought at the time that 10,000 growers would equate to such a threshold<sup>29</sup>. It now appears that this may have been optimistic. However, OTML subsidies – in recent years through OTDF – explain why that organisation owns 16% of NFR shares. NFR had placed considerable reliance on ongoing assistance from the PNG Sustainable Development Program (PNGSDP) but with the changed status of that company, its future must be in some doubt. It is unlikely however that OTML – having spent so much effort and resources on supporting this venture – would not continue to do so as part of the mine's closure planning programs.

NFR is not merely a business but partly a research organisation seeking ways of better rubber production through project development. It now brings some income to at least one-third of Western Province's people. In this respect, therefore, the fact that it has limited net assets (about K2m when it last reported to IPA six years ago) is not a reflection of success or failure. Further, NFR – if it can eventually solve the problem of transport costs to world markets – is one activity that not only brings some benefit to thousands of people in Western Province but has a decent chance of surviving even the worst downturn in the metal and hydrocarbon industries.

**Star Mountains Clothing Company:** The company was helped to start up in 1996 with a K300,000 loan from OTML. The concept was simple: OTML uses thousands of uniforms each year, so why not produce them on site? And the bulk of its shares are held by individuals or investment groups from Bultem. Its management is foreign. The company operates in Tabubil, Madang (also clothing), Lae (where it recently bought a paper manufacturer) and Port Moresby. It has a turnover of K3.3m a year from its Tabubil operations and K10m overall. Thus, only 30% of its revenue is directly from

OTML. This is fortunate since manufacturing clothing in such a remote environment incurs considerably greater costs than in a larger city; the prices of its Tabubil-produced uniforms would not be competitive in Port Moresby, although they are of high quality. Indeed, there is evidence that they are not especially competitive even in Tabubil itself – since at least one Lanco in town finds it more economical to buy its own uniforms from Port Moresby. Its Board contains some of the most senior local businessmen (some hold five or more directorships). It pays a dividend regularly (2013: K100,000) and is, proportionately, the biggest single employer of females – of the OTML supported companies – 116 of its 145 employees are women. At the end of 2011 its net assets were valued at K3m. It can overall be regarded as a success much of which can be ascribed to its Asian managers over the years.

**Tabubil Automotive:** OTML business development staff members over the years have played a key role in bringing into the town established, major PNG businesses such as Boroko Motors, Toba Motors, or Curtain Brothers and then carefully sharing out joint venture partners from local communities. Any perceived imbalance in this allocation of external partners has been an immediate cause of complaint to the mine staff. In the case of Tabubil Automotive (with Boroko Motors), Migalsim and Atemkit were assigned as local partners. The last AR (including an FS) was submitted to IPA for 2008; at that time according to the FS the company had net assets of K2.8m indicated. It paid a dividend of K200,000 in 2007 and one of K391,000 in 2008. In other words, its strategy appeared to be one of maximising present income rather than accumulating funds with mine closure in mind<sup>30</sup>.

**Tabubil Bakery:** This is an old-established, small company running a store in the town centre of Tabubil. Originally dominated by expatriate shareholders it was taken over by three people from Kavorabip and a lady from Oktidetau in 2007. It last reported to IPA at the end of 2008 having assets of K0.7m and liabilities of K0.6m.

**Tabubil Traders:** Although small this company is of interest for two reasons: a) it draws its shareholders from a very wide range, from Tabubil to Kiunga, one of the few companies to do so and b) its shareholdings are dominated by investments made by the village/clan investment bodies which owned/own what was supposed to be the new umbrella company back in 2002, SMIHL. This is important since it indicates that whilst the SMIHL idea (like Cloudlands before it)

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<sup>29</sup> David Wissink, personal communication.

<sup>30</sup> One of the anonymous referees for the draft of this report asked: 'After so many years in business, have the local people taken over the business or some of the management?' The answer appears to be 'no'.



failed, many of the small clan/village units of which it was composed have survived better than it. This is in part an indication of the individualisation; smaller groups seem to survive longer than larger ones. In addition, in this case, where one small clan unit decides to invest, others have followed it.

#### 4.2.5 Other companies

Many, if not most, of the companies identified as being strategic or key in 2006 have, as seen in the preceding section, not performed very well in the intervening period. By contrast, some other companies, not identified as of being significant in 2006, have performed reasonably well – some very well. In Appendix A sixteen companies in addition to those dealt with so far are listed. Some (Tabubil Hotels or Star Mountains Properties and Investment) are effectively failed companies; several – Suku, Bugum, Umeng, Handup, Adiyap, KS Investments – are new companies set up by individuals rather than clans, and some of them are new ventures from Oksapmin people living in Tabubil. Six others are briefly mentioned here:

**W & W Construction:** Established by a Highlander (but long-time resident in Tabubil) and now employing 125 people, its principal is also an investor in the other business interests of his local partners in W & W.

**Tabubil Security Services:** A rival to the Tabubil Engineering/FCS-owned Fubilan Security Services. In a fiercely competitive market (every landowner at virtually every mine site wants a security contract), this company's margins are very slim despite the fact that it is one of the biggest employers at Tabubil.

**Kana Kungit:** Although classed as a Lanco by OTML, 51% of the shares in this company are held by a Southern Highlander in partnership with his partners from upper Ningerum. When it last reported to IPA in 2009 its net assets were close to K5m.

**Tawap Kamen Investments:** Employs six expatriates and as a consequence spent K11m on wages and salaries when it reported last in 2009 – as against a total turnover of K26m and a pre-tax profit of K0.5m.

**KCS Ltd:** This is a small company in Kiunga originally established to run the OTML accommodation at Kiunga Airport and owned by Kiunga landowners. Despite its small size it had, when it last reported to IPA in 2010, nearly K11m in net assets; it has used the profits it made from catering to invest in real estate.

**Mepu Investments:** A very small company in Kiunga mentioned here because it is the only one in the OTML impact area where the majority of shares are owned by females.

In addition to the companies mentioned above one should not overlook the fact that there are estimated to be several hundred more registered with IPA from the North Fly – and with the start-up of the Stanley Gas Project many more can be expected to be formed.

#### 4.3 Restoration stage three

OTML awards local contracts valued at between K250 and 300 million each year with catering being by far the single biggest single contract (worth between K150 and K200m annually). As noted earlier, its statistical records for local companies began to weaken in or around 2006 and were more or less abandoned by 2010. The author of the *Back to Basics* strategy had moved on and, it is fair to say, shortly afterwards OTML – whilst still managing to issue contracts – had more or less lost track of LBD. To rectify the position, it poached the manager of the most successful, local, privately owned company to run its Economic Programs Department at the end of 2013 and asked him to immediately draw up a plan to re-establish a working system.

His analysis was as follows:

- a) Weaknesses in the OTML system itself: 'as and when required' contracts provided Lancos with irregular incomes; improved vetting of Lancos was needed in the contract awards process; joint venture arrangements – usually arranged by OTML – were generally disadvantageous to local businesses.
- b) Weaknesses among Lancos: few benefits were flowing into the community; many businesses appeared to be unsustainable; many companies were failing in the area of compliance with statutory requirements; boards and managers were frequently inexperienced and/or incompetent; board interference in management was frequent; many companies had cash flow problems.
- c) Rectification of issues under b) above:
  - Undertake a compliance audit including indicators of compliance with IPA, IRC, Nasfund and insurance requirements; with OTML safety and environmental compliance; payment of dividends; extent of community benefits; regularity of board meetings and AGMs; analysis of liquidity; frequency and promptness of production of annual reports and audits; regularity of payment of wages to workers.
  - Assess all applicants for contracts in terms of past performance and future capability of delivery.

- Assess strategic implications of Lancos and their external partners.
- Assess financial capacity and technical resources.
- Select contract awardees at least in part on the nature of their shareholdings (implicitly, the wider the share spread, the better).

The structure recommended for adoption was two-tiered:

- A. Economic Programs Department would liaise directly with two reformed 'umbrella companies', one being SMIHL and the other being one to deal with all downstream Lancos (CMCA Lancos), plus nine large companies and MRSM.
- B.
  - i) SMIHL: to act as umbrella company for 15 smaller Tabubil-based Lancos
  - ii) The CMCA Umbrella Company: to deal with eight major downstream companies.

This would reduce the total number of contractors to 35.

The present study has no comment at this stage on the proposals; the practical record of the Economic Programs Manager is too good to ignore. However, it will become apparent in the rest of this report that other alternatives to these proposals may be available to OTML.

## 4.4 Ok Tedi summary

### 4.4.1 Caution

Because of the irregularity of reporting by Lancos to IPA and because the financial data available for exempt companies is of limited extent, summarising the data overall provides imprecise results which should therefore be treated with caution.

### 4.4.2 Constitution

Of all the Lancos examined in this study, a quarter have their own company constitution (irrespective of whether or not they are appropriate). In the case of the OTML-associated Lancos the proportion is slightly more at 30%. There are significant advantages to a company in working out its own constitution. However, although in the Ok Tedi case the larger, more financially successful companies tend to have them there are also small companies that appear to do well without them.

### 4.4.3 Exempt companies

Ten of the 36 companies listed are not exempt from submitting independently audited accounts. Two of these have not submitted such accounts (and one is MRSM dealt with earlier).

### 4.4.4 Promptness in reporting to IPA

In the study as a whole the companies included were (if they had reported at all to IPA) on average 3.5 years behind in terms of their AR reports appearing on the IPA website.. At Ok Tedi the average lag time was 3.1 years.

### 4.4.5 Directors

A total of 190 directors for the 36 companies (excluding MRSM) were reported. This included seven expatriates (1 Malaysian, 6 Australians) and ten females (or 5%). For the companies for which data existed, 195 former directors were listed; this suggests that there is a turnover rate of less than 0.5 directors per year of the average company's operations. Again, for those companies for which full data was available, the mean number of directors per company was just under five. Among the companies listed, exactly half the directors held a single directorship and the other half held multiple directorships; three individuals held five or more directorships (and it is known that these individuals also hold several other seats on boards of companies not included in the study).

### 4.4.6 Ownership of companies

Ten of the companies studied can be said to be owned/controlled by one or two people – these include: Cloudlands Investments, Tabubil Security Services, Kana Kumgit, H.W.D.C.<sup>31</sup>, Suku, Umeng, Adiyap, Bugum, Ningerum Transport and Progress. This group contains companies that have enjoyed some success and others that have been abject failure. Another ten companies can be said to be controlled by a small (<10) number of individuals, W & W, Hore Binkia, Tabubil Hotels, Tawap Kamen, KS Investments, Handup, Mepu, Kiunga Security, Tabubil Automotive and Tabubil Bakery – which are again a mix of largely undistinguished performers with, in this case, few outright failures. A third group, again of ten companies, has a broad based shareholding; it contains some rather successful companies (Camp Administration and the Faiwol Group) as well as some failures (SMIHL, Azobelle). The only group with no (financial) failures is that controlled by MRSM (Tabubil Engineering, FCS and – less so – Highway Transport). In other words, it does not look as if the nature of shareholding as such is a key to failure or success.

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<sup>31</sup> On the technical ground that its two shares are both owned by one person from Tmindemasuk.



#### 4.4.7 Lanco employment

Whilst the total in the column labelled employees in Appendix A (3066) does not make a great deal of sense because those numbers refer (in most cases) to the figure mentioned in the year of the last AR submitted to IPA, it is reasonable to state:

- OTML in 2013 employed 2,310 people, it is likely that the Lancos shown in Appendix A employed at least 3000 people and probably more.
- Whilst those Lancos include almost all the largest ones there are several hundred small businesses, some owned by landowners, some not, in the mine's impact areas. Businesses around Kiunga are notably under-represented in those selected for study. It is probable, therefore, that Lancos across Kiunga District employ twice as many people as does the mine itself. Very few expatriates are employed directly by Lancos (although expatriate accountants and auditors gain indirect employment by them). Only nine were enumerated in the companies shown – or about 0.4% of the total, compared to 5% by OTML – and six of these were in one company alone.
- It might be possible to establish the provinces of origin of employees with a more intensive census (though given the risks that respondents might perceive in stating they did not come from a particular 'local' area, even this may be doubted). This study cannot provide such information

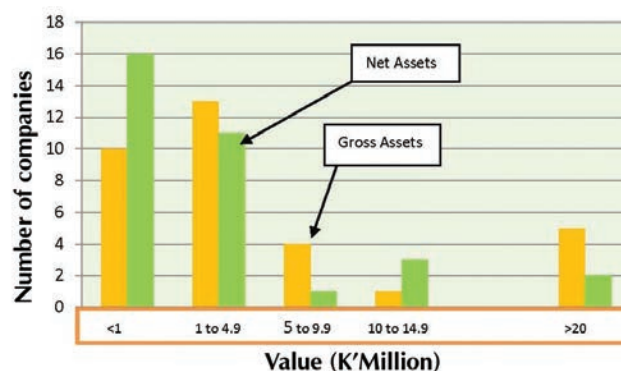


Figure 7: Assets of OTML Lancos.

unfortunately. There is a distinctly strong possibility that most of these employees were not residents of the area when OTML construction started.

- Data on employment of females is slightly more substantial but cannot be guaranteed to be accurate: 12% of employees in interviewed companies were female (but half these were in one company, Star Mountain Clothing).

#### 4.4.8 Assets and liabilities

No data is available for three companies (either because they are recently founded or because the relevant page is missing in the IPA record) and MRSM in this case needs to be omitted. For the 33 companies remaining the total net assets shown in Appendix A (bearing in mind they refer to different years of AR) totalled around K230m with liabilities totaling K100m.

**Table 4:** Selected financial data for Ok Tedi 'umbrella' and non-exempt companies

Company	Assets	Liabilities	Turn over	After Tax Profit	Dividend	Donations
Cloudlands	K2.4m[10]	K0.5mK[10]	?	?	?	?
SMIHL	K3.7m[10]	K2.2m[10]	?	?	?	?
Tabubil Engineering	K37.2m[11]	K8.6m[11]	K33.1m[10]	K5.5m[10]	K0.3m[10]	K14,920
Fubilan Catering	K23.6m[07]	K11m[07]	K29.9m[07]	K3.3m[07]	Nil[07]	K33,024
Camp Administration	K25.2m[11]	K10.3m[11]	K31.5m[11]	K0.7m [11]	Nil[11]	K17.268
Tawap Kamen	K9.8m[09]	K4.8m[09]	K25.9m[09]	K0.4m[09]	Nil[09]	K500[09]
Highway Transport	K4.4m[10]	K1.1m[10]	K3.85m[10]	K0.17m[10]	Nil[10]	Not specified
Madang Star International Hotels	K31.1m[11]	K30.9m[11]	?	?	?	?
Lower Ok Tedi Investments	K5.1m[12]	K2.5m[12]	?	?	?	?
North Fly Rubber	K3.2m[07]	K1m[07]	K4.4m[07]	K0.42m[07]	Nil[07]	Not specified
Tabubil Automotive	K5.0m[08]	K2.2m[08]	K12.7m[08]	K1.4m[08]	K0.4mK	Not specified

When companies are clustered into groups by gross and net assets, as shown in Figure 7, it is evident that the distribution of Lancos by asset size is rather like that of the world's mining industry itself: there are many small companies, a few large ones and very few in between. When net assets are considered, it is a little disappointing to realise that each of the two Ok Tedi-related, MRDC-managed investment funds (shown in Table 2 above) had generated more value than have all the listed businesses combined (note that Table 2 is in US\$). To add to that disappointment it should be noted that there are only two companies with net assets in excess of K20m; one of these is managed by MRSM and the other is the old-stager run by Warren Dutton for the past 45 years, Ningerum Transport.

#### 4.4.9 Profits and dividends

Some data collected during interviews is available for smaller companies but the only data relating to profits and dividends of an independently audited nature comes from Financial Statements submitted to IPA. That data is shown in Table 4. Only seven companies reported turnover but this 'totalled' (if one ignores the fact that the numbers come from different years) over K140m which is the equivalent of nearly 60% of the total value of local contracts awarded annually in recent years. After tax profits represented around 9% of gross revenue while dividends, paid by only two of the seven companies, represented only 5.5% of profits.

#### 4.4.10 Directors' fees and expenses

The sample size for these items is even smaller than for the preceding item because a) the largest company, Tabubil Engineering invoked clause 212(3) of the *Companies Act* which allows a FS not to reveal directors' remuneration 'where all shareholders agree not to do so'<sup>32</sup> and b) because four companies revealed directors' fees only, while two revealed those and directors' expenses. Along with the dates of the reports the data are of extremely limited value. This is unfortunate not least because it is by no means improbable that some of the expenditure by board members may not, in the accounts, be classified under their fees or expenses but under such items as travel, training and accommodation.

### 4.5 Conclusions, a question and a potentially happy ending

#### 4.5.1 Some conclusions

a) Business development at Ok Tedi, despite the small spots of light cast by companies like Ningerum Transport, Camp Administration and Faiwol Investors, can be described as having been only modestly successful – and in many cases entirely unsuccessful – from almost all viewpoints. It has, in general, involved OTML staff in a great deal of often fruitless work; it has enriched very few people; as a means of storing money for the future it has been shown to be a

**Table 5:** Directors' fees and expenses Ok Tedi Lancos

Company	Year	No. of Directors	Directors fees/person (Kina)	Directors expenses/person (Kina)
Camp Administration Ltd.	2010	5	10,000	28,000
	2011	5	10,000	28,400
Tawap Kamen Ltd	2008	6	3,333	Not shown
	2009	6	1,250	Not shown
Highway Transport Ltd	2009	5	745	Not shown
	2010	5	660	Not shown
Fubilan Catering Services Ltd	2006	5	14,600	44,900
	2007	5	15,200	39,900

<sup>32</sup> No documents are on file to show that all shareholders did in fact consent to this. The shareholders are MRSM, Imiba Investments Ltd., and Bolangong BG. At least one of the Tabubil Engineering directors is a director of MRSM and two of its directors are also directors of Imiba so presumably they could invoke 212(3) but whether all shareholders did so cannot be confirmed unless documents are available. In a matter such as directors fees one might think it reasonable that this should be the case.

distant second-best to professional investment; it has caused envy when contracts have been awarded and misery when companies have found that contracts awarded are not contracts fulfilled (and paid for); only in rare cases have communities at large benefitted. On the other hand there are several dozen small or medium enterprises that manage to survive and a few that prosper.

- b) There is enormous scope for a much more detailed analysis of the companies around the project.
- c) Despite the lack of success, there are now a score or more young business people who have learned their trade. A small return perhaps for an investment of so much energy.
- d) Clan-based companies have not worked at Tabubil and there has not been any successful attempt to set up companies serving the whole project area. Kiunga in particular appears to have been left to its own devices in terms of LBD. Some other companies, not run on a clan basis, have reasonably successful despite the fact that successive umbrellas supposedly protecting them have been blown away by local economic and political realities. The stimulus for business seems to come from – no surprise here – individuals, not idealised communities. Some of these individuals are greedy, selfish and simple rentiers; but there are others who can see that their own future to some extent depends on having a relationship with the community that helps them reach their own goals and some of these are emerging at Ok Tedi.
- d) In general, in this case, two sets of umbrella companies have failed, so it is a little daunting to know that another set are currently being proposed as a means of improving the situation. This leads to the question.....

#### 4.5.2 A question

Why has a Star Mountain Anitua or IPI or Trans Wonderland not emerged at Ok Tedi? Siop's booklet provides her analysis and I will not repeat it here other than to mention that it ascribes LBD failures at Ok Tedi to lack of preparation of the community for participation, and lack of local leadership, in business. She may be right. I would simply add that perhaps there is a larger-scale factor at work: the fact that the project covered such a wide range of ethnic groups (a coverage that has only grown over the life of the

project) combined with the suspicion that LBD work has always tended to be heavily focused on Tabubil whilst Kiunga (or rather non-Tabubil businesses) have been left largely to go their own way.

Jealousies between communities exist in the area and have done so for a long time. At least some of the fuel for the great Ok Tedi legal battle of the mid-1990s arose from this, in my view, as people in the lower Ok Tedi, who had been the beneficiaries of what few benefits Australian rule had brought to the North Fly till then and had always tended to look down at the people around Mt Fubilan, reacted with not just envy, but with uncomprehending annoyance when the mine benefits went largely to the 'uncivilised' mountain people. It will be noted in the above descriptions that very few companies studied operate in both Tabubil and Kiunga (Faiwol Investments, outsiders to both Wopkaimin and Awin, is one of them).

Now, whilst the bulk of the OTML money, contracts and support may be in Tabubil, Kiunga is far more conveniently located to undertake business generally. Businesses there can gain from working with OTML but can also involve themselves in a wider range of more ordinary, more urban, non-OTML activities<sup>33</sup>. OTML never quite managed to get companies that bridged both mine site and Kiunga under one heading. Indeed it can be argued that OTML has tended to let business in Kiunga go its own way; neither Siop's work nor that of *Back to Basics* paid much attention to what was happening in the town. It may be too late, but as OTML embarks on its third re-appraisal of LBD structure perhaps it might consider how Kiunga might fit into the overall structure of its LBD programs?

#### 4.5.3 A surprisingly rather happy ending

Many OTML businesses have been provided with a second chance because OTML has felt it not to be in its own best interests to allow some companies to fail and because of extensions in the mine's life. Some have failed nevertheless after rather more than a second chance. But right now all businesses in Kiunga, Olsobip and Telefomin have a very large second chance. Those in Kiunga (or with good relations in the area) can look forward to many years of trying to satisfy the needs of the emergent oil/gas industry. The Faiwolmin who have spent thirty years learning business the hard (and smelly) way can with reasonable certainty look forward to applying their business skills to whoever develops the Pnyang hydrocarbon project<sup>34</sup> – on their own terms. Somewhat less certainly (since so many false dawns have risen there in the past) the Telefomin and Oksapmin have renewed hope of seeing the Frieda come into being shortly.

<sup>33</sup> The advantages of doing business in Kiunga are not lost on the Chinese retailers who have moved in there in recent years.

<sup>34</sup> As of February 2015, there is growing interest by ExxonMobil to bring P'nyang into production.

## 5. Porgera

(with some comments on Misima)

### 5.1 Introduction

#### 5.1.1 The original MoAs and the emphasis on IPI

Porgera and Misima projects were negotiated sequentially within a few months of each other; the Misima SML was issued in late 1987 and the Porgera SML was issued in May 1989. The two projects were not only very different technically and financially (Porgera was big and had high grades of ore, Misima was much smaller and blessed with more marginal grades) but also socially. Misima people, who did not wish to see outsiders on their land, effectively overruled the Cabinet of the country who wished to ban fly-in/fly-out mining; Porgera people insisted that FIFO must be minimised and outside workers must be resident at site. Porgeran negotiators were unified (in the face of outsiders); Misima negotiators were split. The national rules on who should receive royalties had the unfortunate effect on Misima of dividing a small island community into recipients and non-recipients, which bedeviled the whole project. Whilst the same rules did leave some of Porgera's residents marginalised (and all those people living in the Paiela portion of the District), most Porgerans managed to stake a claim to be royalty recipients through their overlapping clan membership system. Further, the Porgera negotiators surprised the State's parties to the negotiations by working closely with the Enga Provincial Government's representative (Harry Derkley) and by the forcefulness with which they made and pursued their demands, and the details of the arrangements they proposed to ensure demands agreed to would need to be carried out.

In terms of LBD the Porgerans demanded (and believed they had obtained) guarantees that:

- a) Competitive local (first priority) and PNG companies should be granted supply contracts;

- b) The project should develop an LBD program and employ fulltime staff to assist Papua New Guineans to set up businesses, to implement the LBD program and to provide advice to businesses, especially those that had the potential to outlive the project itself;
- c) A committee chaired by the then Department of Trade and Industry would monitor progress....
- d) ...based on quarterly reports from the PJV.

The first two points were to a large extent implemented in practice, the third and fourth points were only implemented desultorily.

These guarantees won by the Porgerans were important because they had taken the initiative, well in advance of the Development Forum discussion during the exploration phase of the mine, and had, with the assistance of PJV, established their own umbrella company. In early 1983, Mick Searson, the then Porgera Exploration Camp manager and Jolson Kutato had visited Les Kewa (Mick's counterpart at Ok Tedi) to pick his brains on how local landowner businesses might be organised. At the time Kewa's brainchild Cloudlands was doing well. When they returned they both began to plan for business development at Porgera; Jolson Kutato has been the Chairman of Board of the company he and Mick founded, Ipili Porgera Investments (IPI), for nearly thirty years.

By mid-1983 IPI was established and had started business in the most basic way – by establishing a supermarket at Porgera Station and developing a service station<sup>35</sup>. IPI originally restricted ownership of its shares to Porgera residents who were allowed to purchase a maximum of 500. By 1985, 5000 shares had been bought. The company was effectively run by PJV employees<sup>36</sup> until April 1989 when its

<sup>35</sup> Although Misima Landowners also tried to do this, internal rivalries led to Bwagaia's small retail sector quickly falling under the control of foreign traders.

<sup>36</sup> For an excellent discussion of IPI's early history (as well as of a survey of small scale businesses at Porgera in 1994) see Glenn Banks, 'Business as Unusual' in Dilemmas of Development edited by Colin Filer in 1998 and available on ANU epress.



management was handed over to landowners. A previous PJV staff member joined IPI as its manager. In other words IPI was well-established and operating several years before the Development Forum took place. In this respect the Porgerans followed the Wopkaimin at Ok Tedi – but they, unlike the Wopkaimin, were able to follow up the establishment of a landowner company by taking advantage of the Development Forum (something never available to Ok Tedi landowners). In addition to the commitments they squeezed out of the State<sup>37</sup> mentioned above they also got the State to agree to ‘make available loan guarantees on a case by case basis of up to K1 million per annum to Ipili Porgera Investments for a period of five years commencing on June 1, 1989’ and provide ‘the services of a professional adviser’. The first commitment was partly fulfilled<sup>38</sup>, the second was not; the PJV had to provide that. This was the first time the State had agreed to provide a source of funding for project-related Lancos. The Porgera negotiators also insisted that, in order to encourage local business, land blocks at Porgera Station be resumed and re-allocated purely for commercial or government purposes, much as had been done at Kiunga; they also laid down the outline of a plan for a new township at Paiam.

It is important to note that right from the start local Porgeran leaders put their combined faith in one company – Ipili Porgera Investments. They did not all compete against one another in business – even though it is certain that they do compete with one another in most respects, fiercely. They focused their considerable combined energies on getting IPI to work as THE Porgera business. In this sense IPI was never an umbrella in the form of the original conception of Les Kewa; it was not there to protect, like a mother hen, little fluffy local businesses and encourage them each to lay their own quota of little eggs. It was there to lay the very big egg that would sustain Porgerans for decades to come.

Other financially golden eggs were to be laid as a result of the Forum. The Porgera Development Authority [PDA] was set up, originally seemingly as a servant of the Porgera Local Level Government. That relationship was rapidly turned on its head, unsurprisingly since the PDA was rather generously funded whilst the Local Government was not allowed to participate in mine benefits. Further, the Paiam Town Development Authority (which was established under the aegis of the PDA) was another focus of landowner leader efforts. A third focus was on Mineral Resources Enga

– the repository of the Enga Provincial Government’s and the Landowners’ 5% share of mine production<sup>39</sup>. The fourth and more diffuse focus was on the various bodies established to receive project royalties at the centre of which was the Porgera Landowners Association. Different groups of allied landowners – almost as if by tacit agreement – focused on one of these four sources of funds (and political power).

Unfortunately for those Porgerans focusing on IPI, the newly independent company soon ran into difficulties, experienced heavy losses in 1991 and 1992 and was close to bankruptcy. As Banks accurately describes the events of that time, PJV had too much at stake to allow IPI to fail. The PJV worked with the PNGBC in a successful attempt to reschedule IPI’s loans and seconded one of its senior employees, Don Flanagan, to resurrect IPI in 1993. It was a slow but eventually successful recovery.

### **5.1.2 Business development as a project risk minimiser**

Very early on in the development of the mine at Porgera, Vic Bott, the Site General Manager at the time, realised the risk posed to a project dependent for its supplies on the Highlands Highway along which most communities had no development opportunities. This was the motivation both for Bott’s proposing the establishment of the Tax Credit Scheme and for PJV’s spreading its LBD program far beyond the immediate, physically impacted areas of the Porgera Valley. The TCS allowed the PJV to use a small fraction (2%) of its due taxes to build approved community infrastructure across a wide swath of country around the mine. But, in turn, the award of contracts to build schools or health centres, or improve bridges and roads provided local businesses across Enga and beyond with work. Whatever the motivation for a resource company might be for supporting LBD, in this particular case there is no doubt that it was a community relations exercise – and one that has worked quite well to the present.

## **5.2 PJV’s inputs to LBD**

PJV put considerable effort and resources into LBD (see Banks, cited earlier, for early details on staffing inputs).

It continues to have active participation in the area. According to PJV statistics, between 1990 and the end of 2013 the Porgera mine has issued K3.7 billion-

<sup>37</sup> Since PJV was not a party to the negotiations, it was relatively easy for the State to agree to the need for an LBD program.

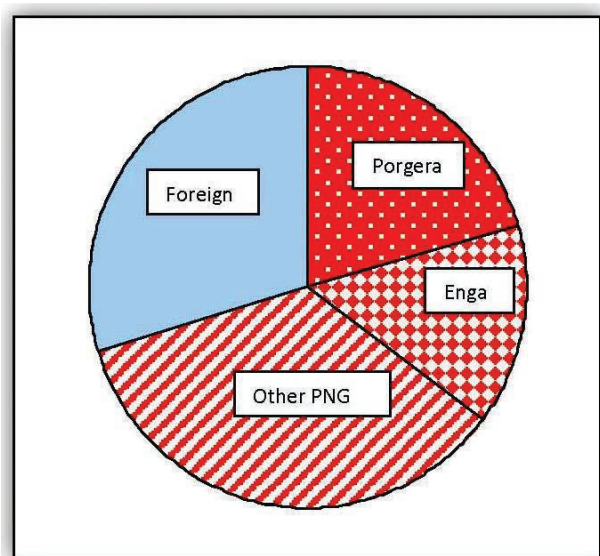
<sup>38</sup> Though it took a court case in 1996 initiated by IPI Board members to encourage the State to fulfil this commitment.

<sup>39</sup> As shareholders in the PJV MRE bought into a system whereby each partner in the JV paid its share of the project costs and was allocated its share of production; it was then entitled to market that gold in any way it decided upon.



**Table 6:** Average value of contracts awarded 2011, 2012 and 2013 by location of contractor PJV

Location of contractor	Average value per year Kina million	Value in US \$	% share	Share
Porgera	102.5	46.1	16.8	) ----- 63.8%
Enga	58.8	26.4	9.6	
Other PNG	227.8	102.5	37.4	
Foreign	220.6	99.3	36.2	36.2%
<b>TOTAL</b>	<b>609.7</b>	<b>274.3</b>	<b>100</b>	



*Figure 8: Distribution of Porgera contracts 1990-2013 [Total value 3,706.5 million kina].*

worth of contracts of which value a little more than 70% was awarded to PNG companies. Porgera businesses alone worked on contracts worth K764 million (or just under 21% of the total) in that period, or, on average, dealt with contracts worth K30 million a year. However, because of very large variations in the value of the kina over this period, the absolute values just quoted do not make a great deal of sense (the percentages do, however).

### 5.3 The present situation

#### 5.3.1 Local contractors are almost all small scale

All contracts are awarded by the PJV contracts section. Ideally, (if one accepts the idea that the key function of LBD is one of community relations and the maintenance of the social licence to operate), the PJV Community Affairs staff should also be involved, or have some say, in every contract award. But the limited staffing availability in the community affairs area has undermined this need to some extent.

Local (i.e. PNG) contractors are formally divided by PJV staff into three groups:

- Local community project contractors – these largely undertake work on TCS and other infrastructural projects; 163 such contractors were listed as current in mid-2014 of which 12 were Porgera-based, 122 Enga-based and 29 based elsewhere. By far the most common form of contract was for the contractor to lease a vehicle or some form of plant to the PJV community projects (128 of the 163 contracts were for plant hire). But only 11 of the contractors were registered with IPA as an incorporated business group or company
- Local supply contractors – overwhelmingly these are suppliers of everything from toilet paper to heavy equipment from other parts of PNG. Of the 344 listed as current in mid-2014 only 23 were Porgera-based and eight were from Enga.
- Site services contractors – 133 contractors were registered as largely undertaking work around the site and Porgera more generally. Of these 86 were listed as Porgeran, 36 Engan and 11 others; it should be noted that at least some of the ‘Porgerans’ may well be people who migrated into the valley after production commenced. Two forms of contract dominate this sector: labour hire (44) and bus or light vehicle hire (37), with plant hire accounting for a further 19. (Labour hire has unfortunate implications for inward migration – since most of the labour thus hired through Lancos is not of local people.) Of these 133 contractors a mere seven were registered in any way with IPA.

In other words **the overwhelming majority of businesses involved in LBD at Porgera are small family or individual concerns which are unregulated and make no appearance in the IPA records.** Appendix A is a list of selected PJV contractor Lancos registered with IPA. Not only is it a short one, but seven of the

fifteen companies on it are certainly non-Porgeran owned. So, in effect, and in rather strong contrast to the situation at Ok Tedi, Porgera LBD is dominated on the one hand by a giant, IPI, (and to some extent by the company dealing with camp cleaning)<sup>40</sup>, and on the other hand by a swarm of Lilliputian enterprises, with very few formally registered companies of any size in between (and those that do exist – such as EJ Sisters of Laiagam, Jim Leo of Mulitaka, Soakofa of Wabag or Mapai Transport of Lae - are owned by non-Porgerans). Why this should be so is not clear. Many Porgerans themselves will simultaneously remark that too many contracts go to non-Porgerans and that trying to get a business going in Porgera is very difficult as one is ‘expected to share one’s blessings’, a point made by Banks’ papers referred to earlier. The impression given is that for a Porgeran to be successful at business it is necessary not to be resident in Porgera.

One other feature of the IPA records relating to Porgera businesses is the very high number of companies that have the status ‘removed’, that is, removed from the IPA register. It is difficult to state with any precision what that proportion is because that would require one to track down all such Porgera businesses and establish their status but simply searching on the IPA website for ‘Porgera’ (that is for companies which have ever registered with IPA which contain Porgera in their name) provides 69 names. Of these 39 have the status ‘removed’, and only 26 are still registered. The names of many of these failed businesses are suggestive of what sorts of business do not go down very well at Porgera: Porgera Cultural Commodity Exports, Porgera Theatre, Porgera Restaurant, Porgera Fun Haus, Lagaip Porgera Paradise.... In other words, whilst to prove this assertion would require a great deal of careful searching through the IPA records, there is the strong suspicion that not only do most Porgera businesses not register with IPA but that the failure rate of those that do is unusually high.

If this conclusion is correct, then the main point made in Banks’ paper, ‘business as unusual’, written 16 years ago remains valid today: formal business compliance to best practice is not only weak among the hundreds of tiny trade stores and *haus kai* that line all roads around Porgera, but is also barely applicable to the hundreds of businesses that undertake contract work for the mine. And because they are unregistered, it is more difficult at Porgera to establish if they comply with normal business practice, to specify the numbers of people employed in LBD and to assess their earnings (one of the problems faced by Johnson). The total numbers shown in the employment column in

Appendix A amount to 1213 people but this excludes the hundreds of people who work in the family or individual business that dominate contracting services (as well as the hundreds more who run businesses that are not contracted to work for PJV). The best estimate that I can give here is that it seems unlikely that fewer than 2000, and more probably closer to 3000, people around Porgera are involved in LBD.

A further implication of Porgera LBD being dominated by unregistered companies is that it is reasonable to conclude that for most Porgerans, their involvement in business is simply to try and maximise the immediate benefits the mine can provide them with.

### 5.3.2 The large companies

#### a) IPI

In 1997, the company had negative retained earnings, a K2m debt to banks, 132 employees, a turnover of US\$4.7m and net assets of zero. In the same year, Donald Flanagan was seconded from PJV to manage the company and recovery began. In 2006 Scott O’Reilly took over from Flanagan. As of the end of 2013 IPI had US\$13.2m in retained earnings, nearly 1200 employees (although fewer than 400 of these are in Porgera), a turnover of US\$87m and net assets of US\$34m (Figure 9). Flanagan and O’Reilly deserve considerable credit for these achievements.

IPI is now the 100% owner of ten subsidiaries, one of which in Australia is also a 50% owner of an eleventh. It has operations at seven locations around PNG and nowadays derives the bulk of its income from customers other than PJV. This fact is especially important because it suggests that, with IPI having matured to become a national company increasingly independent of PJV, there is some possibility of revisiting the issue of providing a local umbrella company – one whose main task is to nurture local, infant companies. IPI has never taken on this function – and with justification since its main aim has been to succeed in its main goal of amassing assets that will last long after the closure of the mine. To date it has succeeded in doing this which is fortunate since no other local company seems to be doing this and, although we have no information after 2007, MRE was seen earlier to not be performing very well.

‘Revisiting’ the issue is not to say that such an umbrella support company should definitely be established. It may turn out to be the case that

<sup>40</sup> Halfway through the write-up of this paper, the contract for camp cleaning came to an end and PJV used the opportunity to award it to the commercial arm of the Porgera Women’s Association.

would-be business owners prefer to work as unregistered, family or individual operations. However, given the facts that:

- so few medium-sized Porgera-owned companies exist;
- that a new generation of leaders is now emerging in the Porgera Valley who, in general, do not control any of the major centres of politico-economic power in the valley, and
- that whereas in the past IPI might have jealously guarded its proprietary 'rights' over major business opportunities around the mine, it does not need to do so now; then such an option at this stage has its attractions.

One other aspect of IPI may be a cause for concern whilst a second is of interest. The matter of possible concern is this: from the papers lodged with IPA regarding shareholding (which, in contrast with financial data, are up-to-date) it seems as if shares may now be held by a very small number of people – largely the directors – rather than being held by the wider Porgera community. This report cannot come to a definitive conclusion on the matter but should mention it.

The other interesting fact is this: in December 2014, after this section was written, IPI submitted to IPA its Annual Return for 2008 – which had been audited and signed off for in April 2011. It is the most recent year covered in the IPA database for IPI. In that year the consolidated company had revenues of K79m, costs of K76m and a pre-tax profit therefore of K3m. The costs were made up of K35m for costs of inputs and K41m in administrative expenses. In the course of the year donations made by the company totalled just under K96,000. Directors' costs were assessed at K827,000, directors' fees were stated to be K5.2 million<sup>41</sup>, and directors' 'accrued gratuities' were valued at K7.12m. These numbers are a rather high proportion of the company's costs (as well as being four times the value of the company's pre-tax profits for 2008). In the same year, the directors determined that no dividend would be paid. No comparable information for any year after 2008 is publicly available.

#### b) Kupiane Yuu Anduane [KYA] and Kupiane Investments Limited [KIL]

In discussing MRE earlier it was argued that, although that organisation is part of the MRDC group, because its Board is overwhelmingly composed of EPG and landowner representatives, there is a strong case for terming it a Lanco, whose

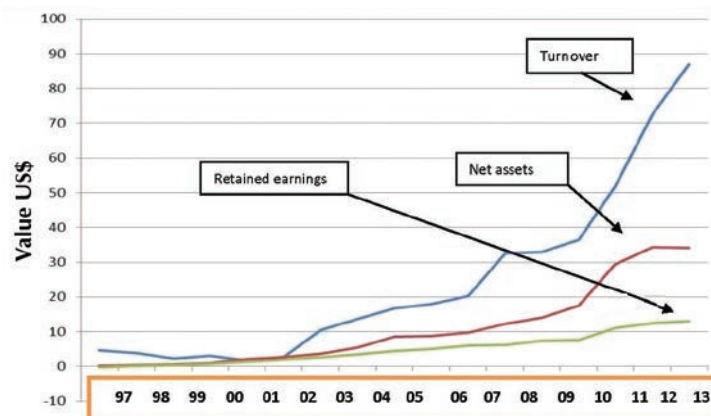


Figure 9: Financial Indicators for IPI.

Table 7: Some (outdated) financial data for Kupiane Yuu Anduane

Year	Profit/Loss (Kina)	Retained Earnings (K'Million)	Net Assets (K'Million)	Directors Fees (Kina)
2005		2.5		
2006	-14,8423	2.4	10.4	260,000
2007	-11,6240	2.3	10.3	260,000

<sup>41</sup> In the table showing directors' remuneration the total is K10.1m

business happens to be investment. In the case of these two companies, KYA was established to invest in both MRE and, later subsidiarily, in KIL; its income is solely derived from dividends paid by these two companies. Its 112,600 shares are distributed between landowning clans and sub clans for whom 24 representatives act as trustees (the Porgera Development Authority is also allocated shares). It has twelve directors most of whom are trustee shareholders (including one woman).

The main expense of KYA is in distributing the income it gains. In 2006 it handed out just under K675, 000 to clan and sub clan members (and spent K18,560 on security for the event). In 2007, it had not received any dividends and did not pay out. However, in that year its accumulated loans made to the Porgera Land Owners' Association had reached a sum in excess of K2.8m. According to the auditor these were 'advances to meet Operational Expenses' and had 'no fixed term for repayment'. Perhaps surprisingly, the auditor included this sum (together with a further K600, 000 loaned to KIL) in KYA's assets – of which these loans comprised one-third of the total.

For Kupiane Investments the picture is similarly incomplete. This company too has no Annual Return (though some other entries are present) in the IPA website in any year since 2007. All the shares in KIL are owned by KYA. In 2007 the company had twelve directors but in March 2011 this was cut to six in a reshuffle that re-introduced Mick Searson to the Board; Searson, it will be recalled had, with Jolson Kutato, set things going for business at Porgera back in 1983. These changes cannot be tied in here to any significant financial changes in the business, given the lack of publicly available information for the past six years.

The last available Financial Statement for KIL provides the following information:

The income for KIL comes largely from the rental on properties it owns in Port Moresby (which include the building in which the PJV Port Moresby office and that of PNGCOMP are located). In 2007 at least its profitability was somewhat impaired by the fact that major expenses were accrued in maintaining these properties. But a further restraint on KIL's performance was that it had

**Table 8:** Some (outdated) financial data for Kupiane Investment Ltd

Year	Turnover (Kina)	Profit/Loss (Kina)	Assets (K'Million)	Liabilities (K'Million)	Dividend	Director Fees
2006	2,595,268	-74,7195	24.2	1.4*	Nil	0
2007	2,965,435	12,925	24.2	1.2	Nil	0

\* Annual Return shows liabilities as 22.8mK; once a revaluation of assets was allowed for this number was reduced to 1.4mK

**Table 9:** Financial data for Total Cleaning

Year	Turnover (K'Million)	Profit/Loss (Kina)	Dividend (Kina)	Donations (Kina)	Directors' Costs*(Kina)	Net Assets (K'Million)
2008	4.5	98,870	0	0	263,653	1.7
2009	4.8	86,431	0	9,760	240,000	1.8
2010	5.3	112,263	0	13,191	240,000	1.9
2011	6.7	-(9,757)	0	27,611	240,000	2.7
2012	6.7	216,459	0	4,000	466,348	2.9

**Note:** This represents fees and expenses.



lent out funds (with no fixed date for repayment and apparently at nil interest) to Porgeran clans, individuals and the Landowners Association. The latter had outstanding debts to KIL of slightly more than K1m in 2007 and other local debtors owed a further K0.2m.

**c) Total Cleaning and Housekeeping**

This is an unusual company insofar as it is the only one of any size owned by Porgerans but not under IPI control. It looked after camp maintenance and cleaning at PJV's camps (until late 2014). It has some additional interesting features. First, its shares are controlled by four people (the other eight shareholders control a mere 1.6% of equity<sup>42</sup>), so it cannot be described as a company that spreads its benefits across the community at large. Secondly, almost all its employees are classed as part-time and are females. Third, it does not appear to have accumulation of retained earnings as a major goal, although some accumulation has occurred. Fourth, it has quite high levels of directors' costs as a proportion of its earnings (although one should add that in comparison with international levels of remuneration for directors, like most of the Lancos covered in this study, these are modest).

Total Cleaning's contract with PJV was in line for renewal in November 2014. After the first draft of this report was completed, it was announced in the PNG newspapers that PJV was to re-assign the contract to Ipili Wanda Investments (see below). This resulted in a reported 3,000 person demonstration in Porgera and the presentation of a set of demands to PJV that the decision be reversed. Since two of Total Cleaning's shareholders (who are also directors) – and who own 57% of the company – are from Suyan village (on which the main residential camp stands) and just over 41% is owned by the remaining two directors (of Yarik), this presents problems. Not the least of these is that, if correctly reported in the press, one of the Yarik directors stated that since he had given up his land for the project, his contract should be permanent. This highlights a point raised earlier in this study: because of the local politics involved, it is always a challenge for a resource company to withdraw or re-assign any contract. This is especially the case if landowners regard contracts as a more or less direct form of compensation; in such cases the resource

company is left with no flexibility at all – which is why it is so important to ensure that LBD is NOT presented as a form of compensation.

**5.3.3 Other companies**

Of the remaining companies shown in Appendix A all but Peroke, Ipili Wanda, Tupa Resources and Kairik Cleaners are owned by people from outside Porgera. The four mentioned collectively employ no more than fifty people and have a combined asset value of less than K6m and are illustrative of the general point made earlier: Porgeran businesses with the exceptions of IPI and Total Cleaning are small, rarely incorporated and frequently fail (or are removed from the IPA register – as Tupa Resources has been).

**5.4 Porgera summary**

**5.4.1 Polarised LBD**

LBD at Porgera is polarised between IPI (and to some extent Total Cleaning) on the one hand and hundreds of tiny, largely unregistered family operations on the other. The only registered, middling sized businesses appear to be those established down-road.

**5.4.2 IPI success**

IPI after a shaky start is now a highly successful Porgera-based company; even more impressively, to a significant degree its success is now independent of the project itself. Furthermore, IPI – on the available published evidence – is the biggest single source of potential funds for Porgera people after any mine closure as well as having every chance of being able to thrive on its own after such a closure. Unlike other sites, this 'representative' (in the sense used by PNG LNG) company has apparently been far more successful than the landowners' investment arm (MRE), which makes IPI even more important.

The delay in the appearance on the IPA website of the Annual Returns of IPI, Kupiane Yuu Anduane, Kupiane Investments and Mineral Resources Enga means that it is difficult to analyse to place a precise estimate of funds that might be available to Porgerans after mine closure (though the IPI CEO's kindness in providing up to date data largely removed this difficulty in the case of this study). This is not a remote concern. In mid-2013 Barrick Gold specifically stated that any of its projects where ongoing all-in costs of gold exceeded US\$1000 an ounce would either have their mine plans changed, or more significantly in the present context, suspend operations, be closed or be sold off. At that time, June 2013, PJV per ounce production

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<sup>42</sup> A feature of IPA reports which is widespread (and puzzling to the consultant) is the frequency with which directors are major shareholders in their companies but are said not to be shareholders in the Annual Returns.



costs exceeded US\$1300. It is widely known, at least within the mining community, that Porgera has been looked at by a number of other companies responding to Barrick's indirect offer to sell it<sup>43</sup>. With gold prices now near to or below \$1200 an ounce (and with Porgera's general reputation) potential buyers have not yet flocked to Toronto. **As with Lihir LBD, so at Porgera: Lanco owners should be watching world gold prices right now with as much, if not more, concern than the resource companies. Recognition of mutual dependence might be more beneficial for both groups than the adoption of zero-sum gaming strategies.**

The issue of public availability of broad financial details is becoming acute in relation to KYA and KIL since the absence of up-to-date information for these on top of a similar lack for MREnga makes it impossible, in this study at least, to state what the overall position of funds available for future Porgeran development are – at a time when such a statement may be of immediate interest.

#### 5.4.3 Control of Porgera's future

The control of MRE, of KIL, of IPI and of non-business agencies such as PDA lies largely in the hands of a small number of landowner leaders, and has done for the past twenty years. They deserve their success. But there is a growing risk that this may not be in anyone's interests (including those of the older leaders) for much longer especially as a younger generation of leaders emerge. Given PJV's renewed emphasis on 'buying Porgeran', the amount of money available for local contracts and IPI's increasing development well beyond Porgera, one way of tackling this potential risk might be to reconsider the ways in which the benefits of new local business could be organised.

#### 5.4.4 Failure of local business to develop and evolve

Banks' earlier paper suggested that most business opportunities in and around Porgera had merely been taken up as supplements to existing socio-economic relationships. The situation almost two decades after his work appears to be that it has barely changed since he did his fieldwork. Alex Golub writing in 2014 has stated:

*'In theory, all Ipili [Porgerans] love the idea of owning and running their own business. In practice, however, most tradestores in the settlement were not actually open for business'(p.139)*

Whether this is a good or bad thing is arguable: it depends on one's viewpoint concerning the desirability or otherwise of social change. But it does suggest that whilst one can reasonably argue that at many resource sites in PNG experience of business is creating new skills, it would be difficult to promote this argument in the light of the evidence at Porgera alone.

#### 5.4.5 Statistics

Of the fifteen Porgera associated companies shown in Appendix A only two have their own constitution and eleven are exempted from the requirement to have independent audits. Most small companies are not especially prompt with their IPA reports; the average time between end of year and AR submission to IPA for the fifteen is 3.6 years but they are far prompter than the bigger companies: the equivalent time lag for IPI and the two Kupiane companies is six years. Eight companies have only one or two directors and owners. Total employment is a little over 1200 (note that IPI employment only in Porgera is counted in this total). The companies shown have assets worth approximately K350m with liabilities of K205m.

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<sup>43</sup> This became public knowledge through media reports in February 2015.

## 6. Lihir

### 6.1 Background

#### 6.1.1 Some advantages for Lihir landowners in unpromising circumstances

Most resources sites in PNG are located in places which are not readily accessible or central to trade, transportation and communications networks. If businesses established to serve resource projects are to gain customers other than the project they were originally created to serve, then, it is reasonable to suppose, they must find ways of making a geographic move of at least part of their business to more central areas. Ok Tedi landowners have so far not done that. Misima landowners certainly did not do so. IPI did so when it purchased land near Lae from which it based its transport operations. Aside from the sheer extent of its success, perhaps the most interesting feature of Anitua, the Lihir landowners' company, is that it has developed a presence across Papua New Guinea (and beyond) from a location just as peripheral as that of Misima or Ok Tedi, but still maintains its major physical presence on Lihir itself.

Lihir landowners had the advantage of seeing the results, from the Porgera Development Forum, of what happens when landowners are well organised and know what they want. But additionally they had another two edges: first, a number of knowledgeable and well educated expatriate Lihirians came back to assist in negotiations and, almost uniquely in the PNG context, stayed on to ensure that the initial outcomes were taken further. Second, the fervour that had long been brewing on the islands under the leadership of Ferdinand Samare had given a sense of mission to Lihirians; their beliefs, so often mocked by outsiders, seemed to become entirely justified by the arrival of the gold mine, and were reinforced as a result of that. In some ways (rather like the Huli and their belief in traditional 'prophecies' seemingly justified by oil and gas finds) they had the confidence of a 'chosen people'<sup>44</sup>. It was, in the present writer's view,

fortunate that this ebullience was reined in a little and channelled by the returning expatriate Lihirians into such ventures as Lihir Society Reform and more recently into the Personal Viability Movement.

The leadership among landowners that has emerged at PNG resource projects has been markedly varied. It is important to note here that the role played at Lihir by a single man, Mark Soipang, has all the appearances of being extraordinary. For more than two decades this individual, ably assisted by his equally long-term lieutenants, has been at the centre of all aspects of landowner affairs on Lihir, in development philosophy and in the practical implementation of that policy - and not least in the areas of business development and of investment strategy.

#### 6.1.2 The work of Bainton and Macintyre

Fortunately, LBD on Lihir has already been the subject of a major study by Bainton and Macintyre whose work should be read by anyone wishing to get a full grasp of the implications of and interactions between LBD and Lihir society. 'Business' is keenly sought after by the residents of all resource sites around PNG but perhaps nowhere more so than on Lihir. Whilst the outsider might wonder at the zeal for an activity whose outcomes are never assured, nowhere is such enthusiasm more marked than in the Lihir island group. Given the existence of at least 650 Lancos on the PNG IPA register in 2012 (as reported by Bainton and Macintyre), then even allowing for individuals with multiple directorships it would seem that at least one in every five (or possibly more) of the original (1990) Lihir resident adult males there are company directors, a ratio unheard of in economies elsewhere usually described as capitalist.

The joint conclusions of Bainton and Macintyre on business development on Lihir are not encouraging: 'business development ....has divided people and entrenched inequalities', is based on dependence upon the mining company and is unlikely to survive

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<sup>44</sup> See Nick Bainton's book or that of James Sinclair for important insights into this from a Lihir viewpoint.

mine closure in its current form. Their studies, they believe, explain why 'landowner businesses often fail to expand beyond the immediate region' of the resource project – a phenomenon that is closely tied to the Lihirian insistence that any work [for the project] done on their land must be done by them and their company.. Since these conclusions come from people who have not been content to criticise from afar but who, on the contrary, have been directly involved in assisting the making of policy on Lihir they are especially weighty ones. Further, since as they rightly comment '[t]he contracting situation [on Lihir]....has assumed a kind of Byzantine complexity' and since they have had far more experience in trying to trace the threads of such complexity over the years than I have had in the few weeks of this study, it would be foolish here to disagree with their findings.

But they do not convince me entirely of their correctness. For one thing, how is any local business to develop in a previously peripheral location like Lihir (or Tabubil, Porgera or Bwagaoia) without dependence on the protection of some degree of subsidy from, in this case, a resource company? The question is not so much 'dependency' but 'dependency for how long?' Their case for dependency is a strong one nevertheless since the overwhelming majority of Lihir businesses remain, almost twenty years after the mine began, totally dependent on it.

However, even if that dependency lasts for the whole of the life of the mine three other questions arise:

- a) Lihir could have a very long life ahead of it– how long does a project have to go on for before it begins to lose the stigma, with which many observers automatically mark mining projects, of being 'transitory' and, even worse in the context of modern religiosity, 'unsustainable'. Couldn't another description of 'dependence' under such circumstances be 'a guaranteed income for life'?
- b) Read with care, Bainton and Macintyre do not entirely overlook two of the most interesting aspects of the Lihir gold mine, but they do tend not to highlight them – the facts that the present owners of the mine have done very poorly out of it recently while landowners, relative to other projects, have done rather well and that the dependence is not one-way. Newcrest depends very heavily on the goodwill of Lihir landowners even to scrape by as it currently does. Mutual dependence seems to be the norm on Lihir not one-way dependence and this might well be, once recognised, a stable foundation on which to build.

c) In any case, should it be of concern if the multitude of small Lihirian companies is not sustainable in the sense that they depend more or less entirely on the mine for their income? If that income is simply thrown away, perhaps so, but then the challenge is to introduce means whereby the beneficiaries of such income can start to invest in more lasting items, such as education or activities which will bring in future incomes. This is reinforced on Lihir by the fact that most Lihirians are also beneficiaries of Anitua and its components, which has now reached a stage where it has the potential to operate for many years to come. In other words, if the small Lancos try to maximise immediate income and simultaneously invest some of that in a sustainable way whilst also increasing current consumption, whilst Anitua maximises future incomes then an almost ideal situation would be arrived at.

Finally, on the matter of inequality two points need to be addressed, in my view, if the Bainton and Macintyre conclusions are to be agreed with in their entirety:

- a) What was the level of inequality in Lihir society before mining started – not just in cash terms but in access to land and political authority?
- b) While one cannot disagree with Bainton and Macintyre that many (most) people on Lihir remain rather poor while some Lihirians have become wealthy, are absolute levels of income rising? Or are there people on Lihir who are poorer in absolute terms now than they were in 1989? Could the increase in average incomes and the increase in opportunities for choice for the average Lihirian since 1989 (if such increases can be shown to have occurred) be said to balance out in part the stated increase in 'entrenched inequality'?

In short, if business is such a misguided activity as is seemingly suggested by Bainton and Macintyre's earlier work, then why are Lihirians so keen to participate in it? Are they being irrational (from any standpoint)?

It should be understood that the above points, in the main, only pick at the edges of Bainton and Macintyre's work – the core of it is accepted: that LBD has individualised Lihir society and, by making some individuals and some groups wealthy while the lives of others have improved much less significantly, has created new tensions in Lihir society.

### **6.1.3 The Project MoA and the Integrated Benefits Package**

The original, simple (and, with hindsight, naïve) object of the project operators (originally Rio Tinto,

then Lihir Gold Limited and now Newcrest) was to ensure that local people shared in the mine's benefits (and thereby supported its operations). The question of balancing the share of benefits against the different degrees of mine impact was – as it is in all mining projects – more difficult to answer, especially by outsiders. Fortunately Lihirians themselves paid particular and, in PNG circumstances, virtually unique attention to this matter and provided their own answers to the question. These may not turn out to be perfect or permanent but at least they are from within the Lihirian community itself.

The Project Memorandum of Agreement for Lihir is, in general, of relatively little importance in terms of LBD. It simply states that the project developer (LMC) will comply with an approved business development plan and review its progress each year. However, in one respect it highlights an important aspect of almost all mining projects: under the MoA:

1. the resource company is required to provide quarterly reports which list all successful tenderers for contracts, the items or services the contractors supplied and their place of residence as well as reasons why the contract was awarded to them
2. it is also required to submit a list each quarter showing New Ireland based tenderers for contracts who failed to win contracts and the reasons why they failed;
3. the National Government's Department of Trade and Industry was to chair quarterly meetings to review such reports.

Appendix (iv) to Chapter 2 of the 1995 Integrated Benefits Package is a more important document for the purposes of LBD on Lihir. When one reads this today, the clarity of vision which hindsight always provides immediately informs one that whatever quibbles one might have about Bainton and Macintyre's conclusions, the Lihir Management Company set itself up for a series of falls in its proposals since it aimed at a situation where:

- 'Lihirian involvement will result in the development of competitive, well-run business' [the document adds that 'competition must always be limited if some parties to it are being subsidised while others are not'] which, more realistically and modestly, 'will remain viable beyond the construction phase of the project';
- But, LMC 'will under no circumstances offer to subsidise the operations of any business venture' adding rather testily 'we cannot have landowner groups (with or without 'external' advice) dictating

how or to-whom contracts will be awarded'.

- 'wherever possible ensure that contracts awarded by LMC.....are awarded to business entities that are owned by Lihirians';
- 'ensure that the wealth generated by Lihirian business activities is spread in an equitable manner throughout the population of the Island;
- Having stated that it will not subsidise local business, the Plan then went on to list the functions of a 'fully equipped and professionally staffed' BDO which included: help incorporate entities, prepare business plans, prepare financial plans and help raise bank finance for entities, assist day to day operations, prepare accounts and all statutory documentation such as tax returns, line up possible joint venture partners, provide training, structure contracts during construction to ensure that Lihirians could bid for them, and introduce an interest free loan program as well as a revolving loan guarantee program of K1m of which half would be reserved for Lakaka (Anitua's forerunner) , and an interest free loan of K200,000 to Lakaka (which would also be provided with free business services for three years).

The setting of all these goals was ambitious.

#### 6.1.4 Early failure

The Lihir LBD program ran into trouble more or less from the start of its operations. In 1997 the main beneficiary of the 'unsubsidised' company support, Lakaka Ltd., was deregistered, only re-registering a year later. Then, the 1998 audited Financial Statement for Lakaka showed net assets to be –K5.1m and the company's loss for the year to have been K2.7m. Matters did not improve and in December 1999 a receiver was appointed for a company that had received far more support than any other Lanco in PNG resource project history. The first three Lanco Umbrella Companies (four if one includes Misima) had all failed; and all had to be revived. A meeting of creditors (the biggest of whom was Lakaka's previous General Manager) in May 2000 accepted an arrangement whereby debts would be paid back over a four year period and Lakaka was technically placed back in business. To practice business, however, it needed finance. There was some difficulty in arranging this, not because funds were not offered but because the Lihir landowners (LMALA) even in these rather dire circumstances showed their independence of spirit by refusing to take loans from the Bank of the South Pacific. The impasse was eventually broken when MRDC was persuaded that Mineral Resources Lihir might fill part of the finance gap caused by this



stand. The pre-existing bank loans were refinanced by the mine and MR Lihir which each put up secured loans of K2.5m while an additional unsecured loan of close to K4m was also provided by the mine. All interested parties must have agreed that there was a loophole in the words 'Under no circumstances'. Even after this and as late as 2007, Lakaka (as Anitua was still known then) was in difficulties; only after the Board of Directors brought in Colin Vale, who had been running NCS successfully, did the company, under a new name Anitua, take off. In this respect Anitua's history is much like that of Porgera's IPI, and the reverse of that of Cloudlands Investments of Ok Tedi (which started off successfully but has since almost shrunk to nothing).

The 1995 IBP Agreement for the Lihir mine included a clause in the proposals for LBD that allowed for the review of the ownership and management of the company Lihir Business Services that the project set up to fulfil the long list of commitments it had made under the IBP Agreement. In circumstances that are not entirely clear to the present writer this company was transferred to the ownership of Anitua in 2008 – with the proviso that the mine continued to pay a major part of its expenses. In the five years 2009 to 2013 these averaged a little more than K7m annually. The future of LBS depends on the outcome of the current review of the IBP Agreement. As the Anitua Group Annual Report says of LBS: it 'has now evolved into a significant company ... which is an important adjunct to the Anitua group that is necessary to support and grow existing and new Lihirian businesses.' From this writer's perspective the significance of LBS is very considerable indeed: it represents the only organisation in the projects considered so far which actually fulfils (or attempts to) the ideal functions of an umbrella company with any success. That it has done so for several years as a wholly owned subsidiary of the most successful mining Lanco in the country is an added advantage<sup>45</sup>.

## 6.2 Project contract awards and payments

From the beginning of 2006 to the end of June 2014, the Lihir gold mine paid out K3.6bn to local Lihir companies and their joint venture partners (the latter being of relatively small importance) and a further K5.7bn to other PNG contractors. In the 10 years before 31 December 2005 the annual average paid to

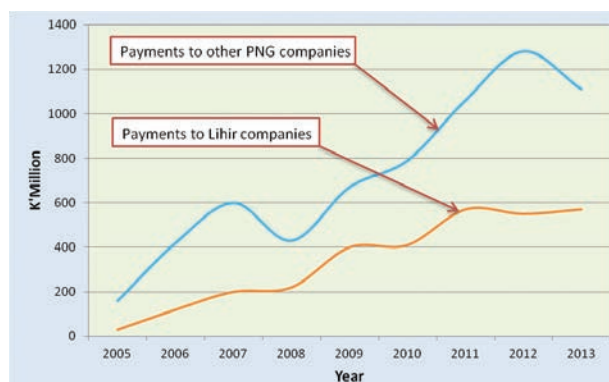


Figure 10: LGM annual payments to contractors.

**Notes:** 1. \* the 2005 value is the average for the period 1996 to 2005; 2. The lines on the graph are cumulative.

local contractors was a little less than K45m, so those payments have increased thirteen times in just over eight years (and, as with other sites considered so far, the numbers for 'other PNG contractors' suggest that if Lihir did not exist a rather large chunk of businesses elsewhere in the country would vanish).

This means that the Lihir gold mine awards contracts both to Lihir-based and other PNG companies of a value higher than those awarded by Ok Tedi and Porgera combined. Perhaps this is one reason why there is so much zeal for business on Lihir (or perhaps the relationship is the other way round). One of the reasons for this level of expenditure was that it was increased by almost a third in the years 2009 to 2013 by the project's push to upgrade processing to one million ounces per year; but even allowing for that Lihir is easily the most lavishly spending mining company in terms of local and national contract awards.

However, this very rapid increase in expenditure by the mine between 2007 and 2012 was directly the result of the strategic plan [MOPU] adopted to upgrade the mine plant so that a regular annual production of one million ounces of gold could be achieved. Once that plan period ended, expenditure (and therefore business opportunities) has declined. This decline has been exacerbated by declining gold prices which have now caused Newcrest to focus rather sharply on cost-cutting. Consequently the steep upward curves in Figure 10 have now reversed direction.

<sup>45</sup> Nick Bainton, on reading this paragraph in its draft form made two important comments: a) in some ways Anitua ownership of LBS 'could be seen as a major conflict of interest for Anitua, as the Anitua Group competes directly against those very Lancos that LBS is designed to support' and b) 'few Lihirians see Anitua as 'their' company and many expect to develop their own commercial opportunities....[with] ... LBS assist[ing] them to achieve these goals'. The significance of these comments is that in this respect it may well be the case that Anitua has more in common with IPI than might be at first thought; rather than being an umbrella company, Anitua, like IPI, first and foremost looks after its own interests. When we come to consider whether the idea of the umbrella company has or has not worked this needs to be borne in mind.



## 6.3 Components of the LBD structure on Lihir

To simplify (and possibly to oversimplify) this set of interlocking, overlapping business entities some of the key elements of its make-up are classed by the resource company as follows:

### 6.3.1 'Lihir owned businesses' or core businesses

The first title (in use on Lihir) is misleading since a) it implies other strands are not Lihir-owned (which is not the case) and b) it implies that all companies within the group are fully owned by all Lihirians (which is also not the case). The category might be slightly better, but not perfectly, described as businesses that have been around since the start of the project and which are seen by most Lihirians and the resource company as 'core businesses'. The project describes these as: companies formed to operate businesses on Lihir, contracted to Newcrest and representing all Lihir people. This ideal has not yet been achieved but considerable progress towards it has been made. There are six businesses in this group.

**6.3.1.1 The largest is Anitua Ltd (named Lakaka until the end of 2008):** Anitua is owned by the investment companies of each of the islands' six major clans (Lamatlik 8.2%, Unawos 8.2%, Tinetalgo 2.8%, Nikama 3.5%, Nissal 6.5% and Tengawom 2.8%), the Nimamar Development Authority 7.5%) and Lihir individuals (60.5%). Anitua in turn is the sole owner of Anitua Supermarket Ltd, Anitua Mining Services Ltd, Anitua Hardware Ltd, Lihir Business Services, Lihir Investments Ltd, Anitua Properties Ltd, and Anitua Security Services Ltd; and a 50% JV partner in Aniokaka Ltd, Lihir Auto Services Ltd, NCS Holdings and Anitua Radial Drilling Ltd. NCS Holdings is its biggest, most innovative and most successful component and will be dealt with separately below.

Anitua to date can be described as the single most successful Lanco associated with the PNG mining industry. Its origins can be traced directly to the initiative of Lihirian entrepreneurs in 1989 as can that of its major subsidiary NCS Holdings Ltd. It has attained its position of eminence from an exceptionally unpromising location for business: a remote island. Even though Lihir is rather more accessible to mainland centres of PNG than Misima was and even though the Lihir gold mine is very much larger and richer than Misima Mines Limited ever was, to have achieved such success in such a peripheral location is truly noteworthy.

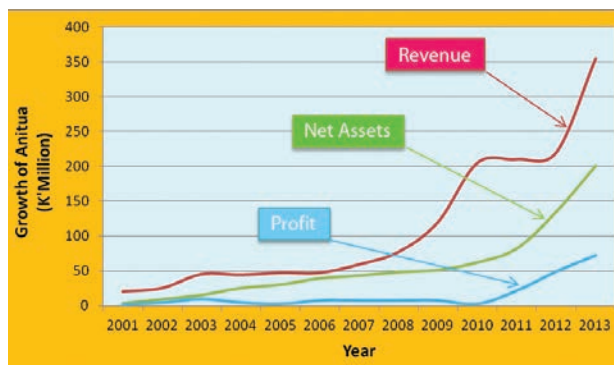


Figure 11: Growth of Anitua 2001-2013.

Anitua's function is to seek out new opportunities for the group, and then to provide managerial assistance and oversight to wholly-owned and JV companies in PNG or abroad. It leaves SME initiatives to Lihir Business Services (which it owns 100%) and it has, since Lihir landowners decided to go on their own independently of the MRDC, left pure investment to Lihir Capital Management (originally based in Port Moresby with a sister company in Australia). One of the specifically unique characteristics of Anitua's relationships with, and attractions for, its JV 'associates' is that it has helped get the JV underway by providing funds to its partner. This in turn is the manner in which NCS, its major subsidiary, has also operated. There are few, if any, other Lancos in PNG that do this – quite the reverse they usually rely on the external partner to provide the funds.

Anitua and its subsidiaries (including NCS) employed in 2012 approximately 1760 people on Lihir itself including 430 females. Of these Lihir employees, 570 were other PNG nationals who reside elsewhere but 530 were non-Lihirians living on the island and 590 were Lihirians. Part of Anitua's success is owed to migrants to Lihir – who, in other contexts, are regarded as a 'problem' in the community; but there simply are not enough Lihirians available (or willing) to work to build up this community-owned company. Other than NCS Holdings (below) the only Anitua subsidiaries with significant off-Lihir employment are two security offshoots operating in Kavieng and East New Britain employing 270 persons<sup>46</sup>.

**6.3.1.2 NCS Holdings Ltd:** started off life in 1989 as Niolam Catering Services Ltd (Niolam or Aniolum being the name of the main Lihir island) and its growth from a company solely serving the project on Lihir is mirrored by its changes of name; first, to Nationwide Catering Services (in 2002); avoiding hubris perhaps,

<sup>46</sup> In December 2014 after this was written Anitua announced that its mining support arm was initiating work in Manus and Bougainville and that Anitua itself was investing in a Solomon Islands nickel venture – which latter would open up a range of potential opportunities for Anitua subsidiaries.

this was shortened to NCS Holdings as its success in gaining contracts in several parts of the country grew. No other Lanco anywhere in PNG can rival Anitua/NCS Holdings' success in expanding beyond its original and highly restricted sphere of operations; it now has interests spread across the country but notably in Hidden Valley and Wafi (for the time being), Madang, Wewak, Kainantu, Lae Port Moresby and the oil/gas fields. NCS funding has enabled its JV with Hidden Valley and Ramu Nickel to get started. NCS now employs 1,370 people in locations other than Lihir.

One of the ironies of NCS expansion is that it has been based on a community (Lihir) that is very reluctant to allow any island business to fall into the hands of outsiders. It is true that this off-island expansion, to date, has been limited largely to a single specialist sector – large-scale catering – in an area previously dominated by international companies and that perhaps Anitua may be vulnerable in this regard. But it is equally possible that Anitua's expertise in this specialist area could in turn provide it with a stable national base from which it could itself become an international caterer.

It is worth noting that of NCS' more than 1900 employees, over 900 are women making it one of the biggest employers of females in the whole country.

To assist and support NCS in its early years, it was considered desirable that the two largest of the island group's six clans owning land on the project site, Tinetalgo and Unawos, should each own 25% of NCS's shares; until May 2013 therefore this company was a JV between Anitua and these two clans' investment arms. However, at that time the two clans were persuaded, for the good of Lihir as a whole, to sell back to Anitua their holdings as part of a general plan on Anitua's part to shape its shareholdings in line with the home-grown Lihir Development Plan (or Destiny) whereby these core businesses will have an ownership pattern that accurately reflects the populations of the different clans in the island group.

**6.3.1.3 Lihir Business Services:** was not established within Anitua until 2008 but is certainly a core business even if, as pointed out in the footnote on page 59 above, its location within Anitua may not be ideal.. Originally the project developers – as per the original mine MoA – established and ran a Business Development Office. However the IBP Agreement had stipulated that the function of business development would be moved from the operating company to landowner control and, since no other landowner company could match Anitua's capabilities it was

agreed by all parties in 2008 that Anitua would take over the function. In theory, since Anitua was owned by Lihirians – in addition to having a rather good business record of its own – prospective clients could not only place greater trust in any advice they received from an Anitua-managed organisation but benefit twice – once from the advice and again from the profits Anitua made. In practice, this has not been perceived by many Lihirians to be the case; many see themselves as receiving few benefits from Anitua whilst also being in competition with it for mine works contracts.

Nevertheless, LBS does the work which the basic PNG business model assigns to the Umbrella Company idea and it does it better than any other such company. This is reflected in the fact that the record of LBS-advised companies (even including some that are almost inactive) in supplying IPA with the required Annual Returns, although far from perfect, is very much better than for any other resource company with the exception of Oil Search.

**6.3.1.4 Kuridala Ltd:** is equally owned by the six island group clans and specialises in equipment and plant hire.

**6.3.1.5 Lihir Civil and Construction Ltd:** established in 1998, had the Unawos clan's investment vehicle as its majority (>62%) owner until 2008. In recent years the clan's shares have increasingly been distributed around several of its component sub-clans.

**6.3.1.6 Lihir Contracting Services Ltd:** which specialises in electrical installations and construction, is one of the more successful Lancos on Lihir having assets values, in 2012, in excess of K15 million, and a workforce of 230. But, if its IPA Annual Return for 2012 is accurate, it is an unlikely 'landowner company', and indeed might not qualify as one at all. This is because 66% of its shares are registered in the name of a non-Papua New Guinean.

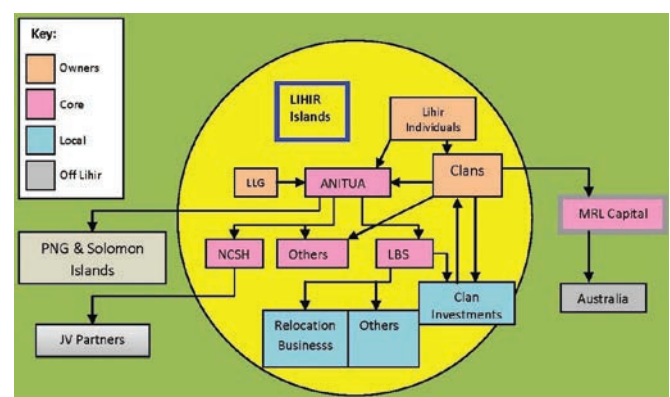


Figure 12: Idealised structure of Lihir businesses.

### 6.3.2 Other on-island businesses

This comprises four sets of businesses – as separately identified by LGM staff – which are dealt with below.

**6.3.2.1 Clan investment vehicles:** shortly after operations started at Lihir, each clan established, with the help of the then project BDO, an investment arm; all are styled in the same way (\_\_\_\_[clan name] Investment Ltd) and all have 10,000 shares<sup>47</sup>. Moreover the ownership of the shares is basically the same in each case – all but one or so are in the name of the clan company (\_\_\_\_[clan name] Ltd) and one is allotted to a clan property company (\_\_\_\_[clan name] Properties Ltd). Neither the clan companies nor the clan property companies appear to have any activity other than to hold the shares of their respective investment arms. Further, in terms of active business, four of these investment arms appear to be inactive or virtually so, other than holding shares in Anitua and Kuridala. However, Unawos Investment Ltd also is the main investor in Lihir Civil and Construction Ltd and, together with Tinetalgo IL, was (until mid-2013) the joint venture partner of Anitua in NCS Holdings.

**6.3.2.2 Relocation businesses:** These businesses/companies were established at or shortly after construction of the mine began as direct compensation/replacement of livelihoods for those with pre-existing businesses that were demolished to make way for the project<sup>48</sup>. All are owned by relocated persons from Putput. It can safely be stated that whatever problems these businesses have faced, they have certainly succeeded in doing much more than restore the pre-mine livelihoods to their owners. While the available data is now outdated (from 2008 and 2009 IPA ARs) it showed that, of the five businesses classed as relocation businesses by LGM, the combined assets of three were worth K6.6 million with liabilities of K4.4 million; prior to the start-up of mining, the total income of island residents did not match these numbers.

**6.3.2.3 ‘Specific issues companies’ and ‘special project companies’:** Specific Issues Companies [SIC] were established to enable lease area landowners to better participate in the commercial opportunities

generated by the push for a million ounces a year as well as to address the issue of large numbers of small or family based companies competing for the same contracts. It was the landowners themselves who proposed the SIC model which groups together landowners from specified areas within the mine’s leases. For instance, Balasie represents owners of land occupied by the plant site, Caldera represents those of the Luise Caldera portion of the pit, Saberte represents the Kapit landowners, Kunaie represents those who own land at the island’s airport and Londolovit Weir is self explanatory. The SICs cut across clan-based affiliations and group landowners geographically. Although the model has some benefits in terms of economies of scale and although proposed by the landowners themselves, the model has not been satisfactory for them particularly since some have been far more successful than others. Further, their establishment has not in fact significantly diminished the number of small companies operating (or attempting to operate) within the SIC areas in competition with the SICs themselves.

All the SICs have been established since 2008. There are 11 in all and details for ten have been located on the IPA website. Of the latter only four appear to have submitted Annual Returns so for the remainder that site has no information with respect to their employment or to their assets and liabilities (since all are ‘exempt’ companies under the *Companies Act* in terms of providing independently audited reports, none have such reports). Of the four with an Annual Return their combined assets in 2009 were K24.4 million (with one alone contributing 77% of this) and liabilities of less than K11.5m. The six specific issues companies are composed or rather group together a myriad of even smaller companies owned, effectively, by individuals. Altogether 269 such companies - including 94 under Kunaye Investments and 84 grouped under Balasie – existed in July 2012.

The 23 Lihir Lancos for which data was obtained had 105 Directors (some doubling up occurs). Of these eight were females and five of these females were in this ‘special’ group of companies<sup>49</sup>.

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<sup>47</sup> Possibly the number was arrived at by estimating the largest foreseeable population numbers of each clan.

<sup>48</sup> This leads into a major issue. There is a body of opinion among mining community affairs personnel that compensation must be kept clearly separate from mine-associated development. The logic for this is that if development, such as community investment in schools, comes to be seen as compensation, then there is likely to be no end to demands for ongoing ‘compensation’. Unfortunately, the best practice principles of resettlement insist that a pre-existing retailer must be provided with the means to carry on his or her livelihood after relocation – which means assisting them to re-establish their business. If one set of people in a project area, albeit resettled, are assisted in this way, then other people will (and do) demand similar assistance with business. In PNG this point is theoretical because, irrespective of the merits of the case, business development is now an accepted part of the ‘package’ (something Lihirians were the pioneers of in PNG) that accompanies mining development. In other parts of the world it remains an issue.

<sup>49</sup> The Boards of Barrick Gold, Chevron, Harmony, Newcrest, Newmont, OTML, Oil Search and St. Barbara collectively had 11 female (14%) and 67 male directors compared to just under 8% for Lihir Board members.



## 6.4 Lihir summary

Despite the largely valid concerns of Bainton and Macintyre discussed earlier, LBD on Lihir when viewed as a whole is certainly at present, and has been for some years now, the most successful at any mining site in PNG, despite what was a very difficult period of initial development at an extremely peripheral location. That judgement is not only relative to other sites (which do not offer a great deal of competition) but to the performance of its own component elements: investment through MRLC, economic activity through Anitua/NCS Holdings, and local level business (through the myriad of Lihir entities).

The landowners' independent investment arm (MRLCapital), even though it was established at a chaotic time in international finance markets, had a flying start thanks both to landowner representatives' tenacity in negotiating for shares in the project and to the timing of the later sale of those shares to the international market. Although it incurred heavy losses (in excess of K100m) in 2008 it made a larger (K117m) profit in 2009, the last year for which figures are publicly available. It appears to have made progress since then and although its officers were unwilling to reveal its net worth in June 2014, it seems likely that that is at a minimum in the vicinity of K800m.

### 6.4.1 Anitua

Anitua continues to find opportunities on Lihir (through its farming activities currently undergoing major expansion) while NCSH has performed extremely well in extending its specialised catering services off Lihir. Anitua has publicly recognised that with the completion of the first and largest stage of construction on the PNG LNG project its JV operations there will be less profitable. It has not publicly noted (but is almost certainly aware of this) that JVs which have worked well so far may not continue to do so as local partners seek to take over the whole of the business associated with their projects. It will be of considerable interest to see in which direction the Anitua Group moves next – internationally in existing areas of specialisation, across PNG in some new area of activity, possibly through acquisition, or regionally (through agricultural and food supplies)? These and the other larger companies on the island already have amassed net assets worth well in excess of K400m so they have some cushion – not to fall back on but to build with. Its venture into the Solomon Islands nickel mining project which not only represents a bold financial investment but also opens up the possibility of expansion for its mining services and catering arms, marks a first for any landowner company in PNG (although the MRDC has also been investing in overseas ventures on behalf of its landowner clients).

### 6.4.2 Smaller Lihir companies

Smaller and increasingly fragmented companies certainly justify Bainton and Macintyre's concerns about social change on Lihir. Their concern that asset accumulation by the smaller Lihir companies is minimal also appears to be entirely borne out by the limited IPA data available for these companies. However, the circumstances for even tiny local businesses on Lihir appear significantly better than at other sites: the resource developer has been spending, in recent years, more money on local contracts than have Ok Tedi and Porgera combined; although internal rivalries are evidently severe on Lihir they have not had the same result as appears to be the case at Porgera – to strangle anything bigger than unincorporated family businesses; and Lihirians, despite their own success in penetrating other area's markets have managed to keep externally-based businesses out of Lihir to a very large extent. In any case, as long as MRLC and Anitua are building up financial assets – it can be argued - why should not families consume? Doesn't consumption drive other parts of the island economy (quite aside from being rather pleasurable in itself).

### 6.4.3 Lanco employment

Lancos on Lihir employ at least 2,500 people on the island (and an additional 1,900 in other parts of the country).

### 6.4.4 MRL Capital, Lancos and Newcrest Mining

MRLC has established a more or less total degree of independence from the resource project that gave birth to it. Anitua/NCSH remains largely reliant upon it in one way or another and local businesses are totally dependent on it. But, as mentioned earlier, that dependence is two-way; Newcrest is heavily dependent on Lihirian goodwill. It is very much in both parties' interests to act in accordance with that reality.

This is especially so now because both parties are now at risk. Newcrest's acquisition of Lihir and its buyback of all Lihir shares in 2012 have been under constant criticism on world markets. Its December quarter 2014 figures show that Lihir produced slightly less than 161,000oz of gold (significantly less than would be required to produce a million ounces a year) at an all-in sustaining cost of US\$1240 an ounce; the world price of gold averaged US\$1203 an ounce for the quarter. While Lihirians can be proud that they have done well out of the mine, they might also recognise that they can only continue to do well out of it if the mine continues to operate – and at present gold prices and mine production costs, there is a possibility that those operations are in jeopardy.

## 7. Petromin (Tolukuma)<sup>50</sup>

Is it worthwhile trying to develop a local business development program at a small mine of short duration? This question is thrown up by the history of Tolukuma a small (<80,000 oz Au per year) mine in Central Province which can only be accessed by helicopter. Notwithstanding the fact that logistics have made the running of this mine by three separate companies marginally profitable at best and unprofitable in general, nevertheless each effort to revive it has been accompanied by plans for local business, plans which do not explain how small business is to overcome logistic problems the mining companies themselves have failed to solve.

The original 1997 MoA for Tolukuma covered all the ground needed to encompass the requirements of a Porgera or a Lihir. In terms of LBD this included the usual Business Development Plan plus the novel requirements that a) the company (originally Clayfield) would pay for training in small business by the Small Business Development Corporation (SDBP), that b) the Central Provincial Government would undertake an annual review of the BDP and work with the mining company to improve it and the rather strange requirement of the mining company that c) it should make available to Lanco business personnel access to all mine facilities. The State was to make available K200,000 loan guarantees providing either SDBP or a registered accountant endorsed the relevant business proposal.

When the MoA was revised in 2007 so as to allow Emperor Mines to re-start mining more detailed business plans were provided. The State was to make a grant of K225,000 to a Lanco (Yulai Holdings) plus a similar sized grant to the landowners' association to enable them to participate in business, plus K25 000 to each of the three major landowning clans so they might buy shares in Yulai Holdings. The company was expected to establish a 'professionally staffed business development office in Waigani to implement the Business Development Plan' although in fact its plan submitted as part of the revised MoA was to place one BDO at site and one in the company's Port Moresby office and to establish a) a mentoring and microfinance-program costing K10,000 annually [excluding all staff costs presumably] and later b) a freight subsidy program linked to the award of small contracts costing K50,000 annually.

How much these programs spent is unknown. But if staff were appointed and if the funds specified were handed out then their costs in total over the years would have been well in excess of K1m and possibly more than K2m. With hindsight it might have been preferable to place two million in an investment fund and avoid all the work and frustrated expectations than trying to impose a Porgera-style LBD program on a small-scale mine in fact created.

Yulai Holdings was registered with IPA only in 2008. It submitted no Annual Return and has since been removed from the IPA register.

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<sup>50</sup> Senior staff members of Petromin were interviewed in the course of the research for this paper. However, despite follow up, no material information concerning the operations of Tolukuma's LBD program was provided by the company.



## 8. PNG LNG and Oil Search

### 8.1 Background

There are many significant differences between the essential natures of the oil/gas extraction and metalliferous mining industries which necessarily impact on the types of local business development that arise in association with them. One of the most important of these – and one which is currently challenging Lancos in the oil/gas sectors – is that the overwhelming bulk of contract expenditure and of employment in the oil/gas sector is provided for during construction rather than in operations. Whereas – as seen in the cases of the major mines discussed so far – it is true that construction is a time of major contracts and business opportunities in the mining industry and that the first few years of production see a downturn in the quantum of such opportunities, as mine life continues so these opportunities start to grow again to such an extent that at Ok Tedi, Lihir and Porgera today far more is being spent on local contracts than at any earlier stage. In oil/gas, the fall-off after construction is steeper and there is no revival as time passes (unless additional construction for expansion occurs).

A second significant difference between the two sectors is that, at least in PNG, the changes in ownership of petroleum exploration and, to a lesser extent, petroleum production licence areas have been very frequent in comparison with those in metalliferous mining. This set of changes has been matched by the frequency of changes in the landowner businesses, and their organisation, which have been associated with the industry. For any observer, other than someone associated with the development of the PNG oil and gas sector throughout most of its recent evolution, these changes can be extremely difficult to piece together. The following subsections, as far as 8.2.8, are based on:

- material prepared for this study by John Brooksbank who was associated with Oil Search for twenty years. Note that any errors in the text are the responsibility of the consultant and not John. John's material has been supplemented by....

- .....IPA records where available, and....
- ...interpretations by the consultant of the data provided by him as well as by....
- .....interviews with OSL, LNG and Lanco staff.

**It is worth stating here that OSL was not only able to provide Lanco data more promptly than any other site covered in this survey, but the data it did provide (covering the period 2004 to 2013) was far more detailed than that provided by any other site and was more up-to-date even than that available on the IPA website (as well as containing no internal inconsistencies). In the era of the Extractive Industries Transparency Initiative (to which PNG became a signatory in 2014), OSL's database on Lancos is a model that can be recommended to all resource operators in PNG.**

### 8.2 The historical evolution of LBD in the PNG oil sector

#### 8.2.1 Introduction

The local business development environment as it exists today (2014) in areas that host petroleum developments is to a certain extent a result of the history of various petroleum developments occurring at different times between 1991 (Hides), 1992 (Kutubu), Gobe (1996/7), Moran (1998) and more recently the PNG LNG Project - each spawning local regional stakeholders and, consequently, local business interests. A major consequence of this has been that no umbrella or representative company which covered more than a particular portion of the oilfields has emerged. Only since the inception of the PNG LNG Project, and the start of its construction in 2010, have there been moves for any higher level coordination of landowner business development. The lack of a major 'umbrella' landowner contractor in the petroleum sector can be explained by this disjointed and uncoordinated project development and the parochial power bases that the earlier, smaller Lancos engendered; as will be seen, this has had significant consequences for LBD structures.

In terms of project developers' obligations to assist and promote local business development there is no specific requirement in the *Oil and Gas Act* (1998). In the various MOA's that were signed for each of the PDL's, to which the Developer was not a party, the same very general clauses were inserted stating that "...the State would use all reasonable endeavours to ensure that subject to compliance with price, quality and deliverability preference is given, in the supply and procurement of materials, equipment and services firstly to businesses owned by project area landowners, secondly to those from Southern Highlands and lastly from elsewhere in PNG." Whilst bland, this is slightly different to conditions applied to the mining industry in which the *Mining Act* has no reference to local preferences even though, since the negotiation of the Porgera MoAs, each project MoA or MDC has included specific provision for local preferences.

In summary, the local enterprises that have been established, developed and assisted over the years with assistance of the project developers have been very much at the discretion of the latter (under very considerable pressure from their host communities), with little or no direction or support, until recently, from Government.

The following paragraphs outline a brief history of the local landowner companies that were established in each of the petroleum development licence areas.

### 8.2.2 Hides PDL 1

This small localised gas-to-electricity project was operated by BP and then Oil Search Limited. Although the Hides region had been found to contain huge reserves of gas there was no market by 1990, so a fraction of reserves was used to operate turbines to generate electricity that was reticulated approximately 75 kilometres for sale to the Porgera gold mine.

Hides PDL consists of just one graticular block and social mapping indicated that its land was owned by 7 major clans. Gigira Development Corporation Limited (GDC) was incorporated with 7 share classes. Individual members of the respective clans could purchase shares in the appropriate share class and then elect their director in a share class meeting. Share classes were, therefore, a specific LBD development strategy introduced in PNG for the first time at Hides in an attempt to match company formation and management with pre-existing social groupings.

GDC was awarded a number of contracts which it implemented in joint ventureship with other parties in a) labour and staff hire (with JDA), and b) catering and camp maintenance (with Eures). GDC was well run, its contracts generated an income that was distributed

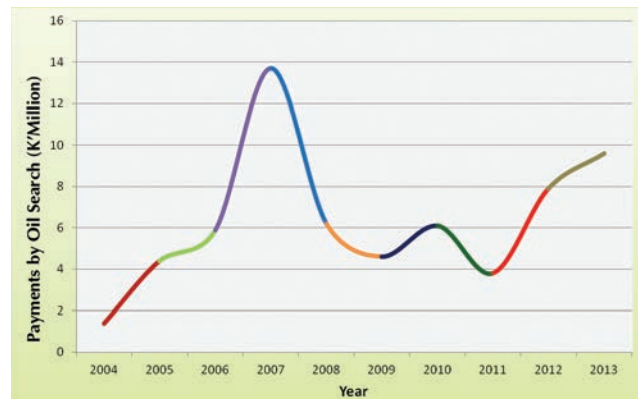


Figure 13: Payments to Gigira Development Corporation by Oil Search by year.

annually as dividends and investments were made, including acquisition of real estate in Port Moresby.

As certain individuals became aware of developments elsewhere, there were calls for greater involvement and other Huli Lancos were formed such as Kawapa Development Corporation and Tuguba Development Corporation. A three-way joint venture, Petroleum Enterprise Joint Venture (PEJV) was formed as well as another subsidiary, Mountain Oil Limited, to truck naphtha (a by-product of gas extraction) to markets in Western Highlands. All these companies were managed by GDC.

For various reasons these later-formed Lancos failed to operate properly or profitably and ceased activity, leaving GDC to run its contracts. Further, when the LNG Project was being planned, ExxonMobil decided to establish a new umbrella/representative company to cover the area over which GDC had, in earlier years, had a virtual monopoly. This marginalised it to some extent. Despite some management issues in recent years GDC continues to operate although its turnover is small compared to the incomes earned by other Hides area companies during the PNG LNG construction period.

The diagram (above) illustrates one important point: the variability in payments. Some companies which are overwhelming dependent on payments directly from resource developers are presented with challenges in forward planning.

### 8.2.3 Kutubu PDL 2

Once Chevron Niugini decided, as a result of their exploration drilling activities, that there was sufficient oil for a petroleum development to be commercial in the early 1990's moves were initiated to organise local landowner representative bodies based on social mapping studies.

At this time there was no road access to Kutubu (the road more or less ended at Margarima) and Kutubu was a forgotten and less developed part of Southern Highlands. There were few Government services at the vestigial Pimaga station and no schools in the area other than those run by the APCM (now part of Evangelical Church of PNG) and very few individuals with any education at all in a population of subsistence villagers from the Foe and Fasu ethnic groups. Chevron dealt with those few local individuals who had received some education – such as the two sons of Kapi Nato (Henry and John) from the Fasu village of Iorogobaiyu and university student Sosoro Hewago from the Foe village of Gesega.

The first company to be set up, touted as the first ‘umbrella’, was Iagifu Oil and Gas Ltd (IOG) with Sosoro Hewago as CEO, with as its shareholders the 57 (at that time) Fasu ILG’s that had been formed to receive the bulk of the statutory benefits from the petroleum developments.

The first major project activity was the construction of the Kutubu Access Road to join Moro to the Highlands Highway at Poroma. A three-way joint venture was formed, Kutubu Transport Limited (KTS), between IOG, Peripi Development Corporation (Poroma area) and Bai Waiba’s Foe Digaso Limited (Foe people) – this purchased plant for hire to the road construction contractor. KTS then joint ventured with Pagini Transport to operate a road transport contract for services between Lae and Kutubu that operated for many years.

This road construction was a lucrative contract and when complete Peripi sold out and purchased a building in Mendi; the company still exists today (it is a shareholder in Trans Wonderland). Foe Digaso also sold out and established a sawmill near Tubage along the road, that operated for some years before having its assets re-possessed by creditors.

IOG at one stage had all the major Chevron Niugini operations service contracts – civil works, catering and camp management (in joint ventureship with Longmont), camp maintenance and also security services through a subsidiary Kutubu Security Services Ltd (KSS). It had its own large camp at Moro with a small group of expatriate supervisors and was a profitable operation for some years.

The demise of IOG came about as a result of company mismanagement, lack of dividends distribution, lack of involvement of emerging, young community leaders and a desire from certain of these individuals to manage their own enterprises. Over a couple of years the service contracts were re-awarded to sub-regional landowner companies as follows:

1. Civil works and road maintenance – Maka Investments Ltd (upper Fasu).
2. Security – KSS (after murder of Henry Kapi, shares held only by Lower Fasu).
3. Catering and camp management – Yasuku Oil and Gas in joint ventureship with Eures (Yasuku region of Fasu speakers) then as they bought out Eures, who maintained a management contract, as Kutubu Catering Services (KCL).
4. Camp maintenance – Melosie (later Kawaso) (Soro region of Fasu speakers).
5. Road transport – stayed with KTS for many years, essentially run by Pagini.

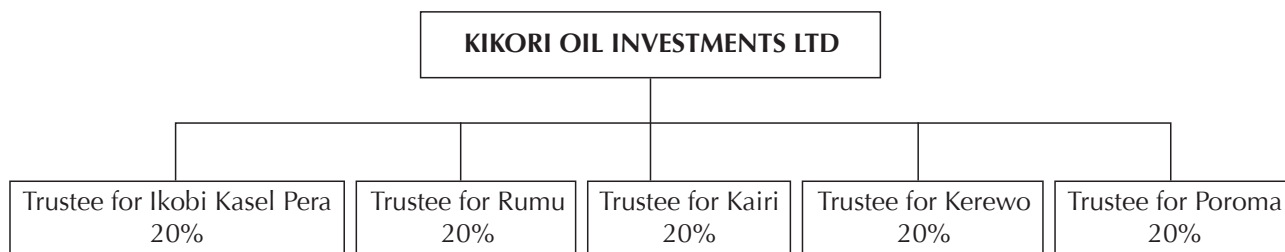
Each of these enterprises became the power base, in terms of status and finances, for certain landowner leaders – Maka (Paul Yawe, Keith Puara and Mark Sakai), KCL (Peter Heno), KSS (John Kapi), Kawaso (Kosy Sosoro) and KTS (Sosoro Hewago). The use of Lancos as an ‘instrument’ of local politics has impacted the ability of these companies to operate properly, compliantly and in some cases to pay dividends to their shareholders.

It should be noted that this split of operational service contracts excludes any involvement by Foe interests (Foe are 20% beneficiaries in PDL2) or Huli interests. After a land claim, the State recognised a Huli clan as having a small percentage ownership of PDL 2 and the development of the Moran PDL’s in the late 1990’s would not have been possible without the proximity of the processing facilities within PDL 2, which led to the oft-expressed desire of the Huli for some local BD involvement in operations’ service contracts.

#### **8.2.4 South-east Mananda**

A portion of one of the PDL graticular blocks covers an area known as south-east Mananda, across the Hegigio Gorge from the Sisibian villages and whose land ownership was disputed between Fasu, Onabasalu and Mananda Huli clans. An out-of-court agreement in the 1990s resulted in 8.2% of Fasu landowner benefits being set aside and periodically paid to these clans in line with a variable sharing arrangement.

No production wells were drilled along the SE Mananda Ridge at the time of the dispute/settlement. When they eventually were in about 2004, in association with the pipeline bridge across the Gorge, the LBD spin-offs were carried out by an unincorporated 3-way joint venture between Fasu, Onabasalu and Huli landowner interests, managed by Maka Investments. On the completion of construction, profits were distributed and the Onabasalu and Huli



clans incorporated Mananda Umbrella Joint Venture Ltd (MUJV), a company that initially had no direct contracts from OSL and simply carried out work for the Government and other contractors.

### 8.2.5 Pipeline

The Kutubu PDL 2 MOA agreements also covered beneficiaries along the export pipeline PL 2 that terminated at the Kumul platform in the Gulf of Papua. A landowner company, Kikori Oil Investments Limited (KOI), was formed to represent landowners from the south bank of the Kaiaua crossing of the Kikori River to landfall where the pipeline entered the river bed between Kopi and Kikori. KOI was awarded contracts to manage the Kopi camp and its maintenance, maintain an oil spill response team and also be involved in the implementation of tax credit projects in that part of the Gulf Province.

KOI was initially formed with its shareholding held by individual companies representing each 'tribal'/ language group in the area. These smaller entities carried out some minor activities and were involved in an unsuccessful joint operatorship to operate Delta Stores on Kikori station, which then reverted to its previous ownership (John Senior). These smaller companies then failed to submit necessary IPA and IRC documentation for many years and when it was thought that their liabilities could impact KOI operations they were dissolved and their shareholding transferred to 10 trustees, who also constitute the Board of KOI.

It should be noted that Kikori Oil Investments is not exempted from the requirement to report to IPA an annual independently audited Financial Statement. Unfortunately it appears not to have ever done so.

### 8.2.6 Gobe PDL's 3 and 4

These licences straddle a number of graticular blocks across Gulf and Hela/Southern Highlands provinces within which, because of the severe topography, lack of surface water or good soil, there were no permanent villages. The land was claimed by a number of clans whose members were resident outside the PDLs, predominantly in villages in the Samberigi valley and on the banks of the Kikori River. This ownership dispute resulted in two Land Titles Commission (LTC) hearings

and innumerable meetings and locked up statutory royalty and equity dividend benefits in escrow for many years before the clans themselves agreed to a sharing formula that was passed on to the Government and was the basis for a Ministerial Determination of same. The competing land claims also impacted the structure of the landowner companies formed in association with this petroleum development.

Although there are no specific details in the Gobe MoA about local business development, Chevron Niugini signed an MoU at the same time with the Gobe area people that covered various aspects of their relationship. With regard to business development, it was agreed that there would be an umbrella management company that would administer a Southern Highlands Project Company and a Gulf Project Company. Each of these project companies would be owned by clan and sub-clan entities ('clancos') which, it was thought, would carry out contract work. The 1996 MoA (section 5.5) also included a State commitment for a payment of K1 million business seed capital through the landowner company management entity. This was the first time seed money of this nature was agreed to in the petroleum sector.

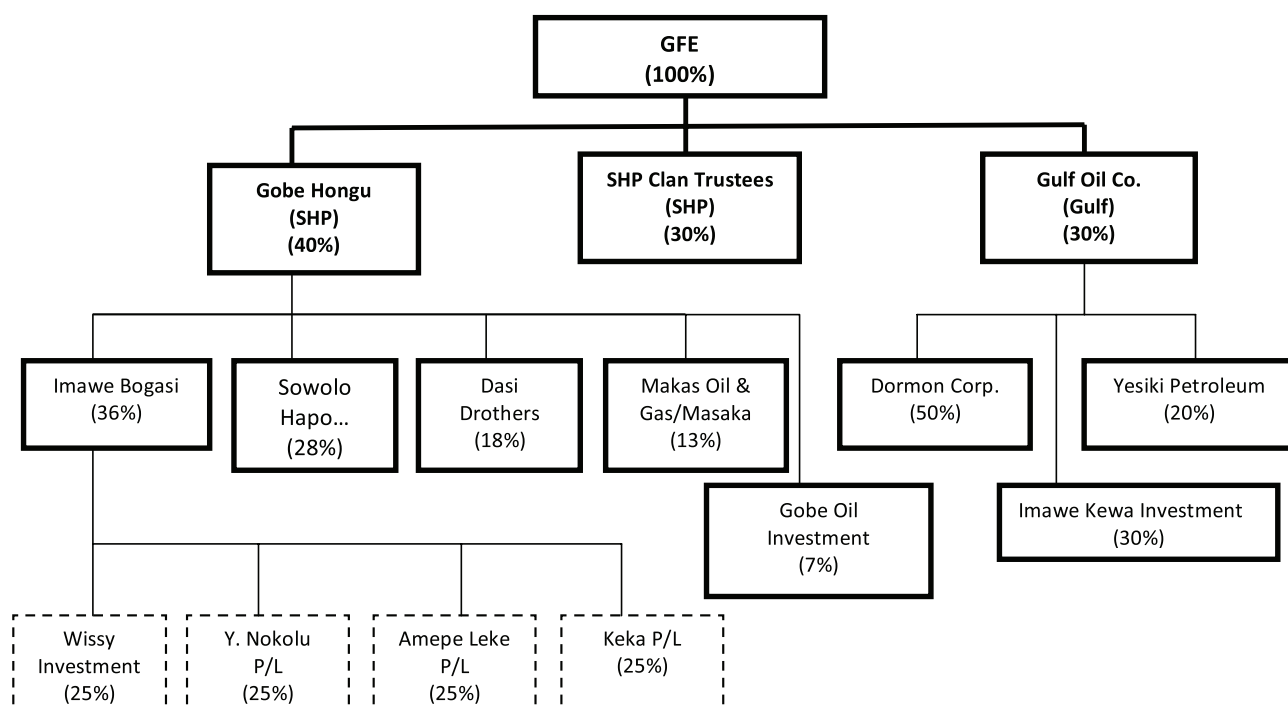
What actually occurred was the establishment of two 'provincial' companies, owned by smaller clancos, who held shares in Gobe Field Engineering Limited (GFE) and nominated directors to the GFE Board. Almost all contracts available during construction and operations were carried out by GFE. Initially during operations GFE were awarded contracts for provision of security services, catering and camp management, civil works and road maintenance.

GFE dividends were paid to its two shareholders, who invested them in various ways rather than distributing them to their shareholders. Increasing liabilities and threatened legal action against Gobe Hongu Ltd resulted in GFE buying back some of their shares, leaving the company structure as illustrated on the following page.

GFE entered into a 3-way joint ventureship with KOI and Pagini Holdings to form Gobe Freight Services (GFS) to provide a wharfage and trucking service to



### Gobe Field Engineering: Shareholding Structure



**Note:** All shareholders of Gulf Oil Company Ltd and Gobe Hongu Ltd are incorporated clan landowner companies. GFE was originally 70/30, Gulf Oil and Gobe Hongu but in 2001 by mutual agreement of the Board of GFE, 30% of the shares of Gobe Hongu were re-purchased and allocated to identified SHP clan trustees.

the petroleum operators between Kopi wharf and Gobe. GFE has been consistently profitable and when it was decided to buy-out Pagini, the shareholding changed and also incorporated minor shareholders – Bogasi Investments (owned by a Gobe landowner leaders' clan) and Parauki Investments (owned by a Rumu landowner leader's clan).

When the State agreed to fund the construction of a road to join Samberigi station to the Kutubu Pipeline Access Track just north of the Kaiam crossing, construction of the first section was carried out by an established civil contractor. Subsequent sections were constructed gradually as State funding was irregularly released by Civpac Limited, a 50/50 joint venture between GFE and Bogasi Investments, an Imawe Bogasi clan company. In 2012/13 GFE sold its share in Civpac.

Although one of the smaller companies in the Gobe area, Gobe Catering Services is not exempted from the requirement to submit independently audited annual reports to IPA – probably because originally it was a joint venture with a foreign company. It submitted an audited FS for 2012 in late 2013.

#### 8.2.7 Moran PDL's 5 and 6

The Moran PDL 5 was the first to be issued under the *Oil and Gas Act* (1998) and whilst this meant that the outcome of the Forum discussions was termed a Development Agreement rather than an MoA, its provisions with regard to business development were much the same as previous licence area documentation.

Although neither the original 2001, nor the revised 2005, PDL 5 Development Agreements made any specific reference to any LBD grant payment, a payment of K1 million was made, although inexplicably this was split 50/50 between the Huli and Fasua landowner associations representing the landowners with an interest in PDL 5, the Homa Pua Peoples Association and Apporo'Uri Resource Owners Association respectively.

After Moran 1X discovered commercial quantities of oil and an extended well test was carried out, an extensive and lengthy social mapping exercise was carried out in the PDL 5 graticular block to identify impacted landowner clans. Despite the Huli multiple



and overlapping mosaic land tenure system this exercise identified 12 major Huli clans with an interest in the block, along with Fasu clan interests and some areas of dispute.

Prior to payment of statutory benefits other disputant clan and sub-clan claimants lodged their interests with the State and there are now approximately 60-70 beneficiary entities for the ministerially-determined 90% Huli and 10% Fasu landowner benefits. However, in terms of business development the Fasu clans were affiliated with Maka Investments and the 12 Huli clans became the share classes in a PDL 5 representative Moran Huli company, Moran Development Corporation Limited (MDC).

Prior to the incorporation of MDC there had been some other Moran Huli companies, notably Paua Natural Resources, with Tony Kila as its principal and the Moran Road Company, formed to enable landowners to be involved in the construction of the Tubage to Paua road. Neither company lasted very long due to mismanagement and leakage of funds.

MDC was constituted with 12 share classes, each representing a major clan group whose individual members could buy shares in the appropriate share class and elect their director to the Board. MDC was never awarded a service contract but participated in some extremely lucrative civil construction contracts associated with the development of the Moran project roads, facilities and rig sites. Underlying inter-clan rivalry and involvement of directors in operational aspects of the operations, non-payment of lease company creditors, combined with ineffective management resulted in the financial demise of MDC, although the start of PNG LNG construction provided an income for some of its plant and it now operates at a low level for the benefit of a few individuals.

The declaration of the PDL 6 licence introduced a number of new Moran area landowning clans. Although oil production from this block from the NW Moran well was extremely small, this did not stop incorporation of many small companies associated with particular individuals, as occurred after PDL 5 was awarded. More recently the construction of the PNG LNG pipeline between Hides and Kutubu introduced more affected Moran area Huli clans from the north-west and south-east of the PDL blocks.

This situation, plus the effective demise and local politics surrounding MDC, led to the establishment of another representative company, Moran Ina Naga Limited (MIN). The structure of MIN is supposed to be inclusive, with a quarter of the shareholding held by respective 'regional' companies, including MDC for PDL 5, each of which would have individual

shareholders belonging to clans in that particular area. Whilst on the face of it sharing of interests is geographically based, it also reflects an alignment and accommodation of local clan politics, albeit under the chairmanship of Tony Kila.

MIN (along with MDC) received seed capital funds from PNG LNG for business development as a result of the UBSA/LBBSA deliberations and used this to purchase some items of equipment. MIN has been awarded some contract work by OSL, principally road maintenance and the company has been involved in road construction for the Kutubu LLG SPA.

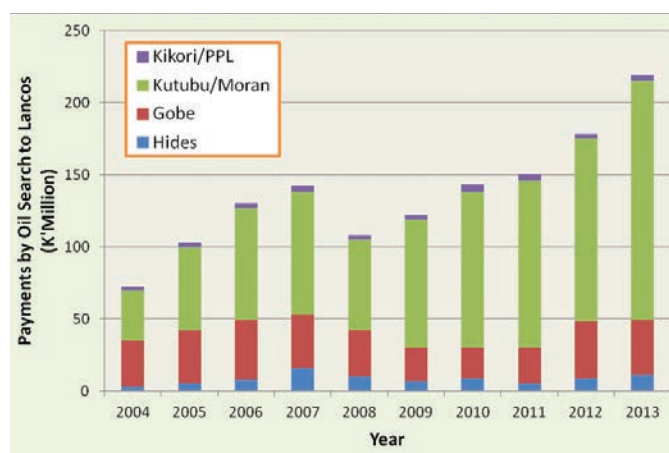


Figure 14: Payments by OSL to Lancos 2002-2013.

### 8.2.8 Payments by OSL

The graph above shows payments made by OSL to geographical clusters of Lancos fulfilling OSL contracts over the ten years 2004 to 2013. The figures shown are gross incomes derived from OSL-direct contracted work. Several of the Lancos that compose the geographical areas shown also have investment properties that generate incomes, some carry out work for other companies (including companies that are major contractors to OSL) and some do work for government. Within the geographical groups some companies, Civpac or Moran Development Corporation, have fallen by the wayside over the years whilst others have arisen, including Kutmor, the Mananda Umbrella JV, Moran Ina Naga and, most notably, Trans Wonderland.

Many of the individual companies continue to take on OSL contracts while also having undertaken major work under the PNG LNG project's major contractors – but the latter payments are not included here. A total of K1.3 billion worth of OSL contracts are covered in the ten years shown with contracts in 2013 being worth more than K218m.

### 8.2.9 Lessons from OSL for all resource companies

All companies in this study were approached in the same way with a request for assistance in terms of:

- a) Recent overall payments to Lancos
- b) Comments on Lanco performance
- c) Company policies in relation to Lancos.

OSL was able to supply all this information in a matter of two days and much more besides. They have a full record of annual payments to all Lancos dating back to 2003; not only do they have full details on the origins and skill levels of all workers in every Lanco contracted to them but are able to provide forecasts of employment for each company three months in advance. Whilst it seems likely that Lihir Business Services might be in a position also to state the situation of Lihir Lancos in this respect (but did not make such data available for this study) OSL was the only company able to summarise for every one of its contracted Lancos their compliance status in regard to IRC, IPA, governance and financial reporting issues, NASFUND and insurance matters. It was of interest that in supplying this information OSL commented 'not such a pretty picture....a situation we are addressing at present'. But the fact is that OSL is the only company in the survey in a position to know what the 'picture' is and why it 'is not a pretty one' (and to admit this deficiency publicly).

Oil Search has, more than any other company in the resource sector, had a direct, hands-on approach to LBD which has set a standard in the degree of assistance they have provided to Lancos, by means of management guidance, which has proved very effective in many ways. In one important way, it appears not to have been effective: it has never been able to establish an overarching umbrella company for its Lancos and one of the effects of this will be discussed later. Nevertheless, it has established companies and often placed one of its own employees in the CEO position or as a director until such time as it has been adjudged that such direct representation is not required (other forms of direct influence being available). For example, when Trans Wonderland was incorporated (in September 2002) one of its senior CA officers, Larry Andagali was placed in charge of it; he still runs it (and other major companies), though has long since resigned from his OSL position. Moreover, when the shareholding clans were being lined up for ownership of Trans Wonderland, OSL managed to arrange matters so that shareholding in the new company was restricted so that part of its shares were to be held by Hides clans and part by Kutubu clans,

whereas all Hides Gas Development shares were to be held by Hides clans. The approach adopted by ExxonMobil for the PNG LNG Project has been somewhat different.

## 8.3 The Gas Project (PNG LNG) and LBD innovations

### 8.3.1 Innovations introduced by ExxonMobil

**8.3.1.1 A really big project:** The agreement to proceed with the PNG LNG project led to a very large increase in the extent of investment in the oil/gas region in a single stroke. It was not just a project spending tens of billions of kina but one that required integrated and carefully scheduled and planned development. The scale of that planning by ExxonMobil outshone anything that had gone before in the resource industry in PNG. It is true that the funds available made possible the implementation of schemes (such as the refurbishment of training facilities in Port Moresby or the funding of the Business Enterprise Centre) that the resources of even the biggest mining projects would have been stretched to rival and that smaller mining companies cannot hope to emulate even in a watered-down form.

But the PNG LNG project implementation was not simply a matter of throwing money at problems but setting up new approaches to and structures for LBD which were extraordinarily innovative. Whether or not they worked well or not is difficult to judge at this point in time, first, because PNG LNG-recognised Lancos were awash with cash during construction (now ended) and second, because they have only been operating a relatively short time (four or five years). However, they certainly worked well enough to ensure that shipments of gas are now taking place.

Just prior to the start of construction of the LNG Project, its developers issued their 'National Content Plan' (NCP) which laid out the company's intentions in terms of hiring and training of Papua New Guineans, of encouraging both local (impact area<sup>51</sup>) and Papua New Guinean companies to supply the project with goods and services and of making 'strategic' community investments. It was a commitment to the development of PNG businesses on a scale no preceding project had attempted. The document estimated that at the peak of the construction period, roughly 12,000 jobs would be created (of which up to 3,500 – or about 28% - would be held by PNG citizens)[page 15, NCP]; that business opportunities to the value of K1.26 billion over the whole of the

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<sup>51</sup> The impact area covered all Gas Development Licence areas plus any area within 5km of any pipeline or project facility linked to a pipeline when such an area fell outside a PDL; this meant that most of the areas under Petroleum Development Leases - in which Lancos had been developed under OSL – now were incorporated under ExxonMobil's LBD plans.

four year construction period and roughly K200m in every year of the 30 year production period would be made available; and that K14 million annually, in both construction and operating periods would be invested in community infrastructure.

In fact, the peak employment of the project was reached in the fourth quarter of 2012 at 21,200 of whom approximately 9,700 (or about 46%) were PNGNs and of these about 6,800 were 'sourced through Lancos'. Thus actual employment greatly exceeded the forecasts made in 2009. This was also the case in terms of the value of project-generated business accruing to PNG businesses. The numbers cited in the previous paragraph (and the NCP itself) did not distinguish between 'local' and 'nationwide' businesses<sup>52</sup>. However, as construction was ending at the end of March 2014, the value of contracts actually awarded to PNG businesses since 2009 had reached K13.35 billion (US\$5.5bn) of which K2.64bn (US\$1.1bn), or K600m a year, had gone to Lancos owned by people in the Project Impact Areas. The actual value of Project business generated was, therefore, many times the 2009 estimate (and many times the value of business enjoyed by Lancos in most mining project areas).

**8.3.1.2 Support structures for LBD – the role given to contractors:** ExxonMobil paid considerable attention to the planning of its support structures for local business development; even if they had the advantage over most other companies covered in this report of being able to learn from earlier experience in this field, it should be stated that in this respect **their plans on paper were clearly stated and more comprehensive than any of those produced by their predecessors**. PNG LNG largely operates in the same geographic areas as Oil Search had done earlier (and continues to do). Consequently, it inherited a shared responsibility for many Lancos – what ExxonMobil generally refers to as Representative Lancos (rather than 'umbrella companies') from the earlier oil operations and earlier attempts at gas commercialisation (under Chevron). In these cases 'representative' appears a more appropriate descriptor than 'umbrella' since the protective aspect of umbrella companies was to be provided by ExxonMobil major contractors, not ExxonMobil itself, whilst the Lancos cover a wide variety of different groups. The Representative Companies were listed in the NCP as:

- Moran Development Corporation
- Kutubu Security Services

- Maka Investment Corporation
- Kutubu Transport Ltd and Trans Wonderland
- Kutubu Catering Ltd
- Kawaso Ltd
- Yiamo Gira Investments [as per map in NCP p.33]
- Gobe Field Engineering
- Gobe Freight Services
- Kikori Oil Investment

To these companies the NCP added two completely new ones: Hides Gas Development Company (which became the representative replacement company for a swarm of Lancos that had developed earlier in the Hides area under, first, BP and later OSL) and Laba Holdings (the latter being the Representative Lanco for the Port Moresby area villagers, owners of land for project sites around the capital). Several of the companies that were to participate in the PNG LNG project, therefore, were already established ones that had grown up under BP, Oil Search and Chevron – and several had ongoing contracts with Oil Search. **It is important to note that while all these companies had work with ExxonMobil, most of them also continued to have work with OSL; the payments made by OSL, described earlier, are separate from those made by PNG LNG.**

The NCP took an original approach to LBD: effectively, it passed on the responsibility for such development to its major contractors:

*'The Company will provide opportunities to Representative Lancos in the Project Impact Area and help them to develop into sustainable businesses where possible by requiring EPC Contractors to use Representative Lancos to perform specified services for them and to take the lead role in the formation of a suitable business structure. .... EPC Contractors will also be directed to work with Representative Lancos to implement capacity building programs.... The exact nature of the business relationship will be developed by the EPC Contractor (or, if the Contractor chooses, its subcontractor) and the Representative Lanco on an individual basis.'*

Given its size, its world wide contracts and its relationships with major contractors in the hydrocarbon project construction business, ExxonMobil was,

<sup>52</sup> While the definition of a 'representative Lanco' in the NCP was relatively unambiguous (a company which the LNG Project had determined to be pre-qualified to provide supplies and services to the Project whose shareholders represented the broader community in the Project Impact Areas), that of a Lanco is distinctly opaque and imprecise ('a company registered in PNG with the intent of doing business, owned by the people of the same clan or clan origin, or owned by a group of clans, who use and/or have title to land in a specific area').



theoretically, in a position no mining company in PNG has ever been in: its contractors were aware that their overall, ongoing relationship with ExxonMobil could be negatively affected were they not to successfully facilitate LBD for their client in the PNG LNG project. The recognition by ExxonMobil of the need to control and pass responsibility onto contractors was at a level not seen before in PNG's resource industries; and it was most welcome since when one tries to examine a large range of issues in the sector, one can trace them back originally to the actions of contractors who are no longer around and who did not pay the same careful attention to community relations that their employer, the resource company itself, was trying to apply to such matters. It is not clear how this strategy of ExxonMobil worked in detail; overall, combined with the other components of it to be described shortly, it obviously worked rather well insofar as the construction of the project was done efficiently and on time. However, interviews suggested that at least some Lancos felt that in terms of their capacity building, the EPC contractors (and sub-contractors) did little to assist them in capacity building.

This indirect approach to LBD on ExxonMobil's part was not always exercised through its EPC contractors. In the northern section of the fields, around Hides, it dealt directly with the Hides Gas Development Company, which effectively acted as an umbrella company in that area. In doing this HGDC is one of the best examples across PNG's resource sector of a so far not mentioned use of umbrella companies – it, like almost all other such companies, may protect smaller local Lancos from the rigours of the free market but it definitely protects the resource company from the rigours of dealing with lots of landowners who want to be businesspeople. Such a structure directs would-be entrepreneurs towards the umbrella company rather than the resource company.

Once construction was completed, the ExxonMobil-led project was to take over from its EPC Contractors and 'likewise meet the requirements of Section 129 of PNG's *Oil and Gas Act* and will continue capacity building activities' (NCP 5.2.4). This phase is now underway. This presents a situation of some interest because many Lancos have contract work with both OSL and with the PNG LNG project, yet these two companies have very different approaches to LBD – one very much hands-on and one, until now, hands-off. This, added to the challenges that are already arising in terms of a steep reduction in the value of PNG LNG contracts and the universal tendency for individuals to challenge the bigger multi-clan representative

companies for what contracts are available, obviously has the potential to create interesting times in the immediate future.

**8.3.1.3 The Business Enterprise Centre:** ExxonMobil generously funded this centre based in Port Moresby at what was originally the Bankers College as a training, monitoring and evaluation centre for Lancos. Although intended for PNG LNG Representative Lancos, other 'relevant PNG businesses' can make use of the Centre's services 'as required'. All companies wishing to work on the PNG LNG project were assessed on the basis of their performance to date in the areas of:

- Organisation and governance
- Business management
- Finance
- Personnel
- Safety, Health and Environment
- Quality
- Equipment
- Citizenship and Reputation

On this basis they were classed as unclassified, one-star, two-star or three-star businesses. Feedback was provided to show how each might improve its performance. In turn, contracts offered by the PNG LNG project through its Contractors were identified as applicable to one-star, two-star or three-star companies, thus giving not only the opportunity for Lancos to improve but the incentive also, since work with more stars was more extensive.

With its training, assessment and business assistance services the Business Enterprise Centre effectively took on for the LNG project many of the capacity building functions imagined (but never realised except possibly at Lihir) for an 'umbrella company'. With the end of the first and most important phase of PNG LNG construction in early 2014, the end of the agreement under which PNG LNG funds the BEC is approaching. Clearly this could become a national resource for all infant and growing PNG businesses even if its fee structure when working with PNG LNG might have to be adjusted downwards for the general run of companies.

**8.3.1.4 Links to PNG financing institutions:** The LNG project has been (so far<sup>53</sup>) unlike many of the previous mining project in another respect: it has, like them, stated that 'it will not be directly involved in providing or guaranteeing loans to PNG businesses' but, unlike almost all of them, has not (yet) had to quietly eat its

<sup>53</sup> It is necessary to add this qualifier since a) the construction years have been prosperous ones for the Lancos b) the really testing times for their resiliency are only now beginning as contract values decline sharply and c) it is still rather early days in the life of the LNG Project.

words as leading Lancos teeter on the edge of failure. Its staff have worked closely with a range of lending institutions in PNG to find the best ways of financing Lancos – and to date this has been successful.

**8.3.1.5 Long-distance downstream links:** Ok Tedi has found itself (accidentally) with an impact area (and thus a need to consider LBD in that area) much greater than it ever planned for; Porgera's access via the Highlands Highway was, from the start of the project, a reason why the company has supported LBD especially in Laiagam and Enga. Lihir is fortunate in this regard – other than giving some minor support to LBD on New Ireland it has had no strategic need to support LBD other than on Lihir itself. But the LNG Project, not only depends, like Porgera, on the Highlands Highway for supplies, also pipes its gas for processing to Port Moresby. Hence its formal, planned support for business extends over a very wide area, from Hides to Port Moresby, with less formal support also being provided from Hides to Lae.

**8.3.1.6 Multiple ethnicities of affected peoples:** Business structures associated with the LNG Project have had to take into account the fact that people of different ethnic backgrounds have been recognised as having overlapping or shared claims in gas discovery areas and, even more certainly, along pipeline routes. Although individuals have sought out their own business opportunities independently of other ethnic groups, the formal approach to LBD has been to develop companies with shareholders and directors of multiple ethnicities. It is too early as yet to say whether or not such arrangements will last, but they have served until now.

**8.3.1.7 Arranging shareholdings:** Closely related to the immediately preceding point, it has been a feature of the oil and gas field developments that the *Oil and Gas Act* has specific reference to 'social mapping' in ways that the *Mining Act* does not; this is the case even though the pioneer in – indeed inventor of – social mapping, John Burton, spent most of his time in impact assessment and monitoring of metal mining projects in PNG and that the oil field studies of the late 1980s and early 1990s were largely undertaken by disciples of the concept of incorporated land groups (ILG) – a concept developed originally in the East Sepik by Tony Power. Certainly, the focus of work on social mapping in both the original Oil Search era, then the Chevron gas-to-Australia period and now the LNG Project has been strongly oriented towards the identification and recognition of ILGs. This has spilled over into LBD in the form of very large numbers of shareholders in rather

more than half the hydrocarbon Lancos, spread over rather large geographical areas. In this regard, these Lancos are distinctly different from the overwhelming majority of Lancos in the metal mining project areas. Such a spread of company control has the theoretical advantage of making it more difficult for a small group of closely related individuals of one ethnic group keeping business benefits for themselves. But it also has the disadvantage (in view of the empirical evidence of what has tended to happen at almost all resource project sites in PNG) of potentially leading to the break-up of such broad-based Lancos, both on ethnic lines but also – possibly – as ILGs are overtaken by individualisation and groups revert to clans, then sub-clans, then houselines, and then individuals within single families.

In contrast to the companies with very widespread shareholdings, a significant minority of hydrocarbon Lancos still have only a single shareholder (or a small handful of shareholders) – even though their arrangements for directorships indicate that they are intended, like the other Lancos, to represent large numbers of different groups of people. In view of events elsewhere in the resource industry relating to Lanco ownership, it would seem advisable that such arrangements be phased out as soon as possible.

**8.3.1.8 Government support for business:** While the formal rules governing how a hydrocarbon resource project Development Forum shall be run (section 48 of the *Oil and Gas Act*) mention a location for the Forum close to the project area, it was at Kokopo in East New Britain that agreement was reached on the future distribution of benefits from the LNG Project – the 'Umbrella Benefits Sharing Agreement'. Item 6e) of that Agreement specified that 'an amount of Kina 120 million [shall be] made available to assist landowner companies in business development activities in accordance with guidelines to be developed by the NEC and Section 171 of the [Oil and Gas] Act<sup>54</sup>'. This generosity was unprecedented (other than in respect of the 1 million seed money provided by the 1996 MoA for Gobe PDLs 3 and 4). Item 10(1) made the more normal general statements concerning the State's 'best endeavours' but went further in 'ensuring' that:

- Lancos already working in the LNG area would be helped to participate in business opportunities;
- The project would 'create business opportunities for project area landowners' not already in business....

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<sup>54</sup> Section 171 allows the State to provide to landowners on operational licence areas any additional funds from Consolidated Revenue as it thinks appropriate providing that – as constrained under Section c174 of the same Act – the total benefits paid out to landowners does not exceed 20% of the net benefits of the relevant project to the State.



- .... and for ‘any umbrella project area companies’.

In short – everyone with a wish to be in business would be catered for, a policy so open-ended as to challenge prudence.

In a public statement made by the then Minister for Petroleum and Energy, William Duma, in April 2010, it was observed that:

*‘The government is obligated to ensure that all the K120 million allocated for business development grants (BDG) are disbursed to all PNG LNG Project area licences.*

*The BDG available to each licence area is as follows:*

Hides PDL 1	K20m
Kutubu PDL2	K10m
Gobe PDLs 3 and 4	K8.2m
Central Moran PDL 5	K6m
NW Moran PDL 6	K4m
South Hides PDL 7	K15m
Angore PDL 8	K12m
Juha PDL 9	K11m
LNG Pipeline	K16.128m
LNG Plant	K17.472m

*The DPE [Department of Petroleum and Energy] anticipates that the State will pay out 100% LBD grant to successful companies vetted by it. As construction has already started and Portion 152 landowners [i.e. plant site landowners] have already received 20% of their LBD Grant, it is only fair that those who have yet to receive the funds must get it immediately to fund their companies to participate in spin-off business opportunities provided by the LNG project.’*

Two points arise from this generosity on the part of the State. First, it is widely – if usually privately – alleged that these funds were frequently misused and that for many ‘Lancos’ the sole purpose of being recognised by the State as an approved Lanco eligible to receive part of the BDG was to receive that grant – not to do any business. Because relatively few of the companies receiving the BDGs have submitted ARs to IPA since the disbursements of the grants, and even fewer have submitted independently audited returns, it is not clear whether these allegations are justified whether in terms of limited or of widespread abuse of these funds. However, in the one independently audited AR available to this study of a Lanco which was a recipient of a BDG payment, its auditor commented:

*‘Qualified Opinion*

*1. The company has an amount of K1,763,777*

*in other debtors and prepayments in the accounts. We were not able to establish the completeness and recoverability of this amount as we were not provided with any supporting documents and break up of the amount as to who owes the money to the company.*

**2. Direct BDG Expenditures of K1,300,000 were made during the year. We were not able to establish the validity of these payments due to a lack of supporting documentation and explanation on the expenditures.....’**

It is at least some credit to this company that its CEO, as well as the Chairman of its Board, had already been replaced even before the auditor made these remarks.

There is, at least in this case, clear evidence of irregularities in the use of BDG funds and it is highly probable that more extensive misuse did indeed occur. The Department of Trade, Commerce and Industry informed this study that one of the conditions attached to the BDG was that the use to which such funds had been put would be audited by that Department’s officers. That review has not yet occurred.

The second point arising is that this K120m subsidy needs to be deducted from the total of net assets of the oil/gas Lancos, when – at some future date – up-to-date statements of their assets and liabilities are lodged with the IPA, if a true estimate of the effectiveness of asset accumulation by such Lancos is to be arrived at.

## 8.4 Payments by the LNG Project

As noted earlier between 2009 and March 2014, the PNG LNG Project on average was awarding contracts worth K600m annually to local Lancos. Unfortunately, ExxonMobil was unable to provide data, comparable to that provided by OSL, relating to the payments the project made to specific Lancos, citing ‘commercial confidentiality’ and pointing out, correctly, that their quarterly reports do provide detailed information on payments to Lancos overall. However, the end result is that whilst we have the payments made by OSL to individual Lancos, comparable data is not available for LNG project companies (other than Oil Search).

## 8.5 Lanco performance

### 8.5.1 Assessment difficulties

The great majority of Lancos at all resource projects have been dilatory in making ARs to IPA. Those in the hydrocarbons sector are no worse than their counterparts in the metal mining project areas in this respect. However, when this factor is taken

into account we have no direct or even indirect means of knowing what revenues were received by those companies that have never submitted (or, in most cases, never had to submit) an audited annual financial statement. Of the sixteen Lancos shown in Appendix A which were established (or only started operations in any significant way) after the PNG LNG Project was decided upon, eight have never submitted even an Annual Return, while five of the remainder submitted an AR just as they were commencing operations and had neither assets nor liabilities. Even for the three that did submit ARs/FSs we know that their assets have grown since the last submission. So, this means that the oil/gas Lanco ARs of 2009, 2010 and in a few cases 2011 available on the IPA website are of very little use. Very little worthwhile analysis can be presented here in view of these facts. If (and this is a rather large 'if') the companies associated primarily with the PNG LNG Project take any notice of the IPA's campaign (commenced in mid-October 2014) to push all companies in PNG to ensure that their ARs are up-to-date, then this situation may be

noticeably improved by the middle of 2015; and it would be worthwhile revisiting this issue then. What follows are, at best, stop gap comments.

As of the end of 2011, the two most important Lancos in the area were Hides Gas Development and Trans Wonderland, the former the 'representative' company established for the LNG Project in the Hides/Angore area, the latter the transport company put in place originally by OSL staff to ensure that the majority of the benefits flowing from the transportation of construction goods from Lae to site would end up in the hands of landowner companies. Because road access to the gas fields was restricted to the Highlands Highway from Lae, Trans Wonderland is the only significant hydrocarbon Lanco based in that city. In this respect, its location brings it into direct competition not only with the IPI trucking subsidiary and the transportation JV established by Hidden Valley's NKW, but also with older established trucking firms which have long used Lae as their base. Having established a good working relationship with the LNG project and having

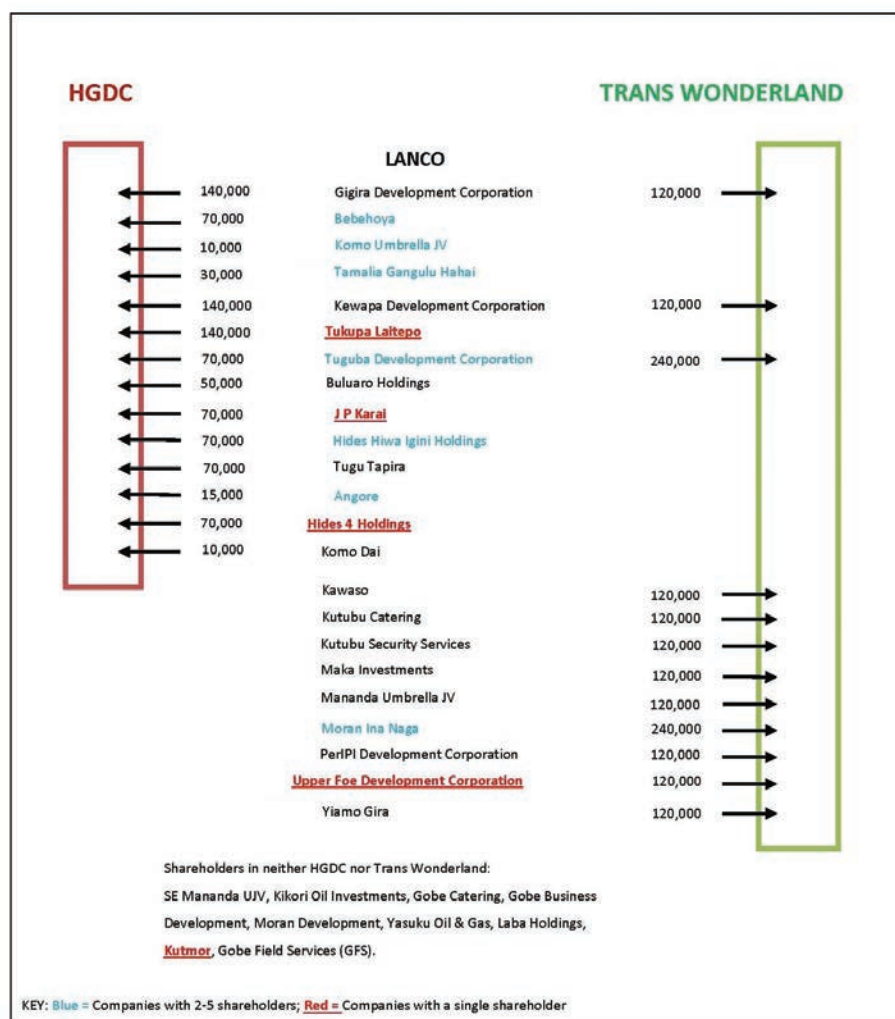


Figure 15: Shareholdings of smaller Lancos in the two leading PNG LNG Representative Companies.

developed a high profile nationally (as IPI has from Porgera) gives Trans Wonderland an edge over these pre-existing rivals.

### 8.5.2 Sunset clauses for local preferences

This raises an issue that applies to all of the larger Lancos that have succeeded in expanding into areas beyond their original resource project's impact area: should there be a sunset clause in preferential treatment of project Lancos? This study has only come across one serious attempt by a resource company to consider this question openly. The 'Back to Basics' program at Ok Tedi in 2006 specifically suggested that the periods of guidance for Lancos should be strictly limited to a set number of years.

This proposal did not proceed very far partly because it was made when OTML was planning for a final mine closure five years later in 2011. No other example of inserting 'sunset clauses' into Lanco planning has been encountered.

Without the edge given to local companies by preferential LBD clauses at the start of any project, it is highly improbable that the populations of project areas could ever aspire to build companies that could provide resource projects with services and companies that would provide those populations with additional project benefits. But, it is still worth considering the question: for how long should such preferences be in force or should they be open-ended?

Should preference clauses apply to local companies that perform poorly or even fail? Clearly, in practice the answer to this question is 'yes, in the early years of operation' since both Anitua (in its previous form of Lakaka) and IPI have had to be rescued. How many times should such companies be rescued – Cloudlands was let go by OTML and SMIHL, founded only a decade ago is following the same path.

The question takes on sharper focus when Lancos expand beyond their original starting point as IPI, Anitua and Trans Wonderland (and others) have done. Then they start competing with companies with no such company preference/subsidy. The present study has no definitive recommendation to make on this issue other than that **the sorts of limitations on preferential treatment of Lancos discussed in OTML's earlier 'Back to Basics' paper need wider discussion.**

### 8.5.3 Performance up to the end of 2011

**8.5.3.1 Non-exempt companies and companies with audited FS:** One of the largest (and most important) Lancos, Hides Gas Development, is an exempt company and therefore does not produce independently audited statements; it is considered in the next section. Only six Lancos are in the non-

exempt category. Of these, one, Kutubu Transport, is predominantly owned by non-local interests while another, Kikori Oil and Gas, although required to produce Financial Statements has not done so (if the IPA records are correct). Conversely, one exempt company, Laba Holdings, has produced (although it need not do so) independently audited Financial Statements.

**Laba Holdings:** Wisely, and like many of the larger hydrocarbon Lancos, Laba Holdings (LH) has its own constitution. It was established in June 2009 and is owned by the four companies set up by four Motuan villages around Port Moresby on whose land gas conversion plants and export loading facilities have been constructed: Boera, Papa, Lea Lea and Porebada. Each of the village companies, which were established in 2009 on the basis of ILGs and/or clans/subclans, holds one share and appoints two directors to LH. Only one of them (Papa Resources Development) has submitted any AR to IPA, in that one case for each of the three years 2009, 2010 and 2011. Laba Holdings has been provided with a series of loans from (or through the facilitations of) the LNG consortium which, at the end of 2011, amounted to K9.8m. Like all but one of the companies shown in Table 10 (below), Laba Holdings has invoked subsection 3 of Section 212 of the *Companies Act* so as not to reveal some items of financial interest; these include the fees and expenses of its directors.

Given that its shareholding villages all hold land in prime locations around the country's capital, LH has a double advantage: **it has the support of the LNG project and is well placed to capitalise on that assistance within the wider commercial markets of Port Moresby where, unlike any other Lanco, its shareholders own large tracts of land.** However, its commercial ventures to date (in catering and security services) have been neither noticeably different to those taken up by almost all Lancos across the country and nor had they, by the end of 2011 at least, been especially profitable. LH paid out in 2011 one of the largest dividends of any Lanco (K4m) when net assets totalled only a little more than K5m. This may reflect a need to hold the company's constituent shareholders together. There is some pressure from at least one of the villages at present to break away from the major company. In other words the tendencies to fragmentation experienced at all sites may be beginning to appear in this carefully constructed Lanco.

**Gigira Development Corporation:** several aspects of this company were dealt with earlier. It was previously the dominant Lanco in the Hides/Angore area but has lost that status now. The figures in the table below refer only to years 2010 and 2011 (because these were the

**Table 10:** Financial data for oil/gas non-exempt companies, various dates

Year/ Company	Revenue (K'Million)			Directors	Gifts	Dividends Kina	Fees/ Expenses per Director	After tax profit/ loss	Assets K'Million	Liabilities K'Million	Net Assets K'Milli on	Retained Earnings K'Million
	OSL	Total	% OSL									
Gigira Development Corporation												
2010	6.35	6.7	95%	14	33750	408563	12304	- 0.58mK	18.9	14.8	4.1	2.5
2011	3.51	4.6	76%	14	25680	1043	23698	- 2.39mK	15.3	13.4	1.9	0.3
Laba Holdings												
2010	Nil	11.3	Nil	9	NS	0	S212 invoked	0	13	13.1	-0.1	-0.1
2011	Nil	44.9	Nil	9	NS	4000000		5.3mK	26.5	21.2	5.3	5.2
Trans Wonderland												
2010	50.3	81.7	62%	10	NS	500000	S212 invoked	8.5mK	59	46.7	12.3	10.6
2011	53.2	92.9	57%	10	NS	1700000		14.7mK	96	70.2	25.8	23.6
Gobe Catering												
2011	4.4	4.9	90%	2*	NS	Nil	S212 invoked	- K75739	2.4	1.7	0.7	0.7
2012	5.2	6	86%	2*	NS	145000		-K2799	3.1	2.3	0.8	0.7
Kutubu Catering												
2009	19.0	31.6	60%	6	Nil	500000	S212 Invoked^	2.5mK	11.4	6.3	5.1	5.1
2010	20.4	36.9	55%	6	Nil	102410		2.7mK	15.2	7.4	7.7	7.7

**Note:** \* According to the AR there are 6 directors [3 PNGns 3 Expatriates]. The AR and FS for 2012 disagree as to the ownership of the company. ^ Notwithstanding this, the FS shows directors' fees (not expenses) as K10,107 per head in 2009 and K5,714 in 2010.

last years for which an audited financial statement for the company was lodged with IPA). Because the company's income from OSL doubled between 2011 and 2012 and rose again in 2013, the concerns it raises should be tempered by the knowledge that trading conditions have improved since the figures shown in Table 10 were compiled.

It is fortunate that conditions did improve since by the end of 2011 the company's net asset value and retained earnings were nearing zero, the dividend paid was miniscule, and approximately K3m of its net assets was in the form of monies owed by debtors in such poorly documented form that the auditors had to mention them as a 'qualification' to their audit. Yet, in that year, directors almost doubled their fees and expenses (even if, it should be added, those fees and expenses totalled around US\$10,000 per head only<sup>55</sup>). New management has since been installed. The situation in which GDC found itself in 2011 left it with few options but to cut back its workforce; while it reported, in its 2011 AR, having 250 workers, it currently (October 2014) has only 50. Indeed it could now more or less qualify as an exempt company.

GDC has made extensive efforts to diversify its sources of income: it has interests in camp management,

labour hire, security, property investments, investments in the leading Lancos, projects funded by the Asian Development Bank (all mildly profitable, all the 'normal' sort of Lanco ventures and all based on activities inside the Hides area), sawmilling, coffee buying, drilling, trade in Lae and a joint venture with Kurumbukari landowners at Ramu NiCo (all unprofitable and nearly all involving GDC having links with businesses beyond Hides). Its most recent venture – a lodge for truck drivers along the Highway to Lae - is currently being developed.

**Gobe Catering:** In contrast to GDC, Gobe Catering has a single activity – remote site catering in joint venture with P & O and Gulf Oil. In recent years (or at least in 2011 and 2012) it made small losses for its Gobe Hongu shareholders. Gobe Hongu itself is one of the earlier Lancos being established in 1996; it ran into trouble quickly and a liquidator was appointed in 2001. The process of liquidation was opposed by the shareholders who in August 2004 obtained a court decision to cease liquidation (when the company's remaining assets were still in the black, at nearly half a million kina). However, Gobe Hongu has not submitted any ARs to IPA since then so its overall health cannot be assessed. Gobe Catering itself was barely surviving when its last AR was submitted.

<sup>55</sup> At least GDC did audit its books and did submit the rather negative audit report to IPA indicating the auditor's qualifications and the fees the company paid to its directors – no other company in the table did the last of these.



**Kutubu Catering:** This is wholly owned by Yasuku Oil and Gas, which itself draws its shareholders from a very wide range of ILGs, LLGs and individuals. Yasuku has nine directors, who presumably can speak on behalf of this very wide range of shareholders – otherwise it is difficult to see how Kutubu Catering could have, as it states in its most recent AR to IPA in 2010, obtained permission from its shareholders not to reveal the fees and expenses of its directors.

**Trans Wonderland:** Along with Hides Gas Development, Trans Wonderland is generally considered to be one of the OSL/LNG success stories in terms of local business development. There is no reason to doubt that this acclaim is justified, but a) this study cannot add to (or subtract from) that acclaim given the lack of publicly available information on the company (in the form of FS registered with the IPA) since FY 2011 and b) because one of the real tests for Trans Wonderland (as for all those companies that have prospered during the LNG construction period) is only now being met with.

The Managing Director of Trans Wonderland was not available for interview in the course of this study but Mr. Andagali has publicly spoken of the challenges the company has had to meet on several occasions most notably at the PNGCOMP Investment Conference in 2012:

- Providing 60% of the community supports a Lanco, it will survive and slowly attract the original dissenters to its side. [This consultant's opinion is that a significantly higher level of support, of 75% or more, would be needed for the overall operations of a resource project before its developer could feel a degree of security.]
- A single company is more sustainable than a multitude of Lancos a) from a company's viewpoint because the amount of effort required of the Business Development staff of the resource company in the former case is manageable; b) because competition between many local companies would lead to dissension and even fighting; c) remote areas have few educated personnel and thus a multiplicity of companies would result in the need to bring in outside managers (and run the attendant risks of such a strategy). [This study endorses these views even though the tendency at most sites is for there to be immense pressure for small entities to operate.]
- Lancos must have a clearly stated constitution and annual audited accounts, views this study fully agrees with.
- In the case of the LNG Project, share classes have worked well as have the constitutional

provisions of Trans Wonderland whereby every shareholder, regardless of the number of shares she/he holds, has one vote and whereby each share class (which is based on geography and group membership) elects its own director and can hold its own AGM.

- TWL sets aside 5% of its profits for the support of the community through churches, youth groups and community investments. Again, this is seen as a smart way of combining the need for strict adherence to governing the Lanco under universal rules of best practice with the expectations of the community (and what most of the rest of the world in recent years has chosen to call corporate social responsibility).

**8.5.3.2 Exempt companies:** Of the companies in Appendix A which have, in essence, been founded to cater for the PNG LNG Project, eight had never, when this study was being undertaken, submitted any AR to IPA. Consequently nothing can be said of these eight companies. Four more PNG LNG-associated companies have submitted an AR but only covering the first few months of their existence four or five years ago; so, similarly, there is effectively no data available for them either. Only three LNG-associated, exempt companies have any recent AR: Mananda Umbrella [last AR 2011], Kutmor [2011] and Hides Gas Development (HGDC) [2010]. When they last reported publicly these three companies jointly had net assets of K7.5m; however, it is certain that at the present time their combined assets are many times this amount. HGDC in particular has emerged as one of the leading Lancos anywhere in PNG but details of its financial performance are not available.

There is considerably more data available for those companies which are older and originally entirely associated with OSL. They include: Moran Development Corporation (which had negative net assets when it last reported to IPA in 2010); Maka Investments; Kutubu Security Services; Kawaso; Gobe Business Development; Kikori Oil Investments (which although non-exempt has no FS and which in 2012 was barely afloat); Yasuku Gas and Oil and Kutubu Transport. The last of these went into joint venture with NKWH (of Hidden Valley) but has been replaced, effectively, as the original oilfields transport company by Trans Wonderland.

The most successful of these companies is GFS (Gobe Freight Services) which had, when it last reported in 2011, net assets in excess of K10m. It was originally established in 1997 to service the transport and logistics needs of Chevron and to do that it developed its facilities in Port Moresby where it has since opened up an office and has successfully developed



its transport business in the capital, business which is largely unconnected to its original functions. This is a good example (and there are few of them) of a medium-sized company which is not a company-recognised umbrella/representative company and which has developed an independence of the resource project on which it was originally entirely dependent.

## 8.6 Conclusions

It is not possible to draw any conclusions about the success or otherwise of the Lancos that have grown up with the PNG LNG Project. First, there is little available data. But, second, even if the data was more extensive, the fact that these Lancos are now entering several lean years (after the fat years of LNG construction) means that they will need to readjust rapidly to a more difficult situation. It is not possible to say which companies will manage this transition best but Laba Holdings, providing it manages to remain unified, is in an excellent position to do so given that its shareholders have the enormous advantage of owning land around Port Moresby. Trans Wonderland and HGDC have both developed substantial assets with which to exert leverage on their own futures. The former is in stiff competition in Lae in its prime original business (transport) but has now diversified healthily. The latter, HGDC, has the advantage of close relations with all the Hides/Angore Lancos with

whom ExxonMobil will have to deal. The next few years will be critical in shaping the outcomes for the PNG LNG Lancos – a lame conclusion, but one which it would be foolish to go beyond at this stage.

For the oilfield Lancos established earlier in the times of BP, Chevron and OSL rather more definite conclusions can be drawn. The most significant of these are that:

- Despite the care lavished on their oversight by OSL, their record does not seem to be much more impressive than that of the Lancos associated with metal-mining projects. There have been several failures, one or two successes (including one company, GFS, that appears to have the potential to grow into a significant company that does not depend on the hydrocarbons sector) and many companies that have 'got by' through hard work.
- There is, since Gigira DC was marginalised by the creation of HGDC, no equivalent to Anitua or IPI among these earlier companies. Fortunately, since the older oil and newer gas project areas overlap this may be compensated for by the emergence of Trans Wonderland and HGDC.
- It will be interesting to see how the contrasting styles of handling Lancos exhibited by OSL and ExxonMobil work out in the next few years.

## 9. Ramu Nickel

### 9.1 Background

Ramu Nickel (RNL) or Ramu NiCo is somewhat different from most other metal mining projects in PNG. First, it deals with nickel-cobalt laterite whose mining, when compared to that of gold or copper, is (relatively) simple but, simultaneously, also requires processing plant near to the mine site which is (relatively) complex. Second, although its footprint is in some ways very similar to that of Ok Tedi (a mine also connected to a shipping point by a road and a pipeline more than 120km in length), right from the start of the Ramu project – and perhaps as a result of the lessons learned from Ok Tedi by the then Highlands Pacific staff members – it was determined that all landowners – at the mine, along the pipeline and at the process plant site – would be recognised as landowners in the project as a whole and share (if not equally) in project-generated benefits. RNL has therefore to apply its overall community policies, including business development, to a wide range of different communal groups spread over a very large area. Third, it has some characteristics that at least resemble those of the oil/gas industry rather more than other metal mining activities – massive capital and labour inputs were needed upfront in the construction of the Basamuk processing plant and the pipeline from Kurumbukari. Consequently, business opportunities tended to be very much greater during construction (when Lanco were only just starting off on their difficult learning curve) than during operations. Of course this is true to some extent of all mines but it is more marked feature of RNL. It bears some comparison with the even bigger contrast evident in business opportunities between these two periods of operations that is typical of the oil/gas industries because during operations the workforce required is rather small compared to other large scale mines. A combination of a large impact area with a large number of different groups seeking

to benefit by supplying RNL with services plus limited opportunities for business during operations creates somewhat different levels of issues at RNL than at other metalliferous mine sites in the country.

Third, owned and operated by a Chinese company (MCC), RNL is, as one senior executive of the company remarked, run differently from the ways other mines in the country, managed by non-Chinese, might be. One significant difference is the high proportion of foreign (Chinese) workers with the project. Of the total of around 1350 workers, just under 740 (or 55%) were Chinese as at the end of March 2014 and a further 0.8% were other foreigners<sup>56</sup>. Since relatively few locals are employed and since landowners will not receive dividend payments for some time yet, this implies that **local benefits from business are a more important component of overall local community benefits in association with this project than with others.**

There is one further consideration that needs to be taken into account with this project: it is, to date, far from profitable. The high cost of construction was compounded by the eighteen-month delay in mining occasioned by the legal challenges to the project. Additionally, and to some extent as expected, it has taken several years for the project to build up to full capacity (which is still some time away). One consequence of this for local business development is that RNL is not in any position to 'throw money around' in the form of business contracts.

### 9.2 The theoretical and actual structure of Lanco at different levels of operation

The diagram below shows the Lanco system in place – in theory. It looks effective and implies a structure whereby the very varied groups in the mine

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<sup>56</sup> While this causes irritation among many PNG observers, one of the reasons for it is that RNL can hire Chinese workers at a cost significantly lower than it can hire PNG workers. Given the project's financial challenges, it is not entirely surprising that this option is taken. However, it is not the sole reason that can be adduced for the employment figures and, one would imagine, the owners might well be advised to aim to rebalance the ratio of foreign to local workers.

project impact area are grouped together under the protection of the 'unifying umbrella company' – Raibus Limited. Each of the four impact areas has its own 'area umbrella company': Kurumbukari, Inland Pipeline Communities (Maigari), Coastal Pipelines Communities (Wass Matau) and Basamuk. And a score of individual clan companies nest at the base of the structure. However, in practice, the system is neither as unifying nor as closely structured as the diagram suggests.

On the positive side of the equation, Raibus Limited is owned by the Area Umbrella Companies [AUCs] with Kurumbukari (the mine site community) owning 40% and each of the remaining three AUCs owning 20% of its shares. Additionally, all the AUC leaders interviewed appreciate that there is a need for a company which takes on projects that cover the whole of the project's extensive impact area. However, Raibus is not an umbrella company in the usual sense of the term, since it neither:

- Provides managerial services to, nor receives much income from, Lancos that, in the diagram at least, appear to be 'lower order' enterprises;
- Nor does it act as an agency which is the contact point through which RNL contracts pass and are then distributed down the hierarchy to the AUCs or Clan Lancos.

To some extent the history of the evolution of the Lancos associated with the Ramu Project helps explain why this is so and also indicates some additional issues.

When the first Business Development Plan (BDP) was put forward in 2000 by Highlands Pacific<sup>57</sup>, it was proposed that three Lanco umbrella companies would be established: one for the mine area (Kurumbukari), one joint Lanco for the two identified pipeline communities (the Maigari Inland community and the Wass Matau coastal community) and a third for Basamuk (processing plant site).

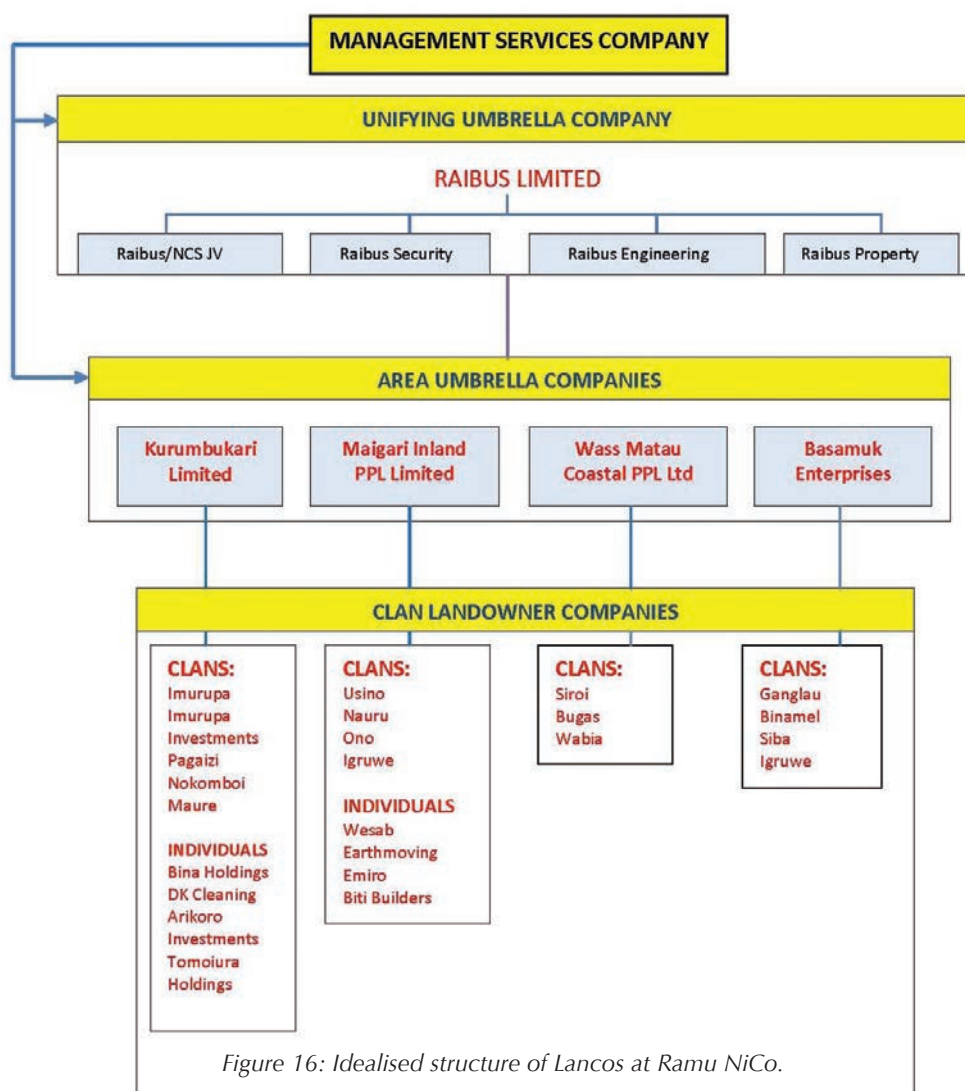


Figure 16: Idealised structure of Lancos at Ramu NiCo.

<sup>57</sup> A new, amended Plan has been signed but not yet publicly released; I am unaware of any amendments it may contain.

The second of these was quickly split into two. The reason for such a split was that each of the four areas had already established Landowner Associations (which remain in place to this day). Each of what are now AUCs, it was proposed, was to 'be the only business point of contact for landowner business in their area of operations' (RNJV Project Business Development Plan, 2000, 2.3.2). Each would provide managerial services to clan-owned Lancos.

For projects covering the whole of the project impact area the Plan was a little ambiguous since it stated both that:

- a) The AUCs may participate in joint ventures which 'provide services to the whole of the Ramu Nickel Project' (ibid., 2.3.3.1 ff) and
- b) 'Where services and goods are required across all areas, joint ventures will be established....[and] will include all landowner umbrella companies' (ibid., 4.0).

It is slightly unclear whether this means that individual AUCs could, in joint ventures, serve the whole impact area or whether they should all join together to form a joint venture with an external partner to provide such a service.

The 2000 BDP also proposed that the Project would establish both a Business Development Office (BDO) within RNJV which, among other things, would 'provide independent auditing services at least annually' to all Lancos and a Management Services Company (MSC) which would be independent of RNJV to provide management services to Lancos in the form of preparation of business and financial plans, help Lancos in loan applications, seek out joint venture partners for them, and prepare financial accounts and income tax returns – and charge fees (full fees after the first three years of operations) for such services. In fact the Project did establish a BDO and an MSC; however, both are within the RNL structure (and recently amalgamated). Neither offers 'independent auditing' services to Lancos; those companies which have had

audits<sup>58</sup> have hired external accounting firms. MSC has offered managerial services although a) at present only one AUC makes use of them and b) given one almost successful attempt by a company employee to send one AUC's money overseas to his own bank account, trust in MSC's services is not especially high among Lancos at present<sup>59</sup>. The BDO does also offer training courses for Lancos and their directors.

The MoA also committed the State to provide 'a one-off grant of K1 million capital to assist the landowners through their respective umbrella companies to take part in business opportunities' (MoA 12.1) which sum 'shall be equally divided....among the landowner umbrella companies' (ibid., 12.2)<sup>60</sup> equally. Raibus Ltd did not receive a share of these funds; the money went to the business arms of the landowner associations, the AUCs, even though these, like Raibus, were all formally established in 2007. Slightly more puzzling is the fact that when, in 2012, the then Prime Minister offered Lancos a further K20 million (one tranche of which was paid in 2012 and one tranche of which is currently the subject of negotiations between Lancos and Minister for Mining), Raibus once more was excluded from a share in this largesse. One argument why this was the case, would be that, since Raibus is owned by the AUCs, then it is up to the AUCs to decide whether they are going to invest any funds they have (either from profits or grants) in Raibus. 2012 was an election year.

Whatever the case, Raibus is by no means as central or as dominant in the overall Lanco structures attached to RNL as the diagram above might suggest. It is less powerful than the individual AUCs (who own it) and, because it has neither shared in grants nor been able to provide management services to 'lower order' Lancos on any regular basis, it has had to find its own ways of earning money<sup>61</sup>. Fortunately, it has been able to become the JV partner in the biggest single business opportunity the project has thrown up to date<sup>62</sup> – that with NCS in offering catering services. It has been able to do so for two reasons:

<sup>58</sup> It should be noted that in terms of audited accounts Raibus Ltd and all the AUCs have had at least some (and most have had all) their accounts audited promptly a record that other Lancos elsewhere would (or should) envy.

<sup>59</sup> This is not an event unique to Ramu NiCo - LBD has long been a honeypot that attracts swindlers and almost every resource site can tell similar stories.

<sup>60</sup> Maigari claimed at interview they never received their share of this sum. At least one other AUC official scoffed at this claim. I am in no position to know exactly what the real story is, but it might be worth noting that the original BDP had Maigari as a joint partner with Wass Matau in a single AUC and this may help explain the confusion that now exists. It is also possible that Maigari's complaint arises out of confusion – the original funds from government were actually handed out by RNL. It is possible that Maigari officials imagined, at the time, that this money was coming from RNL and was not – as it was – their share of the government grant.

<sup>61</sup> One subsidiary of Raibus Ltd (Raibus Engineering Ltd) does run a joint venture with a clan Lanco, DK Cleaning.

<sup>62</sup> Although the biggest contract it is not as big as was originally expected since a) it is a catering only contract (as opposed to a camp management contract) and b) the workforce catered for by the JV covers only around 50% of the resident workforce and not a much higher proportion as the two partners imagined when they bid for it. So it is not as profitable as was originally hoped.



- because – as noted above – the AUCs recognise that there is a need for a company in which they all share to handle projects that cover the whole project area. (For the same reason no objection has been made by the AUCs to Raibus establishing its own 100% owned subsidiaries Raibus Security and Raibus Engineering<sup>63</sup>.)
- because NCS was able to fund the joint venture.

The outcome is Raibus does offer managerial services – more or less on the lines envisaged in the BDP as being offered by the MSC – but really only to its own subsidiaries. It is these that provide Raibus Ltd with over 80% of its income.

**In short, the diagram is misleading since the real power (and attracter of funds) in the project area is not even shown there: the four Landowner Associations who nominate and elect the directors of the AUCs** (who in turn nominate the directors of Raibus Ltd.).

However, in some areas even they are not all-powerful. At many other sites around the country, the arrival of resource companies may at first have strengthened clan allegiance because the resource companies have emphasised clans in their development proposals and because both project developers and government have shown a strong tendency to ease the administration of benefit distribution (including royalty payments) by focussing on clan or other group representatives as the channels through which benefits are to be shared out. The BDP of 2000 in the present case reflects this widespread (and understandable) focus where it proposes that:

*'The [ownership of the] share capital of the ...[AUC]...[Lanco[s]] will be restricted to the clan groups or sub-clan groups within the ... [Lanco]... area. The allocation of shares will be based on clan or sub-clan land ownership. Individual landowners, incorporated land groups or any outside interests will not be eligible to own shares in the...[Lanco]'. (BDP, 2000, 2.3.3.1]*

As seen elsewhere in the report, benefit distribution has tended at many mine sites to have been accompanied by a fragmentation of clan systems – or to have been simultaneously accompanied by the creation of a whole new range of clans previously unheard of. Or, in extreme cases, to have led to the demand that benefits be paid out on a family or even

individual basis rather than on the basis of any sort of group membership, clan-based or otherwise. This has not (yet?) happened in the RLN impact area. It may be that it has not occurred because the benefits so far have not been especially large – there appears to be a close correlation at PNG metal mining sites between the size of the benefits and the degree of clan fragmentation; or perhaps it is because the leadership of the AUCs has been strong and the communities trust their Lanco executives. They have not always had reason to do so (as will be seen later).

There are some signs that fragmentation might occur in future even if it is of a limited nature at the moment. In the areas covered by the Kurumbukari and Maigari AUCs, clan, sub-clan and family Lancos have sprung up which have attempted to operate independently. Although these were envisaged and indeed encouraged in the 2000 BDP, the circumstances in which they have developed suggest that this is not simply a surge in enthusiasm for small enterprises but rather individual desires taking over in situations where people have reason to be dissatisfied with their communal Lancos.

In the Kurumbukari (mine) area these difficulties are at their worst; there are ongoing land disputes as well as disputes over benefit sharing that are still under arbitration. The clans there exhibit a lack of unity not present elsewhere in the impact area which antedates the arrival of the mine – partly because of pre-existing migration into the area and pre-existing arguments as to who is and who is not a 'real' landowner<sup>64</sup>. In addition, at both Kurumbukari and Maigari the AUCs have recently (as nearly all such companies do, big or small across virtually all projects at some stage in their operations) experienced crises of management. In the former, most of the board was replaced and its manager's contract was not extended at the end of 2013, whereas at the latter the AUC manager (an RNL secondee) attempted to abscond with the company funds.

This is not the sole explanation, however, because the Basamuk AUC also has recently experienced severe problems - not of fraud by any means but of a declining profitability, yet in that case, for the moment, an energetic new management team has retained communal support just as the equally innovative team at Wass Matau has retained it. In both these cases, the AUCs act as it was envisaged in the 2000 BDP that umbrella companies would operate: that is, they bid for projects and then distribute the smaller ones

<sup>63</sup> Each of the four AUCs nominates one of their own board members (two in the case of Kurumbukari) to the board of Raibus; recently three independent directors were also brought in. So, the AUCs control Raibus rather than the other way round.

<sup>64</sup> Whatever IFC guidelines on world best practice state as to cut off dates and eligibility in project areas, landowners in PNG tend to have their own classification of who is and who is not entitled to be called a landowner and what sort of resident he/she is.

to individual clan businesses. In the Basamuk case, local businesses assisted by the AUC are not solely based on clan membership but also on particular area of residence; the areas are determined by the type of company activity (e.g. the limestone area, the plant site, the township). At Basamuk the directors are also appointed with this mix of clan and area of residence in mind.

This apparently is in contrast to the manner in which the Kurumbukari and Maigari AUCs have operated to date (or at least until the recent changes mentioned above occurred). Interviews with six of the clan-based Lancos (all in the Kurumbukari and Maigari areas) in the course of research for this paper indicated:

- While three of them had had RNL contracts, all but one (DK Cleaning) were extremely dissatisfied with both the number of contracts they had been offered (most had never had an RNL contract, they stated) and/or by the manner in which the contracts had been managed (that is, disputes about delayed payments had arisen).
- One had managed to survive by obtaining contracts from the Madang Provincial Government and private contracts.
- All complained, however, not only about either the absence or low profitability of RNL contracts but, perhaps more importantly about their not having received, they stated, any managerial service or assistance from any organisation – whether MSC, or Raibus or their own AUC.
- Their strongest criticisms were of their own AUCs which, they alleged, had both wasted government funding (see below) and never passed on to clans smaller contracts but had kept them for themselves.
- Dissatisfaction with RNL/MCC focussed on both what they considered to be RNL keeping work that could be done by local contractors in-house and extremely tight rates of contract work payments.

It is not the purpose of this report to say one way or another whether these complaints are valid. But it does seem clear that apart from DK Cleaning<sup>65</sup> none of those interviewed had any RNL contract and that they put the blame for this on their AUCs (reserving less harsh criticism for RNL). This is one reason why it was observed above that the clan Lancos in Maigari and Kurumbukari had good reasons for trying to act independently.

In other words, the diagram is finally misleading where it suggests (as noted earlier) that whereas Kurumbukari clans and those of Maigari are linked to their respective AUC whereas those in the Wass Matau and Basamuk areas are not; in fact, the opposite is the case and the Kurumbukari/Maigari clan Lancos are in dispute with their AUCs whilst the clans in the Wass Matau/Basamuk areas are well integrated into their AUCS.

In conclusion,

- the structure of the Lancos hierarchy at RNL is not really as shown in the diagram above (Figure 16) but is rather focussed on the four Landowner Associations which effectively control the AUCs which in turn control Raibus Limited.
- two parts of the business development organisation at RNL have a passing likeness to umbrella companies serving smaller companies – the MSC and Raibus. In fact in terms of management, Raibus really only serves its own immediate subsidiaries and, rather than distributing RNL generated projects to the AUCs (whose members dominate the Raibus board), actually depends on the AUCs ‘allowing’ it to partake in any business at all. Further, MSC has lost credibility as a result of the recent events and although it does still offer management services, notably to Maigari, most AUCs now manage on their own.

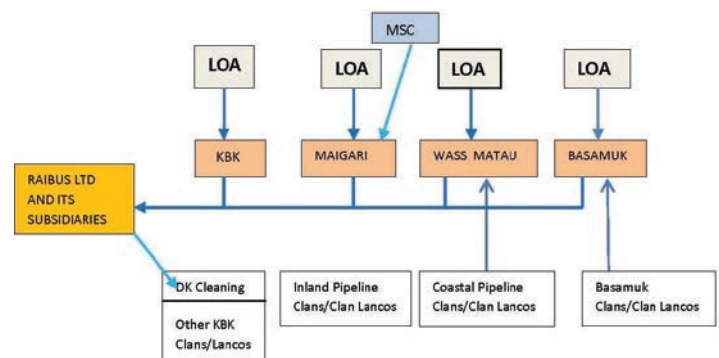


Figure 17: Operating structure of Ramu NiCo Lancos.

- The Wass Matau and Basamuk AUC appear (unless a longer period of research proves differently) to have the support of their clan Lancos and to act both as conduits for smaller contracts suited to clan businesses and to offer some managerial

<sup>65</sup> DK Cleaning, although less discontented than the other clan Lancos interviewed, is not especially happy about its own contract which on inspection turns out to be between RNL and Raibus Engineering Ltd (REL). DK is not a party to the contract even though some of its directors signed the contract as witnesses. They are effectively sub-contractors to REL but without any (sighted) documentation. It is not clear what REL contributes to the work involved. In addition to splitting profits with DK, REL also, it was alleged, collects an extra 10% of revenues on the grounds that DK does not have any IRC issued Certificate of Compliance.

services to those Lancos. But this does not appear to be the case with Maigari and Kurumbukari as yet.

- The underlying divisions within the Kurumbukari community which stem from its mix of peoples and the earlier migration into the area appear to undermine all aspects of social cohesion in the area including LBD.

In other words, on the limited evidence obtained on this visit the actual structure of the Lancos associated with RNL is more like Figure 17.

## 9.3 Lanco performance

### 9.3.1 Contracts awarded by RNL

There is a great deal of complaint from all levels of Lancos that ‘RNL is not issuing many contracts’. These complaints have some justification (Ramu NiCo support for Lancos does compare poorly with that offered at most other sites) but only in a qualified fashion. The first qualification arises out of the fact, as noted in the introduction, that the company has faced – and continues to face – serious financial difficulties; some would argue that were the project run by anyone other than a PRC-backed company like MCC it would have closed down.

Despite this difficulty contracts not only have been issued but those to the AUCs have, on an annualised basis, been increasing recently. The diagram below shows the average annual value of contracts issued by RNL at two periods: 1. March 2009 to December 2011 and 2. July 2012 to June 2013. While the total has fallen (as would be expected given that the expensive construction phase has moved onto operations), the value of contracts to AUCs has actually increased. The initial large contracts (for catering and security) went to Raibus but since then more contracts have gone to the AUCs.

At present it is estimated that in 2013 and 2014 the annual value of contracts awarded (whether ongoing or new) to Lancos of any description by RNL is in the range of PGK20-25 million of which the Raibus/NCS and Raibus Security contracts account for over 80%. In this respect, Raibus is the most important of the Lancos and is perceived by many landowners as ‘rich’. However, when compared with other projects around PNG, the quantum assigned by RNL to local Lanco contracts is very small; Hidden Valley, for example, in 2012 had contracts with its Lancos valued at K125m. The concerns of Lancos, therefore, on the issue of contract availability are to some extent justified.

### 9.3.2 Financial assistance to Lancos

In the original 2000 BDP, the then owner, Highlands Pacific, stated that it ‘may offer support and assistance to a local business enterprise but it will under no circumstances offer to subsidise the[ir] operations’ (BDP 2000, 1.0 (d)). As has been the case at almost all other resource projects located in relatively remote areas where landowners have little or no previous experience of managing a business, this turned out to a rather impractical proposal; some initial subsidies need to be provided if such infant enterprises were to take root.

RNL has in fact provided loans to Raibus Ltd in the form of PNGK490,000 in cash (loaned monthly at K20,000) and K510,000 in second hand equipment when it was first established. It further provided a loan in the shape of K500,000-worth of second hand equipment to Raibus Engineering Ltd when it was set up. As at the end of FY2012, Raibus Ltd still owed RNL K155,000<sup>66</sup>.

In the 2000 MoA, the State committed itself to provide K1 million as a grant for the establishment of the four AUCs and fulfilled that commitment promptly (but not without some controversy on the part of Maigari). In

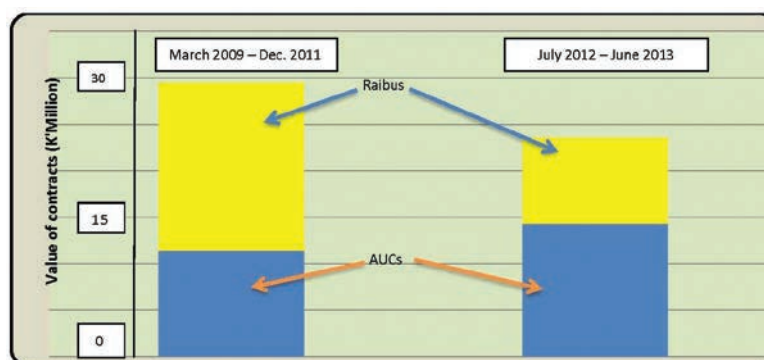


Figure 18: Ramu NiCo payments to local contractors.

<sup>66</sup> RNL was reported to me to have provided K 0.5 million to the Lancos at Basamuk and Kurumbukari but this assistance was not confirmed by RNL itself.

2012, an election year, the Prime Minister committed the State to provide a further K20 million in two equal tranches to the AUCs. The first of these was paid in 2012 to the four AUCs.

The second is yet to be paid. It is noteworthy, that K20 million is roughly equivalent to seven times the net profits AUCs earned from RNL contract work in 2013.

A further substantial form of financial support to Raibus was provided by its joint venture partner in the form of a K2 million loan to enable Raibus to set up its property arm and to purchase real estate in Madang. As of December 31, 2012, Raibus had yet to repay K1.26 million of that loan.

### 9.3.3 Lanco financial performance

Table 11 provides basic information concerning the RNL-associated Lancos. As far as could be established during the short research trip, no company has ever paid dividends to its shareholders (if one does not classify the management fees paid by the Raibus subsidiaries to the parent company). There are several reasons why this is:

- Low levels of profitability. Whilst this applies now that project construction has been completed, it

is not a very convincing explanation of the lack of dividends during the construction period when many millions-worth of kina were awarded to Lancos.

- Investment in assets. The Raibus Group has reportedly assets worth K12.5 million in early 2014. Wass Matau has built up assets worth K4m. Other groups have done less well.

Day-to-day support to community groups and individual landowners of the project area is something that all Lancos reported as one of their functions. Raibus has turned over almost a million kina in its years of existence to local people. K280,000 has been given to Landowner Associations as well as K174,000 to clan groups, K79,000 to individuals, K185,000 in general community assistance and K167,000 as loans and assistance to lower level umbrella companies. All Lancos do this – if certainly not in the quantities just specified. This raises the question: are the shareholders really shareholders? In most cases they did not pay for their shares and in no case known have they received a dividend. Is the way the Lancos operate here a sort of Melanesian modification of the *Companies Act*?

**Table 11:** Lanco basic data

Lanco	Workforce	Gross Annual Revenue (mean 2012-13 K'Million)	Audited up to date?	Shares	IPA-registered	Dividends Paid	Dependence on RNL
Raibus:							
Raibus Ltd	8	2	Yes	40% KBK	Yes	No	85%
NCS/Raibus JV	160	12	Yes	20%Maigari	Yes	No	100%
Raibus Security	400	8?	Yes	20% WM	Yes	No	70%
R. Engineering	100	3?	Yes	20% Basamuk	Yes	No	90%
R. Property	5	0.3	?		Yes	No	0%
Kurumbukari	30	1	No –audit scheduled for July 2014	1 share	Yes	No	100%
Maigari	25?	3.2 (2009)	2009	250,000 @ K1 Held by directors	Yes	No	100%
Wass Matau	10	2	Yes	?	No?	No	10%
Basamuk	146	0.8**	Yes	Non-transferable	Yes	No	40%
Clan Lancos*	150?	0.5?	No	?	Some	No	80%
<b>Total</b>	<b>1034</b>	<b>&lt;31</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>

\* Estimates only \*\* in 2013 K2.3 million NA Not applicable. Important note: the figures in column 3, provided during interviews do not match those in Figure 18 which were provided by Ramu NiCo.



Despite the conclusions reached earlier regarding the true nature of the Lanco hierarchy, most people interviewed perceive the structure as one commanded by Raibus with the AUC as officers and the clan Lancos as other ranks. And each level is critical of the one above it (with the officers blaming the other ranks) for the absence of dividends. Clan Lancos, with very good reason, cannot understand what the AUCs did with their share of the K10m grants from government<sup>67</sup>. Without exception the KBK and Maigari clan Lancos (none from Wass Matau or Basamuk were seen) made serious allegations about their respective AUC boards and their actions with regard to those funds. In turn, the AUCs tend to regard Raibus as 'rich' and ask why it never pays them dividends, whilst Raibus state that they have no choice but to make substantial payments on a continuous basis to individual, landowner associations and Lancos – which prevents them from paying dividends.

## 9.4 Conclusions

The following are my conclusions:

- a) The nature of the project with its very major up-front costs combined with a lack of preparedness on behalf of the Lancos has meant that Lancos were not in any position to reap the business harvest when it was at its fullest. Business opportunities are now significantly fewer than they were during construction.
- b) RNL is not in a financial position to do anything other than minimise costs and therefore cannot afford to be generous with business contracts.
- c) As at virtually every other resource site nearly all Lancos have had near death experiences in their infancy. Some of the survivors are showing promising signs of having learnt from that experience and are adopting an appropriately professional approach to business. Others have, unfortunately, not learnt that lesson and continue with eagerness to await the next dole out of K10m from the State rather than adapting to circumstances.
- d) The flow of contracts out of RNL is small compared to other resource projects in PNG and, given the large number of expectant Lancos, generates discontent.
- e) A key issue is that the government grant of K10m made in 2012 appears to have been quickly wasted and to be a particular cause of discontent among clan Lancos. **Under no circumstances whatever should the expected second tranche of K10m be distributed in cash.**
- f) On the positive side, the degree to which Lancos try to abide by tax and company regulations (as exhibited in the extent to which they have had their books audited is exemplary. This is despite the fact that the original proposals of the 2000 BDP – in regard to the provision of local auditing resources - have not been followed through with.
- g) A review of the functions of the various forms of Lancos is desirable.

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<sup>67</sup> A group of outsiders styled consultants were paid K1.2m of this amount so AUCs in fact received K2.2m each.

## 10. Simberi: LBD for a Small Project

For Simberi, the same question asked of Tolukuma arises: is local business development appropriate for small mines of limited life span? What sort of mix of community benefits is most appropriate: what is the best ratio between investment in community infrastructure, training, employment, business development (on top of compensation and royalties) in different sorts of projects? Simberi may make an excellent case study for future investigation because it has tried to do all these things despite its small size. It has, for example, invested over K600,000 in trade training in cookery and hospitality (initially to staff its own mess); will this turn out to be a more rewarding investment both for the company and Simberi people than its investment in business?

The Simberi project mines fewer than 80,000 oz of gold (including some silver) annually. In 2009 it was estimated to contain 1.4m oz in the currently mined oxide ores and 3.5m oz in sulphide ores (whose processing would require significant new capital investment). It is thought to have a future mine life of ten years. The total population living on Simberi is uncertain but probably is close to 2000 people now. While it is among the smallest of the projects covered in this report (with Tolukuma), it can be seen as representing a type of mine in PNG that is not unusual – the Kula Gold project on Woodlark Island (which has recently received permits to proceed) will be of a similar, slightly larger perhaps, size.

The project has not as yet met with much success, being barely profitable at best. Given this, its owners (originally Allied Gold, now St. Barbara) have needed to trim costs, one of the weightiest of which is managerial level labour. The Community Affairs section has two back-to-back rostered Papua New Guinean managers assisted by six staff who must look after all aspects of community affairs; the two managers need to be better than multi-skilled under such circumstances. The proper management supervision of the would-be (over a dozen) and actually operating Lancos (fourteen) would seem to require more or less the fulltime services of a knowledgeable (and therefore

well recompensed) business development officer. The project is not in much of a position to provide this. The approach adopted by St Barbara has been to delegate to individual sectional managers the award of commercial contracts; for example, the two main earthworks contracts were issued by and are under the supervision of the Operations Manager, the mess/camp joint venture is supervised by the Camp Superintendent and other smaller contracts are administered by the Finance/Administration Department.

Despite the small size of the population neither Allied Gold nor St Barbara (nor, more importantly, the people themselves) seem to have managed to unite the population sufficiently to lead to its agreeing to form a business company that would cover the whole island. The nearest thing to an island-wide company is, perhaps, the Simberi Island Investments Company (formerly Simberi Island Mining Services) with 11 directors from five villages which has a 60% share in the project's catering facilities (the mine itself is the minor partner). Unfortunately for this study, SIIC has never submitted an Annual Return to IPA. Divisiveness within the community is perhaps best shown by the fact that the landowners in the pit area have established their own company which has regularly submitted Annual Returns but these indicate that technically (and legally) the company is owned by a single shareholder who is also the main supplier of timber on the island.

The State provided no grants to establish local business but the company did provide soft loans for the purchase of machinery and manhaul buses/trucks payable over a two-year period. This was required under the MoA which also required the company to 'provide initial funding, management support and continuous capacity building to Simberi Mining Services Limited'. Whilst the MoA required the company to develop a business plan, which was to include the formation of an island-wide umbrella company, the company itself reported to the present consultant that the plan has been 'continuously challenged' while the umbrella

concept 'was not accepted by the landowners'. It is worth noting that the requirements of the project in terms of LBD are extensive and certainly not much less onerous than those imposed on much larger projects.

In 2013 the company paid out K9m in local contracts and projects payments in excess of K11-12m for 2014. As of mid-2014, there were fourteen Lancos working with the mine as well as a further dozen inactive entities. Of the ten Lancos on the IPA database, six have only entries relating to their initial registration with no further entries (and no Annual Returns), two have been removed and only two have submitted Annual Returns. The total employment of those entities that are active appears to be approximately 140.

The two most prominent Lancos are:

- the Simberi Pit Owners Ltd which operates excavators, dozers, tipper trucks and man hauls under dry hire terms, because of minimal maintenance capacity. Its gross revenue in 2012 is likely to be in the region of K6m;

- Shunammite Engineering owned by a Simberi man now resident in Kokopo. This company has developed its own maintenance capacity on the island so its equipment can be hired out on a wet basis. It has begun to expand its operations to other parts of New Ireland but its main revenue, estimated in 2014 to approach K5.5m, is derived from the project.

All other Lancos are small in comparison with these two leaders. The project, having sought the advice of foreign consultants, hope to engage with the National Agricultural Research Institute to develop poultry and vegetable production on Simberi.

Given the financial constraints on St Barbara and the issues the project has faced to date, its performance in the area of local business development is commendable. But the question remains whether the effort and support provided to local companies, only two of which are of any note (and only one of these appearing to make significant profits) would have reaped a higher and more widespread return had it been invested in other forms of community assistance.

## 11. Elk-Antelope (InterOil)

Elk-Antelope is some way away from production but InterOil has already taken steps to assist in the establishment of a Lanco in its exploration area. Given the experience of the larger oil/gas fields this appears prudent since unless steps are taken early on to prepare a Lanco for the business opportunities which are heavily weighted at the construction end of a project, then very sizeable local benefits may be lost. While this is especially true of oil/gas projects, it is also applicable, though less critically, to metal mining projects; while the development of a business development plan is not required for the latter projects until permission to proceed with construction is sought, it may well be to all parties' advantage to have initiated the establishment of a local umbrella business (and certainly to initiate some form of capacity building and training for business management) at an earlier stage.

Sakura Osura Resources Investments Ltd [SORIL] was set up in 2009 on the joint initiative of InterOil and the landowners around Wabo where drilling is in progress. In addition, InterOil also has some lesser dealings with landowners at its facilities in Port Moresby and employs four staff members in its LBD section. It has already commenced capacity building programs in LBD and has experimented with the Personal Viability programs so warmly embraced at Lihir (and other sites around PNG). It spent K6m in 2013 on local business contracts.

SORIL at first sight seems to be 'managed' – as many other Lancos are – on the supposition that it is community-based (it draws nine directors from across the Wabo/Baimuru villages) but in fact for the benefit

of one person, since there is only one shareholder. However, for once, this impression is very misleading; until the Minister for Petroleum determines with finality who are the landowners of the Elk-Antelope field (and associated infrastructure sites), shares cannot be allocated. While this procedure carries a degree of risk insofar as there is a possibility that people supposed to be stakeholders now may later be excluded, it seems to be a risk worth taking when this is balanced against the need to prepare people in advance to take advantage of business opportunities when they do arise.

SORIL had a turnover in 2013 of approximately K2m and has already entered into a joint venture with Pagini Transport to hire out equipment to InterOil. Its principal function at present is recruiting labour for InterOil work around Wabo but it already has in place plans to move into camp management and security if and when the drilling moves on to exploitation. As yet it has no assets of significance and only two employees. Its CEO regards uncertainty as to decision-making (to proceed to exploitation) as the major challenge to the company.

No-one can be certain when this uncertainty will be removed. But everyone can be certain that if a decision to proceed to extraction is taken then it will be far better to have an operating Lanco already in place and with capacity for InterOil to work with, than not to prepare for that (very likely) outcome. In short, the joint preparatory work being undertaken by SORIL and InterOil should be seen as a very worthwhile investment on both their parts.



## 12. Hidden Valley

### 12.1 Background

From the mid-1980s a series of companies investigated the potential of Hidden Valley but did not proceed to production. Harmony Gold took over the site in 2003 and took the gold/silver project to its first gold pour in July 2009. In 2009 it joined forces with Newcrest to form the Morobe Mining JV which covers both Hidden Valley and the highly prospective Wafi/Golpu project. At this stage Hidden Valley has a mine life that will extend to 2027/8.

Although Harmony publicity materials talk of Hidden Valley as being located in an area which is both inaccessible and with little infrastructure, in PNG mining terms, the mine is in fact relatively close to a major urban centre (being 90km south-southwest of Lae) and located adjacent to the Wau/Bulolo historic goldfields which have led to the area having a greater range of socio-economic opportunities than most other rural areas of the country, including road links (even if those links are fragile) to Lae and the Highlands Highway. At one stage Wau's infrastructure was at such a level that it was (in the late 1960s) a serious bidder to be the location of the country's first University, whilst its people have consistently made attempts to be a supplier of temperate vegetables to Lae.

This proximity to Lae has been a critical factor in the development of local business for the Hidden Valley project and will be of even greater significance for Wafi/Golpu once that project is developed. **On the one hand, proximity to PNG's second largest city and industrial centre has provided opportunities for the project's umbrella Lanco available to no other mining project in the country, it has also meant that small landowner companies have had difficulty competing with the array of mature, Lae-based businesses which have serviced mines such as Porgera and the presently moth-balled Kainantu for many years.**

Hidden Valley lies in the uppermost reaches of the Watut Valley, the nearest of the original settlements being those of the Biangai people, across the watershed in the Wau Basin. However, a series of Land Court decisions reached in the 1980s assigned full ownership of one of the two ore deposits at Hidden Valley, Hamata, to Watut clans particularly those people resident at Nauti village and split the ownership of the other deposit equally between Nauti and two of the five Biangai villages (Winima and Kwembu). These decisions have therefore split the Biangai community and pushed traditional enemies<sup>68</sup> into joint ownership of the mine – and its associated umbrella Lanco, N(auti)K(wembu)W(inima). This partnership remains an uneasy one and it is to MMJV's credit that they have managed to hold it together.

For many years, the leadership of the three main villages involved in Hidden Valley was dominated by three individuals Rex Mauri of Winima, Peter Askai of Nauti/Bulolo and Siwi Kawa of Kwembu. These three, after many years of tension-filled but pragmatic alliance, saw the project through to construction but since then Peter and Siwi have died. This has left gaps in leadership which are proving difficult to fill especially since the sole survivor, Rex Mauri, now has his own business interests and since Siwi's successor, his brother Wayang, also appears to have established a very successful retail business of his own.

### 12.2 LBD structure and progress: a unique government audit

Under the 2005 MoA that paved the way for the development of Hidden Valley, Harmony agreed to establish Hidden Valley Services Ltd [HVSL] to provide management services to the three village investment arms that were to be partners in NKW. It was hoped that the businesses so established would generate earnings that in turn would fund 'sustainable, non-

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<sup>68</sup> When white miners reached the Wau area in the 1920s active warfare between the two groups was under way. Even as the project was being planned and initial project infrastructure was being put in place by Harmony, a full scale armed attack by Watut people on Kwembu was undertaken.

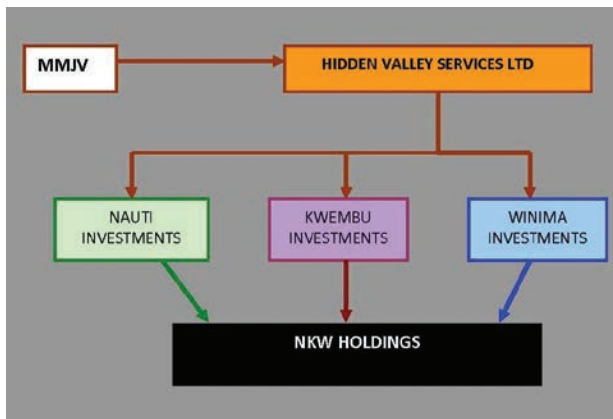


Figure 19: Hidden Valley LBD structure.

mine related economic activities’.

In the course of the review of the original MoA by local stakeholders, the Department of Trade, Commerce and Industry [DTCI] was asked to undertake an audit of the structure of Hidden Valley LBD and its components. It should be noted that from the time of the negotiations of Ok Tedi, this department has always been included in the list of stakeholders in resource project negotiations but has generally had a low profile particularly when compared to the Departments of Finance, Treasury or Labour and several others. Prior to the invitation to it made by MMJV to undertake this audit of LBD at Hidden Valley, it had played an almost invisible role in the monitoring of project progress.

**This, therefore, was the first audit of its kind in PNG and the Department hopes to undertake similar audits at all resource sites in the country** – despite the fact that three government representatives have been on the board of NKW for several years. DTCI organised the audit to which the IPA seconded two of its staff. The audit was finalised in November 2013 and is regarded by MMJV as a valuable document. On the basis of the audit and its past experiences of attempting to support LBD at Hidden Valley, MMJV is in the process of reviewing the manner in which it seeks to establish LBD structure for Wafi/Golpu.

Consequently, rather than present the present consultant’s views of LBD progress at Hidden Valley here, the findings of the DTCI Audit are presented in summary form:

- Overall, the auditors noted a lack of co-operation during their work from NKW Holdings and that HVSL had been unable to provide timely

documentation in relation to supply and procurement (which, with LBD, was the focus of the audit);

- It also generally concluded that there were ‘anomalies in the shareholder structures, appointment of Boards of Directors, and adoption of a constitution and the conducting of Annual General Meetings’ for all the NKW constituent components.
- On NKW: its shares were ‘inappropriately issued’, no formal shareholding lists were sighted and the company’s external accountant held the company’s shares without there being an adequate trust deed in place; there did not exist any established process to check the eligibility of board members; there was no formal constitution ‘even after four<sup>69</sup> years of work’; no formal AGM had been held; Winima Investments Ltd had no representative on NKW while the Kwembu Investment Limited [KIL] representative had died and not been replaced; and, as noted above, NKW did not co-operate with the audit team.
- On Nauti Investments Ltd: shares had not been allocated to eligible landowners but instead the four directors were also the nominated shareholders. No eligibility test had been used in the appointment of board members. There was no constitution. There had only ever been one AGM. The directors obstructed the auditors’ work and ‘procrastinated’. The directors ‘represented [in effect] only four families’ rather than the eligible shareholders.
- On Winima IL: the company was owned by four individuals, the four directors, rather than the community – there was no proper shareholder certification and no shares had been allocated to Winima landowners. There was no Winima representation on NKW. No trustee arrangements were in place, no ‘proper persons’ test and no constitution. No AGM had ever been held.
- On Kwembu IL: the four directors (one of whom was deceased) were the shareholders. There was no constitution, no proper persons test, no trust agreement, and no AGM had ever been held.
- On HVSL: most responsibility for LBD had been passed onto NKW Holdings over which HVSL implemented inadequate monitoring. It should be noted in this regard, however, that HVSL is

<sup>69</sup> Rather more than four years; more like nine.

provided with no legal right to undertake such monitoring – it can ask but if NKWH declines to answer the case rests there (just as OTML has found it difficult to collect data from Lancos under contract to it). It had no supplier database and did not monitor Lancos suppliers. It had poor links to the supply and procurement section.

- NKWH: Whilst the company is financially highly successful and profitable, it was described in the audit as an ‘inadequate’ performer in terms of helping Lancos and whose management services were not operational. Instead it passed on this task to private companies which ‘overcharged’ for their services. It may be noted that the auditors here seem to have adopted the view, taken by the original proponents of the umbrella company concept, back in the 1970s, that it is the function of a company such as it to provide these services. NKWH in fact behaves more or less as all supposed umbrella companies have done – they place the overwhelmingly major portion of their efforts on expanding their own business (as have done so rather more successfully than others).

The audit team made the following recommendations:

- All three village investment companies (VICs) be restructured so that genuine landowners are formal shareholders. This recommendation echoed MMJV policy whose implementation had long and strenuously been opposed by landowner leaders;
- Individuals should be ‘discouraged’ from holding shares in trust for landowners;
- Directors of LICs should be properly appointed, the chairperson of each LIC should represent it on NKWH and all directors receive training in their duties;
- NKW’s constitution should complement new constitutions to be drawn up for each LIC.
- AGMs must be regularly held;
- HVSL should take back responsibility for LBD and link it to supply and procurement;
- NKWH should provide management services for Lancos using competent professionals who did not overcharge and ensure audits.

This DTCL audit is unique; nothing like it has ever been previously done for any resource based Lanco let alone the whole structure of LBD of a project. It was critical of almost every participant in Hidden Valley’s

LBD program from MMJV itself down to individuals on LIC boards. One of the more interesting aspects of it is that Hidden Valley Lancos, on the whole, appear to be not especially exceptional - **the weaknesses the audit identified in Hidden Valley Lanco structures are common across all mining project LBD programs (and to a lesser degree in the oil/gas projects):** directors holding shares that are purportedly communal without any trustee documentation or arrangements, absence of any constitution, infrequency or complete absence of any AGM, no evident shareholder register, no implementation of any eligibility test for directors, and lengthy delays in the reporting of key company matters to IPA, especially Annual Returns. Hidden Valley Lancos are by no means unique in this respect – in some ways they are typical of the whole resource LBD sector (and in one or two ways the LBD situation there is better than average). But the government’s DTCL has only once actually undertaken such an audit, so the Department itself is not immaculate. **Without some such over-arching, monitoring agency, it will be difficult to achieve progress towards compliance.**

### 12.3 MMJV reaction to the audit: new LBD strategies

MMJV reaction to the DTCL audit was positive and swift. A series of actions were proposed:

#### 12.3.1 For the three landowner investment companies

- On shareholding: because in its opinion MMJV does not have the authority to do so, the ‘relevant state agency’ should supervise restructuring; the practice of individuals holding shares in trust to cease; some shares in each company to be held in trust for future generations; rules on purchase and trust-holding of shares to be laid out in constitution; shareholdings to be on basis of landownership but may be by clans, families or individuals.
- On directorships: each company to appoint directors under supervision of Provincial Electoral Commission; procedure to be laid out in constitution; directors’ manual to be prepared.
- On constitutions: landowner companies’ constitutions and that of NKWH Ltd will be designed to complement each other.

#### 12.3.2 For NKW Holdings

- On shareholding: ‘relevant state agency’ to supervise share restructuring that would allow each of the three village level companies to buy shares and to be issued with share certificates; present trustee arrangements to cease.

- On directorships: elected chairperson of each village company to become a director of NKWH Holdings; government representation on NKWH board to continue; two independent directors with commercial experience be appointed; directors' manual to be developed.
- On constitution: a NKWH constitution shall be developed and changes to it shall be subject to shareholder approval; appointment process for directors to be detailed; NKWH constitution to complement those of village companies.
- Annual General Meetings: there shall be an AGM including a financial report to the boards of the three village companies; within ten days of that AGM each village company shall hold a meeting to pass on to ordinary shareholders the information provided by NKWH. Additional meetings, held between AGMs, will be encouraged, so as to increase landowner awareness.

#### **12.3.3 For HV Services Ltd (HVSL) (under the control of the JV) and its role in LBD**

- HVSL to take back, from NKWH, responsibility for the LBD program and to co-ordinate with supply and procurement.
- Create an accessible supplier/contractor database.
- Assist landowner contractors/suppliers to prepare contract bids, provide or facilitate training and capacity building.
- All sections to increase the potential of local contractors to take effective and efficient advantage of the preference clauses contained in MoA.
- Close co-ordination between business development staff and those in supply and procurement.
- JV contracts to be designed so that once appropriate skills have been developed by local partners, they may take over operations in full.

#### **12.3.4 For NKWH**

- Reactivate NKWH Management Services to provide management services to Lancos only, including in-house accounting services at reasonable prices.
- Undertake a 'thorough financial and systematic audit' the results of which shall be presented to NKWH shareholders.....
- ....such audits being 'the basis to either restructure

NKWH Ltd [beyond the measures outlined in 12.3.2 above] or allow the current structure to continue in place.

A number of other recommendations for actions were proposed within MMJV for re-organising supply and procurement procedures.

#### **12.3.5 Role of Government**

The emphasis of these action plans is especially interesting because they focus on a) the importance they attach to a company having a constitution (something which, across resource sites all over the country, few Lancos possess) and b) the role they wish government agencies to play. Evidently, the value of the DTCL audit was seen as sufficiently high to outweigh the project's previous experience of government participation in LBD monitoring as make-weight only, something the audit was reticent about.

#### **12.3.6 Implementation**

Adoption of the action plans has, unsurprisingly, not been straightforward; 'unsurprisingly' since the changes proposed by the audit undermine established power bases. One village company (Nauti) initially rejected any advice from any consultant provided for them by MMJV but some progress was eventually made with internal discussions on shareholdings. A similar issue arose with Kwembu where the chairman of the village company refused to have any dealings with an MMJV appointed consultant. Directors of the third village company, Winima, were somewhat more supportive of consultant's advice but a dispute as to who was, or was not, chairman of the board held up any implementation. NKWH which had had the same directors, unchanged, for nine years – despite the need for re-elections biennially – was more co-operative and lodged, on 4th August 2013 a notice with IPA that the Board 'resolved to cease five Board members and allow two Board of Directors to remain to save costs which has cost the company over hundreds of thousand kina'. At the time of writing it is not clear if any of the action plans have actually been implemented. A key issue here is that, whilst the recommendations made by the DTCL audit make a great deal of sense, only government (the DTCL amongst others) has the authority to implement them, whereas, to date, such implementation has been effectively assigned to MMJV itself – which can then be painted by those opposed to the changes as a bullying, foreign Goliath.

One other result of the audit has been more directly and immediately positive: MMJV has had considerable success in persuading landowners at the Wafi-Golpu prospect to accept the need for detailed constitutions which have been prepared for them.



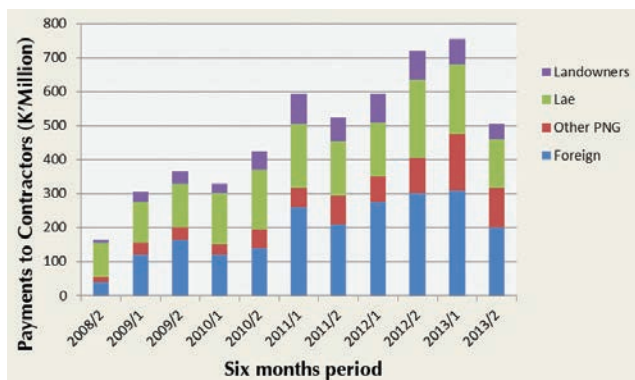


Figure 20: Six monthly payments to contractors Hidden Valley.

## 12.4 MMJV Hidden Valley payments to contractors

In one respect, Hidden Valley/MMJV are certainly above average performers in LBD – they have detailed records of payments to contractors which were made available to this study. The diagram above shows that Hidden Valley's payments to its contractors grew from K684m in the full calendar year 2009 to over K1250m in 2013. Roughly speaking, 40% of these payments have consistently been made to foreign suppliers/contractors and the balance to PNG suppliers (Lae a little over 30%, landowners 12%, the rest of PNG 16%).

In 2012, landowner controlled Lancos received just over K175m in payments (with a further K3m going to non-landowners in the Wau Bulolo area) and in 2013 the figures were just under K150m and K4m respectively, whilst businesses in Lae received K384m and K344m. These numbers are impressive not simply because of their availability but because of their size. Although Hidden Valley in terms of production is a much smaller mine than Lihir, Ok Tedi or Porgera its payments to local contractors bear comparison with its larger brethren. This of course is not necessarily good news for all concerned – especially for the MMJV partners who barely make a profit out of the mine's operations.

## 12.5 Lanco performance

### 12.5.1 NKW Holdings

The State provided K1m spread over three years in seed capital to assist HV landowners to establish NKW. Its first ventures of note were to go into joint ventures a)

with the Pagini Group in 2007 to establish Hidden Valley Transport and b) with NCS (of Anitua, Lihir) to provide catering services for the project. The transport business had the advantage, being based in Lae, of being able to compete for the non-mine transport needs of the city and its links to Madang and the whole of the Highlands. This, of course, placed it in direct competition with IPI's and Trans Wonderland's transport businesses and such competition (along with competition with other Lae-based transport companies) cannot have been anything but good for the wider regional economy. The transport JV agreement contains a buy-back clause that will enable NKW to own the whole operation in 2015 and a similar arrangement is in place for the third of its joint ventures (Hidden Valley Contractors in partnership with HBS hires out plant and equipment to the project). There is no such clause in the catering JV, but it is likely that negotiations with NCS may result in NKW eventually becoming the sole catering supplier to the project.

NKW has aggressively sought out non-mine related opportunities which have included real estate investment in Lae and Wau, housing construction, water bottling (this with a firm base demand from the project) and, more recently, in contracts associated with the Australian Government's holding centre on Manus Island.

Unfortunately, for the purposes of this study, NKW is classed as an 'exempt' company – so no independently audited Financial Statements are publicly available – and the last Annual Return lodged with IPA was that of the calendar year 2011. At the end of that year, NKW had net assets valued in excess of K20m and employed 70 people; but it has grown significantly since then, employing more than 160 in Lae<sup>70</sup>.

In view of the hefty criticisms made of NKW by the DTIC audit, which were summarised above, it is to the company's credit that, so far, it has had by far the most successful infancy of an umbrella company at a PNG mining site. Unlike IPI or Anitua, it has not stumbled financially and had to seek additional assistance from MMJV to get re-started. It is, moreover, receptive to the action plan for the reformation of the HV LBD program and is moving towards providing more business management services to landowners companies through NKW Management Services. Further, NKWH has regularly paid dividends to its shareholders, the three LICs; K4m has reportedly been paid out in six years of operations, which, **if these dividends were distributed down to families (which, alas, does not**

<sup>70</sup> In a supplement in The National newspaper in March, 2014, NKW stated that it 'provides current employment for 214 employees...at the Hidden Valley site' and 'is also responsible for the livelihood of 302 direct employees'.

**appear to have happened<sup>71</sup>), would represent around K4,400 per year for each of the original 151 families censused as resident in the three landowner villagers in 2000.**

### **12.5.2 Other Lancos**

LBD associated with Hidden Valley is similar overall to that at Porgera – one major Lanco dominates both through its 100% owned entities and its joint ventures with other partners. There is however a major difference – whereas IPI is governed by a board of directors of powerful local leaders who have largely set aside their many differences for the sake of making IPI successful and whereas IPI is linked through the two Kupiane companies to the Porgeran community as a whole – NKWH, although nominally owned by its three LICs stands more or less alone. None of the three village companies had much in the way of assets when they last reported to IPA (the total net value was less than K500,000). Further, the LICs' representatives on the NKWH board are, relative to the leaders who dealt with the project for many years (as mentioned earlier) and certainly relative to their counterparts on

the IPI board, not especially influential. Nor, given the history of relations between the Watut and Biangai people, is it likely that they work together.

The only significant IPA-reporting companies that this study has been able to locate are those owned by the surviving member of the old leadership trio under the name of the Black Cat group<sup>72</sup>. No significant businesses have been located whose ownership is in the hands of Nauti or other Watut villagers. Even though this may be due to oversight on the consultant's part, it may also reflect the ongoing leadership vacuum in that community following the death of Peter Askai. Given that the Nauti group and their associates have been officially recognised as the group with the biggest single share of ownership in the HV project, this apparent lack of successful Lancos amongst them might be cited as a likely cause of ongoing dissatisfaction at the quantum of benefits they receive from the project as presently and supposedly channelled to them through their own investment entities.

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<sup>71</sup> Which raises the question that cannot be answered here: who did receive these funds?

<sup>72</sup> This consists of three companies: Black Cat Ltd., Black Cat Security and Black Cat Hires all of which are listed by IPA. Black Cat security is reported by IPA to be 'removed' – it had not made any reports to IPA since 2008 (and lodged no Annual Returns). It and Black Cat Ltd according to the IPA website are both solely owned by Rex Mauri. According to the same source Black Cat Hires is a joint venture between Mr. Mauri who owns only 10% of its shares and an outside party (whose place of residence is listed on different documents as either Lae or Mt Hagen – but whose representative is a Mt Hagen resident) who controls 90% of the shares. The consultant was assured by MMJV staff that Mr. Mauri is the sole owner of Black Cat Hires. Interestingly, the same external party has an identical (90:10 share split) JV with one Nauti resident in the form of Hidden Valley Resources Ltd.

## 13. Conclusions and Suggestions

### 13.1 Two qualifications

Over the past thirty years, hundreds of company personnel have been engaged to assist in the development and support of thousands of landowner companies. Whilst it is true that some of the latter may have simply expected business to deliver maximum rewards for minimum effort at no risk, many more have worked extremely hard and experienced steep learning curves. In undertaking this study, the present consultant has had the privilege of meeting scores of Papua New Guinean entrepreneurs, some trying to balance communal or clan needs against commercial principles, others more simply trying to make a success of business for the benefit of themselves and their families; almost all have had to work much harder than employees working for resource projects, obey more rules and learn more new ways of doing things just to survive.

**When one bears in mind how many centuries it took Europeans to develop the commercial principles by which the progress of PNG's emerging entrepreneurs are judged and then remembers that even after all that time Enron-like fiascos, Lehmann Brothers meltdowns, international bank conspiracies and 'stratospheric accounting errors' at Tesco are as frequent as they ever were, more than a degree of latitude should be granted to PNG landowners who are trying to become successful business operators in their own lifetimes.**

This point is reinforced by a second qualification: to attempt to develop business in some of the remotest areas of Papua New Guinea is to fly in the face of what is known of the development of trade and business world-wide and throughout history. Business prospers (and always has done) most readily in places, usually cities, with excellent links to the rest of the world not at peripheral places like Lihir Island or Tabubil. In other words, **the establishment and successful growth of businesses in the remote sites occupied by the**

**great majority of mining and hydrocarbon projects of PNG represents an extraordinary challenge.**

However, if business success can be achieved in such unpromising locations, then the individuals who achieve it can teach the rest of the country, including those Papua New Guineans would-be entrepreneurs located in less disadvantaged locations, a great deal about how to meet with commercial success.

### 13.2 The organisation of this chapter

The remainder of this chapter is presented in five sub-sections:

- a) a summary of the report's statistical findings in relation to the governance of Lancos
- b) an attempt to summarise the degree of financial success met with by Lancos
- c) a review of the overall outcomes relating to different strategies implemented since 1980 in PNG in the development of LBD
- d) a discussion of general aspects of LBD
- e) some suggestions as to how the nation and the resource industries might build on what success has already been achieved

### 13.3 Statistical summary relating to the governance of Lancos

#### 13.3.1 The Lancos in the sample used in this study

Approximately 400 companies were examined in a preliminary fashion in the course of this study. Those known or found to be inactive<sup>73</sup> were eliminated and those which were simply holding or other companies associated with a company included in the study were also eliminated (although some of the larger companies in Appendix A do include incomes derived from some eliminated companies). A total of

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<sup>73</sup> Some retained may now be inactive.

129 companies are included in Appendix A after this process of sorting. In a few cases, some are of such recent establishment that they do not contribute to the different data summaries shown below.

### 13.3.2 Are there any secrets or short cuts to good management?

Even if in places this report has seemed to suggest that there might be a 'Melanesian' way of running a business, the answer to this question is very clear, no. There may well be Melanesian ways of dealing with customers or of how profits are expended, but there are none as far as the management and governance of a Lanco are concerned – it is full compliance all the way. If a company needs to take special measures (and most do), then it needs to set out the rules under which such measures will be taken – ideally in its constitution. As Robert Grimwade of MMJV argues forcefully, just because the *Companies Act* says a company need not have a constitution, is no reason why a Lanco should not have its own and every reason why it must have one if it has the intention of making any sort of special provisions for the use of its (and its shareholders') resources. There is a fair (but unfortunately not very good) correlation between companies that fulfil compliance requirements and those that have achieved financial success<sup>74</sup>. It would be improved if some companies did not fall back so frequently on those provisions of Section 212(3) of the *Companies Act* which allow them not to reveal some of their transactions (usually with their own Directors). Some further improvement might be achieved by IPA insisting that the conditions involved in Section 221 were strictly adhered to. For example, a rather significant number of bigger companies claim that their shareholders have agreed that the company need not reveal some forms of data, yet there is no proof shown in the public records of the IPA that such shareholders have actually given this approval.

There may be short cuts to Lanco's earning profits but there are none to good management. In this regard, once again, the example of Oil Search is one that resource companies should be encouraged to follow: check that all Lanco's awarded contracts do fully comply with national regulations.

### 13.3.3 Aspects of Lanco compliance

Before examining some indicators relating to compliance by Lanco's, it is worth mentioning that those running Lanco's in PNG do not have many practical examples they can observe and then follow.

It is not as if the average director of a Lanco, even if he is a shareholder, can turn up to AGMs of exemplarily managed corporations to find out how such meetings are run whenever he feels like it – for the simple reason that very few such AGMs (of companies with widespread public shareholding) are ever held in PNG. It seems to be more common for landowners to fly off to Melbourne or Toronto to wave fish about or lecture resource companies' AGMs on human rights, than it is for them to be able to observe how companies should be run at home<sup>75</sup>. How many mining or hydrocarbon companies operating in the country hold AGMs in PNG from which a Lanco manager might learn? **More broadly, how can a Lanco with an annual turnover of two (or even ten) million kina be expected to see any incentive in regularly reporting to IPA and the public if much larger companies do not? With PNG now signed up to the Extractive Industries Transparency Initiative (EITI) the lead in good corporate practice, including transparency, has to come from the top, whether the 'top' is occupied by private or public entities.**

In the course of this study, only Oil Search was in a position to state the degree of its Lanco's compliance with a full range of employer responsibilities. However, in Appendix A four indirect and partial indicators of compliance are available for all companies in the sample. Given the special nature of Lanco's, in particular the need to control shareholding so as to ensure landowners obtain the benefits of companies, it can be strongly argued that every Lanco should devote some effort to devising its own constitution so as to spell out exactly how it is going to be managed. It can also be argued that if they take the trouble to do this, it is also likely they will show the same sort of awareness in complying with the more stringent requirements expected of all businesses. Although it is not a perfect indicator, the presence or absence of a Lanco constitution is of some value in pointing towards compliance.

Secondly, promptness in submitting required reports and returns to IPA might be considered an indicator of the likelihood of companies complying with reporting requirements to other agencies – not a perfect one, but an indicator nonetheless. Consequently, from Appendix A we can calculate a measure of the promptness shown by companies in submitting their required Annual Returns.

<sup>74</sup> In the period between the preparation of the first draft of this section (late November 2014) and the finalisation of the section (February 2015), one of the most prominent Lanco's has brought all its reports to IPA up to date. This will have increased the strength of the correlation between compliance and financial performance from 'fair' to 'good' for Lanco's as a whole.

<sup>75</sup> At least some of the fish wavers and HR lecturers now help manage or direct Lanco's themselves.



Thirdly, for all Lancos that report to IPA, even those which are tardy in doing so, we can calculate the frequency with which directors are replaced. This is the weakest of the indirect indicators since it is by no means clear whether low levels of replacement of directors are beneficial or otherwise in the running of the company. On the one hand, there were many instances encountered in the course of interviews for this study in which respondents noted that leaders within the wider landowner society appointed, because of their general leadership roles, to Lanco boards had proved both hindrances to good business practice and, then, difficult to remove from office. On the other hand, a low turnover of directors can also mean that management can operate within a stable environment. This third indicator is not commented upon here, but is dealt with in a separate set of paragraphs. (see 13.3.4)

Fourth, the *Companies Act* exempts most small companies from having to submit independent external audits. This limits the compliance requirements of the majority of Lancos. The data for this indicator is available for almost all companies in Appendix A.

It is very evident that, ideally, more specific indicators might be developed – such as the regularity of AGMs, tax submissions, provisions for worker compensation etc – but such information could only be collected anecdotally through interviews for a small number of companies shown in the time available for this study. Despite this weakness in the data available, it is evident that there are strong grounds for suspecting that significant numbers of Lancos do not comply with a wide range of requirements; entries on the IPA database regarding requests for permission to defer a Lanco AGM are very common. Some Lancos appear to be reluctant to be transparent in their dealings. The latter is particularly worrisome, not so much in

terms of whether they are handing in reports to IPA or willing to let studies like this have data but, because it appears likely that in some cases such opacity is aimed at keeping community shareholders in the dark.

**13.3.3.1 Lancos with and without a constitution of their own:** Table 12 shows that around a quarter of all the companies in Appendix A have developed their own constitutions.

No Lanco has shares that are publicly traded. Almost all restrict shareholding to particular groups of people. It is considered to be of critical importance that these facts alone should require Lancos to have detailed constitutions. The OSL/LNG Lancos in particular – because many of them cover large numbers of people in different ethnic groups – have deliberately developed complex shareholding classes and other devices to assist them to hold their companies together; this is almost certainly the reason why they exhibit the highest proportion of companies with constitutions, which explain and lay down the rules relating to such shareholding arrangements, in Table 12, and is to be applauded. But overall, the proportion of Lancos with constitutions is rather low and suggests that to some extent there has been a lack of care in the establishment of many of them.

**13.3.3.2 Promptness in submission of AR to IPA:** It should be made clear that the data in Table 13 and Figure 21 refer to ARs registered in the IPA database, not to whether or not a company has actually prepared an AR. For example, IPI, Anitua and many other companies have independently audited and up-to-date FSs and Annual Reports for their shareholders but these are not all to be found on the website. Some companies, notably those associated with Ramu NiCo – in the course of interviews – were even able to present independently audited FSs even though, as

**Table 12:** Numbers and proportions of Lancos with and without individual constitutions

Site	Number with constitution	Number without	Proportion with (%)
Ok Tedi	11	26	30
OSL/PNG LNG	12	20	38
Ramu NiCo	1	4	20
Porgera	2	13	13
Lihir	5	20	20
Hidden Valley	2	9	18
Simberi	0	3	0
Elk-Antelope	0	1	0
<b>Overall</b>	<b>33</b>	<b>96</b>	<b>26</b>

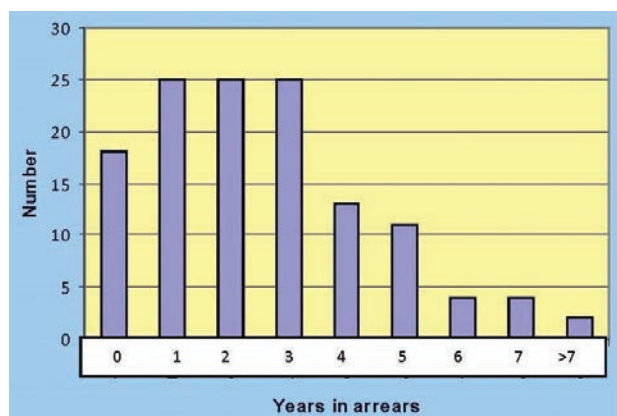


Figure 21: Promptness of AR submissions to IPA (all sites).

exempt companies, they are not required to do so; but these FSs (and associated ARs) are not shown on the site (and may not have been submitted yet to IPA).

It is of interest to note, in terms of this particular indicator, that the sites which have engendered the most successful large Lancos actually have a performance that is apparently not as good as sites where Lanco problems have been especially great. This may be a function of the sample of companies taken but it might also be an accurate indication of the attention paid by resource companies to the IPA requirements in a particular sense: perhaps those sites where Lanco problems (or potential for problems) have been perceived by resource companies as a risk to operations, more attention has been paid to compliance.

In any case, the overall figures indicate that there is considerable room for improvement in the submission of Annual Returns and/or their inclusion on the IPA website. The existing requirement that such returns be made appears not to be observed by the majority of Lancos shown in Appendix A.

**13.3.3.3 Exempt companies:** Of the 129 companies shown in Appendix A, 104 (81%) are exempted from undertaking annual independent third party audits. The older resource sites tend to have higher than average proportions of non-exempt companies. The proportions that have to undertake independent audits are: Ok Tedi and Porgera both 27%, Oil Search 22%, Lihir 12%, Hidden Valley 9% and all others zero.

### 13.3.4 Directors

In this section Hidden Valley, Simberi, Tolukuma and Elk-Antelope Lancos are omitted as being of recent origin and/or too small.

The study covered 677 directors of whom 594 are analysed here. Many individuals are on the boards of more than one company; on Lihir, one male is a director of at least eight companies, one at Ok Tedi is on the boards of seven and many are on three or four boards<sup>76</sup>. So the actual number of individuals – rather than being 594 – is closer to 450. Females make up just under 6% of all directors and, because it includes the eight directors of Ipili Wanda (the commercial arm of the Porgera Women's Association), the Porgera sample in Appendix A had the highest proportion (at just over 20%).

Table 13: Lanco reporting to IPA of Annual Returns

Site	Up to date	1-3 years in arrears	>3 years in arrears	Mean no. of years in arrears
Ok Tedi	7	23	7	2.1
OSL/PNG LNG	5	18	9	2.5
Rami NiCo*	0	2	3	4.0
Porgera	4	5	6	2.9
Lihir	1	15	9	3.9
Hidden Valley	1	10	0	1.0
Simberi	0	2	1	2.7
Overall	18	75	35	2.6

**Note:** \* It is emphasised that this indicator relates to whether an AR appears on the IPA website NOT to whether an AR (or FS) has been produced by the Lanco. The Ramu NiCo entry illustrates this since it is known, through the interviews undertaken there, that all the bigger companies not only had reasonably up-to-date ARs but had gone beyond compliance by having commissioned independent financial audits even when exempted from such a requirement.

<sup>76</sup> MRDC companies, of which there are fifteen, are not included here. Some MRDC employees are directors of all, or nearly all of them and Provincial representatives of Hela and Gulf are on all the gas/oil companies.

**Table 14:** Data on Lanco directors

Site	No. directors	No. former directors	Turnover of directors/year	Directors/Lanco	Average length of service per director (years)
Ok Tedi	136	195	9%	4.9	8.1
Oil Search*	109	129	7%	9.1	11.8
Porgera	63	72	6%	4.2	9.5
Lihir	114	87	7%	5	8.2
Ramu	29	23	13%	5.8	4.6
LNG*	143	69	10%	8.9	3.2
<b>Total</b>	<b>594</b>	<b>575</b>	<b>8%</b>	<b>5.3</b>	<b>6.4</b>

**Note:** \* In Appendix A Lancos in the OSL/LNG area are arranged roughly according to whether they were established when OSL was operating alone (or rather with BP, Santos and Chevron) or were established once the LNG started. This distinction has not been used as a basis for analysis so far but it will be used occasionally from now on. It is of obvious significance in this case.

The approximate turn-over rate for directors across the major sites has been 8% a year, with the lowest rate recorded at Porgera. Porgera also recorded the lowest number of directors per Lanco, largely thanks to the observed number of very small companies. All the metal-mining Lancos had between 4 and 5 directors per Lanco whereas both the OSL and LNG Lancos reflect the wider geographic spread of Lancos had significantly more at nine on average. Interestingly, in view of the length of time that the OSL-based Lancos have been operating, they had slightly more directors than even the LNG Lancos; this, suggests that the structures set in place under OSL have managed to hold together, despite the tendency to fragment shown at most other sites.

The length of service of directors is self-evidently primarily linked to the age of the project even if the turn-over rate will have some influence of the value recorded. Interestingly, only in Ok Tedi's case is the relationship between the age of the project and the length of director service broken – which almost certainly reflects the recurrent failure at Ok Tedi of the largest companies.

Female directors are few, forty out of 677 or 6% of the total. They were, relatively, most common among Lihir companies (probably because the sample includes so many small Lancos), at Porgera (due entirely to the inclusion of Ipili Wanda, the business arm of the Porgera women's association) and Ok Tedi (where two small Lancos are run by private women entrepreneurs).

A wide variety of shareholding arrangements are in place across PNG Lancos. They range from companies

with thousands of direct shareholders (in the oil and gas fields) to single shareholder entities. In Table 15 an attempt is made to classify them; some may well not fit the category they have been placed in. For example, the ? placed against IPI arises from the fact that the company's returns to IPA show the directors as shareholders not as trustees for the communities people assume they represent. Further, several of the companies shown as 'subsidiaries' in Lihir, might be better classified as 'small companies with evenly spread shareholdings'.

The companies of interest – and possible concern – in the table below are those with headings in red: on the one hand, Lancos which appear to be owned communally but, according to their entries on the IPA website, are actually owned by a small number of people, usually directors and sometimes by a single individual; on the other hand, small Lancos may have several directors but the shares are held by a subsection of the directors, not all of them. Between them these two categories account for 28% of the total sample.

### 13.3.5 Reports to shareholders and relations with them

While one can assess, with reasonable accuracy, the promptness of Lancos' reporting to IPA, this study was unable to gain much statistical coverage of the more important question of their promptness in reporting to their shareholders. Moreover, one can only present anecdotal evidence concerning shareholders' views regarding their Lancos. Consequently, what follows must be regarded with more than the usual degree of caution.

**Table 15:** Types of Lanco shareholding structures

Site	Subsidiaries	'Communally held' companies		'Family' and/or small companies	
		Widespread shareholding	Highly concentrated shareholding	Evenly distributed shares	Concentrated shareholding
Ok Tedi	Madang Star IH	Tabubil Engin'g	FCS	W & W	Tabubil SS
	Azobelle	Camp Admin'n	Cloudlands	Hore Binkia Eng	Bugum
	SMP&I	Faiwol Holdings	Kana Kumgit	Suku	
		Faiwol Investment	HWDC	Umeng	
		Star Mt Clothing(?)	Tabubil Hotels	Adiyap	
		Tawap Kamen		KS Investments	
		H'way Transport		Handup	
		KCS		Mepu Investments	
		LOTIC		Kiunga SS	
		North Fly Rubber		Tabubil Auto	
		Tabubil Traders		Tabubil Bakery	
		SMIHL			
LNG		Kiunga Co-op			
		Tugu Tapira	Hides 4 Holdings	Bebahoya	T. Laitepo
		Angore	Moran Ina Naga	Komo Dai	Hides Hiwa
		HGDC	Kutmor	SE Mananda UJV	Tuguba H'ldgs
		Mananda Umbrella			Timalia Gangulu
		Trans Wonderland			
Oil Search		Laba Holdings			
		Yiamo Gira			
	Kutubu Catering	Gigira DC	Kutubu TS	Kawaso	
	Eurest Gigira	Moran DC			
	GFS	Maka Investment			
		Kutubu SS			
		Gobe Bus Dev't			
		Kikori Oil			
Porgera		Yasuku Oil & Gas			
		Kewapa			
	Kupiane Inv'ment	IPI (?)	IPli Wanda	Total Cleaning	EJ Sisters
		Kupiane Yuu Anduane		Soakofa	Mapai Transport
				Mapai Contractors	
				Tupa Resources	
				Jim Leo Express	
				Mayadams	
				Geps	
Ramu				Kairik Cleaners	
				Peroko	
		Raibus	Kurumbukari		
			Maigari		
Lihir			Wass Matau		
			Basamuk E/prises		
	LBS	NCS H'dings	Lihir Construction	Saberte	Kalo
	Lamatlik IL	Kuridala		Caldera	
	Nikama IL	Lihir Civil &C		Kunaye	
	Nissan IL	Anitua		Londolovit Weir	
	Tengawom IL			Nenelam	
	Tinetalgo IL			Niu Londolovit	
	Unawos IL			Bacasa	
				Noram	
				Kunaye	
				Unapual	
				Maron	
Hidden Valley				Sivetal	
	NKW C & T		NKWH	Black Cat	
	NKW MS		Nauti		
	NCS(HV)		Kuembu		
			Winima		
			HV Contractors		
			HV Transport		
Simberi			B Cat Hire		
			Simberi Island IL	Shunammite	
			Simberi Pit Owners		
Elk-Antelope			Sakura Osura*		

**Note:** \* concentration of shares due to delay in identifying who is eligible to own them.



Given that proviso, there must be some concern regarding the relations between some Lancos and their shareholders and in particular between some of the larger umbrella or representative companies and the communities whose post-mining futures are rather dependent upon them. For example, it has been reported above that:

- a) the landowners of the Hidden Valley project are dissatisfied with HKW despite that company's rather good financial performance;
- b) Bainton and Macintyre's papers suggest that even Anitua does not get universal approval from Lihirians despite its rather outstanding records in the areas of both governance and financial performance – as might be indicated by the plethora of small companies that try to obtain contracts with the mine;
- c) Significant sections of the Porgera community continue to express dissatisfaction with the relations they have with IPI.

Several other companies could be mentioned in this regard. None of the above statements can be regarded as very strong ones - and each taken on its own might be summarily dismissed, if taken in isolation, as the complaints of a small minority. But, one cannot dismiss the possibility that they are matters of genuine concern from shareholders who see few benefits of their equity holdings whilst directors of those companies seem to be doing rather well.

This concern, if it is a valid one, may be a result of poor communications with shareholders, especially in the case of companies which do not hold regular AGMs. However, as section 13.5 will suggest there could be other reasons.

## 13.4 Statistical summary of Lanco financial performance and economic impact

### 13.4.1 Possible improvements in performance reporting

Many indicators of financial performance that might be used for companies whose shares are held by, and traded among, the general public are not applicable to most (if not all) Lancos under consideration. For most Lancos in this study the lack of available data also rules out many more common forms of analysis used for listed companies. In view of the relatively widespread reports of dissatisfaction of community shareholders with their purportedly representative Lancos, there is a case for regulations to be changed so as to ensure that:

- a) the exemption rules relating to independent audits contained in the *Companies Act* be revisited
- b) the rules in that Act which allow directors not to report their own incomes and expenses if all shareholders agree to that course of action be more thoroughly policed.
- c) Annual Reports to IPA contain a statement of dividends paid.

This would at least allow third parties to make an assessment as to whether or not shareholder complaints had any justification.

### 13.4.2 Relating performance to Lancos' stated aims

There is a further consideration however: different Lancos may have set different aims for themselves. To assess their level of success needs to compare performance in the light of such aims. So what is any particular Lanco's aim in terms of financial performance? Is it, to over-simplify the options, primarily to accumulate assets or is it to maximise dividend payments? Depending on the circumstances, either aim can be considered perfectly legitimate and/or logical. In terms of post-mine closure sources of income, accumulation of assets might seem, to outsiders, to be the preferable strategy; but people who previously have had very small incomes and who have a desire to see immediate benefits may regard the payment of dividends as a primary goal – especially in the early years of their company's existence. The problem here is that, given that so few companies have constitutions and that – even amongst the minority that do have them – few specify what their financial goals actually are, then it is difficult to judge whether goals have been met. Presumably the basic goal of all is, at the very least, to survive.

**This suggests yet another good reason why it is to be strongly recommended that any and all Lancos that are established on the basis of representing a landowner community should take the trouble to have their own constitution which clearly sets out their overall financial performance goals.**

### 13.4.2 Lanco 'survival' rates

Over the years, many Lancos have failed and disappeared from public view. Without knowing precisely how many Lancos have not managed to achieve this rather basic aim, it is not possible to calculate precisely the survival rate of Lancos.

However, an indirect way of measuring survival is possible by comparing the average age of Lancos at different sites, expressing this as a percentage of the age of the project and then comparing the result of that calculation with the age of the project as in Figure 22.

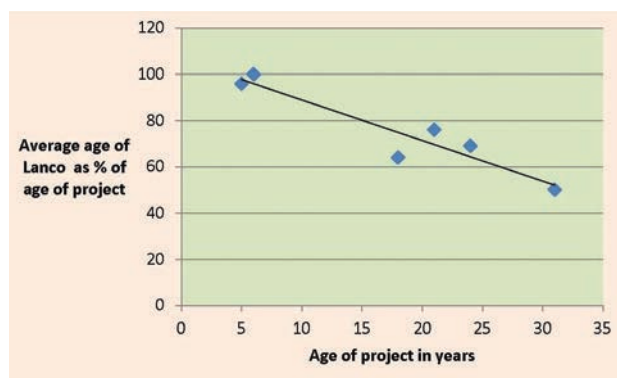


Figure 22: Relative 'survival' rates between sites.

The relationship is a very close one (at  $r = -0.95$ ) and shows that the older the project is, the smaller is the average age of Lancos (as expressed as a proportion of the age of the project). In other words, it tells us what we would expect it to do: the older a project is the more Lancos have disappeared (or alternatively, the more, newer Lancos have accumulated at the site). Whereas at newer sites the age of the Lancos still existing is close to 100% of the age of the project, at Ok Tedi (which is represented by the symbol on Figure 22 furthest to the right) Lancos average age is around 16 years, or half the age of the project. However, this is only an indirect measure and is not especially precise either since not only does it measure the failure rate of older Lancos but it includes the effect of new Lancos which spring up all the time and thus reduce the 'average age of the project Lancos'. Nevertheless, it has to be remarked that an average age of 16 years for Ok Tedi Lancos is rather impressive. This is far better than most studies in other countries of SME business success/failure might suggest and is certainly no worse than the figures reported for Australia (see p.15 in chapter 1 above). Whether this is a reflection of the efforts put into LBD either by the entity's owners or by the resource company is a question that cannot be answered from the results of this study.

### 13.4.3 Employment by Lancos

As observed in the introduction to this report (section 2.4.1 above) it is a virtual mantra of commentators on the mining/hydrocarbon industries (especially those critical of them) that they form enclaves and have very weak links with the rest of the nation and thus does not stimulate the growth of the wider economy. Here is an example of such a statement:

*'Resource sectors have weak linkages with the rest of the economy because imported inputs and capital intensive production generate little employment; therefore the real impact on the overall economy depends on how the wealth is used'.<sup>77</sup>*

Without question, how resource-generated wealth is spent is of the highest significance. But it is in relation to the first clauses of this sentence that some questions do arise. To restate what was noted earlier: First, exactly what sort of non-traditional industry of any financial significance could it not be said that such an industry would have weak links with the rest of the economy in a country like PNG? Would not any such activity have to import most of its capital inputs initially (if not for longer)? Compared with almost all pre-existing economic activities in an unindustrialised economy, would not almost any 'modern' activity be relatively capital intensive? It is agreed that mining and even more so oil and gas extraction are more capital intensive than most industries, but only in degree.

Secondly, in the context of Papua New Guinea and particularly in the context of this study, are the linkages really as weak as this quotation assumes them to be? Is the employment (and associated economic activity) generated quite as so small as to be virtually worth ignoring? Ever since Ok Tedi's development (and, it could be argued, even before that in the BCL case), Papua New Guinea has put considerable effort into getting resource companies to obtain as many of their supplies as possible within the country and, in most cases, from the area they impact upon. Now, it is true that this policy may not have bared its teeth (if it has any) very often for the simple reason that there aren't any manufacturers of 150 ton trucks, or seismometers, of high grade steel for pipeline construction and the like in PNG. But the country does have (and since Ok Tedi's start up, has increasingly had) firms in Lae and Port Moresby who can import industrial chemicals, equipment, trucks and all the paraphernalia required by the resources industries and each of these companies, both by obtaining a profit from importing and supplying them to resource companies and by employing Papua New Guineans to deliver them, write out invoices for them, repair and service them, adds to the GDP of the country. Further than that, how many accountants (in urban areas) are employed in PNG keeping the books for the companies in this survey?

<sup>77</sup> Carolyn Fischer, 2007, 'International Experience with Benefit-Sharing Instruments for Extractive Industries', *Resources for the Future, Washington*. There is a double whammy potentially involved here with which critics can assault the PNG resources sector. This particular line of criticism is that the industry is not linked to the rest of the economy and 'That Is A Bad Thing'. However, if, as will be attempted in the following paragraphs, it can be shown that in fact the linkages are rather strong, then the argument can be reversed – but with the same result – becoming: 'PNG's economy is so closely linked to that of its resources sector that any down turn in the latter will have catastrophic effects on the nation as a whole which is A Very Bad Thing'.

How many people are employed in PNG's many airline companies that earn a portion or a majority of their income from the resource sector? How many of Port Moresby's hotel rooms each night are occupied by employees of resource companies? And, to stretch the bow even longer, how many people earn a living in the media or in NGOs or get promotion through their research publications from commenting on the resource industries in PNG?

To be more specific how many people do the Lancos in this study employ (we will look at broader economic impacts shortly)? The data in Appendix A are:

- wobbly because they (largely) come from ARs submitted to IPA and because these returns are for different years. But if anything they therefore understate the numbers of people employed by Lancos in 2013 (with the notable exception of the LNG Lancos - it is certain that employment in connection with the PNG LNG project for 2014 will have fallen since 2013). However, since so many companies – even those in Appendix A - at the LNG project have had no AR (and thus no data) and since even those that have reported did do when employment numbers there were still on the rise, we can be more or less certain that the PNG LNG figures shown in Appendix A significantly understate the numbers that have been employed there in the recent past. To remove this particular source of weakness, employment figures in the following paragraphs distinguish between the total and the total with PNG LNG figures excluded;
- incomplete because only companies listed with IPA (and not all of those either) are shown. At some sites the total numbers employed by Lancos will be greatly understated as a result. At Ok Tedi, several hundred employed in small Lancos around Kiunga are not covered here and at Porgera the profusion of small family groups running manhaul buses and other businesses not on the IPA register will also employ many hundreds.

Given these cautions, then PNG employment directly with OTML, PJV, Lihir, Hidden Valley, Ramu NiCo, and Simberi in 2013 totalled around 10,000 persons. The mining Lancos covered in this study employed at least 11,000 (including NCS and Anitua employees off Lihir). The actual total will be significantly higher than that, probably close to 15,000, given the cautions just mentioned, so even when not taking into account the indirect employment generated both by the mines themselves and their associated Lancos in other areas of Papua New Guinea then the total employment associated within the vicinity of the sites themselves

will be around 25,000 – or two and a half times the direct employment the mines offer.

These figures exclude the oil and gas fields' employment. OSL is a relatively small employer (800 or so persons of whom around 700 are Papua New Guinean) as is InterOil even though the latter is steadily increasing its workforce; together the two companies might be said to employ 1,500 people in round numbers in PNG. The construction phase of PNG LNG project has been a huge employer; a peak of close to 20,000 employees was reached in mid-2013, which had fallen to 14,700 by the year end and will have continued to fall sharply since then.. Of these, 40% have been, more or less throughout the whole construction period, Papua New Guineans (or 5,700 in the last quarter of 2013). Assuming ExxonMobil's forecasts to be correct it is reasonable to state that by mid-2015 it will employ 1,500 people. Thus direct employment in the hydrocarbons sector (excluding the myriad of lesser oil and gas companies) at present probably greatly exceeds 3,000 people. Appendix A indicates that even when there is no data for employment by a significant proportion of the Lancos in the oil and gas fields (and includes no data for any Lancos, such as those emerging at the Stanley Field, at projects not yet in operation), those for which data does exist employed at least 5,800. In other words the ratio of hydrocarbon Lancos employment to that of the hydrocarbon resource companies is rather greater (at 6000 to 3000 or 2:1) than that for metal mining (15,000 to 10,000 or 1.5:1).

If we total these numbers we arrive at the conclusion that at least 34,000 people are employed in the two sectors by the resource companies and their Lancos combined at or close to sites across the country or in head offices.

But in addition, we also know (see Table 16 below) that whereas resource companies gave contracts to Lancos (which employed 21,000 people) in 2014 worth roughly K1.6 billion, they also awarded contracts worth approximately K1.85 billion to other PNG companies, elsewhere in the country. If the ratio of contracts to employment was the same for these non-Lancos as that for Lancos (where it was K77,000 in contracts to one job), then these non-Lanco payments would have generated a further 24,000 jobs. This would give a total of 58,000 jobs created in the country consisting of at least 13,000 in direct employment by resource companies and 45,000 to Lancos and other contractors across the country. It is probable that the ratio for non-Lancos was less favourable to job creation and that therefore the total just mentioned is a little high – but on the other hand there are reasons for supposing that the Lanco employment quoted is on the low side and that non-



Lanco employment around resource sites is higher than that estimated. So a total in the region of 55,000 to 60,000 jobs does not seem unreasonable.

Even without including multiplier effects any further my own conclusion is that this number does not equate to Fischer's 'little employment'.

This survey cannot provide precise data on the origins of Lanco employees. The only sources of information tapped for the study were a) the information collected in interviews of a small number (37) of sampled companies and b) snippets of information relating to employees with a minimum wage of K100,000 that can be gleaned from Lancos that submit audited Financial Statements. The former data source suggests that whilst eighty percent of Lanco employees are described by their employers as 'local', the majority of these are local residents now, but many of them are in fact migrants from nearby areas outside the 'preferred' areas for company employment. As far as high paid employees are concerned, only the largest Lancos (perhaps thirty in all) can even contemplate hiring such employees, usually at the highest managerial level in the company. All the rest must try and do without high flyers. In particular, expatriates are rarely employed by Lancos. If we discount those seconded by resource companies to help set up or run strategically important Lancos, no more than thirty expatriates were employed by the Lancos in the study with Anitua being the leading employer as well as one medium sized Lanco associated with Ok Tedi which employed six foreigners; this latter rather proves the point since the company in question could barely make a profit as its wages bill was so high.

Despite this absence of firm data some points can be made about employment by Lancos. For most residents of resource project impact areas, employment with the resource company is the most immediately possible and single biggest benefit obtainable. Resource companies tend to pay significantly higher wages than other elements of the economy; the lowest paid workers at one (metal-mining) resource project, for example, are paid a minimum of K20,000 annually. Lancos – as far as this study was able to establish through interviews – pay wages more in line with non-resource companies around the country. Consequently, it is unlikely that any resident of a resource project impact area who falls into a category of people who have been given a high priority for employment with the company will opt to work for a Lanco. We would expect Lancos to employ a higher proportion of non-residents than the resource companies themselves. Of course, I cannot be sure of this conclusion and would suggest that this topic could fruitfully be examined further.

While women directors are few, as employees of

Lancos they are much more common. It is estimated that between 2500 and 3000 females are employed by the Lancos covered by this study or a little over 20% of the total workforce. This is largely because so many of the bigger Lancos are concerned with camp maintenance and cleaning. The single biggest employer of women, other than in this field, is the Star Mountains Clothing Company at Tabubil with more than a hundred female employees engaged in sewing.

#### **13.4.4 Lanco revenues and project payments to the wider PNG economy**

Recent years' expenditure on Lanco contracts by the PNG LNG project have dwarfed all other site expenditures on this item and the effect of this expenditure is visible not only in PNG economic statistics but in everyday life, especially in Port Moresby. These expenditures are already falling sharply, and will continue to do so and the impact this decline will have not just on Lancos but on businesses in Port Moresby (and Lae) will be a very good indication as to the strength of that project's linkages with the wider economy (and will either confirm or put a dent into the opinions expressed by Fischer). For the present purposes, therefore, it is assumed that the PNG LNG project's projections relating to its inputs into local businesses once construction of the first phase of the project is completed will apply: that is that such expenditure will amount to around US\$200 million annually (or about K500m). Lancos in the project's impact area, concerned about declining revenue, are already placing pressure on the project to allocate higher order contracts to them rather than to outsiders. In what follows, I have assumed that payments to local Lancos each year will amount to around K300m and payments to other PNG businesses might amount to K200m.

Table 16 shows in rounded numbers the probable flows of resource company contracts both to local Lancos and to other PNG contractors in 2014. The total represents around 7% of PNG's GDP. It is more likely to be an underestimate than an overestimate (since it is almost certain that PNG LNG payments will be greater than shown and since Oil Search figures are not included – although Lihir expenditure may be overstated in the table):

**The PNG policy of encouraging resource companies to obtain goods and services from local and national suppliers can hardly be called unsuccessful when it shows results like these.** Local Lancos seem to have annual revenues of more than a billion kina (and had much more than that during the construction of PNG LNG) whilst the industry's links with other, non-Lanco businesses approximates to two billion kina. When one adds in the revenues that some of



**Table 16:** Likely flows of payments from resource companies to Lancos and PNG businesses in 2014 (K' Millions)

Site	Flows to local Lancos	Flows to other PNG businesses
Ok Tedi	230	240
Porgera	160	230
Lihir	580	520
Hidden Valley	90	660 (Lae mostly)
Simberi	10	?
Ramu NiCo	25	?
<b>Subtotal</b>	<b>1095</b>	<b>1650++</b>
OSL	220	?
PNG LNG (see text)	300	200
<b>Total</b>	<b>1615 (=US\$ 645m)</b>	<b>1850++ (= US\$740m)</b>

**Note:** Numbers relate ONLY to Lanco income from resource companies; since several earn income from other sources, the totals understate total Lanco revenues.

the bigger Lancos now earn from sources other than the resources industry, then one is talking of local level Lancos handling revenues approximating to 4% of the national GDP (US\$15.3bn in 2013) and total flow of payments from resource companies to local businesses worth around 7.5% of GDP. **These are not trivial numbers even if, as Fischer and others argue, how resource revenues are spent remains a major issue.**

#### 13.4.5 Asset accumulation

Is LBD accumulating assets or are profits largely spent on dividend payments? How does asset accumulation by means of LBD compare with asset accumulation through investment via the MRDC (or similar) funds? Accurate answers to such questions require much more work than was done in (and far more accurate and comparable data than were available to) this

study. But some rough approximate indications exist and these are shown in Table 17.

While the data shown in the Table are sub-optimal, since they refer to a range of different years, they show some interesting, very general contrasts between sites which might require further investigation.

- The significance of a site having a successful large Lanco, is suggested by the contrast in the Lanco assets of Porgera and Lihir on the one hand and Ok Tedi in particular on the other;
- Overall asset accumulation is rather low in relation to the revenues that have flowed through the Lancos over the years. At Ok Tedi, the average annual accumulation of Lanco assets since the start of operations has been around K4m and the value of all assets accumulated over that 32

**Table 17:** Net assets of Lancos and of investment funds managed by MRDC (K'Million)

Site	Net Assets of Lancos in this study	Net Assets in MRDC managed funds
Ok Tedi	128	329[09]
Porgera	345	9[07]
Lihir	368	445[09]
Hidden Valley	20	NA
Oil	89	286[09]

**Note:** Lihir MRDC fund became independent in 2009; MRE (Porgera) no data after 2007; Oil/gas Areas – MRDC funds relate ONLY to petroleum resources, not gas. Lanco assets as of last AR – since these are usually 3 years out of date the figures are understatements of the present position.

year period of Lanco activity is somewhat less than the total revenues that OTML paid to Lancos in 2012 alone. The comparable annual rates of accumulation among Porgera Lancos (which is largely IPI) at around K17m and among Lihir Lancos (mainly NCS/Anitua) at around K20m are much healthier. The Lancos in the oilfields have seemingly rather low rates of accumulation of assets given the size of the revenues they have received, although this is partly a function of the absence of data for some Lancos and the out-of-date data available for others. It certainly appears that **if assets are to be accumulated by means of Lanco business for the long-term, the presence of a large, communally owned representative company is an essential pre-requisite.**

- All the investment fund data is outdated, but in the absence of MRDC being willing to release any newer information (as yet), we must make do with what is publicly available. Fortunately for Ok Tedi and Western Province people, their two investment funds have, with considerably less effort than is required in normal Lanco business endeavour, accumulated assets rather more quickly than the private businesses operating in their area<sup>78</sup>. Of course, this relative success, when compared to the accumulation of Lanco assets would pale if we were to compare the funds accumulated under the PNGSDP.
- By contrast, the MRE (Porgera and Enga) fund was, by 2009 in an extremely unhealthy position; it would be extremely interesting to know a) why this was so and b) whether or not it has recovered since 2009. As for the first of these questions, it is believed that MRE lost heavily on its strategy in selling its share of the project's gold production (which it undertakes quite independently of other shareholders in the project). It will be recalled that more than most MRDC-managed funds, the MRE board membership was balanced in favour of landowners. If the MRE funds have not recovered since 2009, then the significance of Lanco assets, and particularly those of IPI, for the future of Porgera people is greatly increased since the weight of sustaining mine benefits will fall on that company.
- Lihir is easily the best performer in Table 17. Not only have its private Lancos (Anitua/NCS) done well but its investment funds have performed excellently. This is partly due to the Lihir landowners wresting a larger share of the

mine's original equity from its developers and then selling off those shares at more or less the very best time in the mine's history. The Lihirian managers of the fund (since it left the control of MRDC in 2008/09) were not in a position to reveal the value of their 2014 assets when interviewed but **it is likely that the fund's assets now are valued at close to or in excess of double the number shown in table 17.**

- Because of delays in the submission of ARs to IPA, the value shown in the Table for the oilfields is believed to be lower than the funds presently being managed (and several times lower than the funds now being managed for the hydrocarbon sector as a whole). It is reasonable to believe that whilst Lancos in these areas may be increasingly concerned that their future rate of asset accumulation will be slow (given that contract work values will fall now that major construction is completed), funds with the MRDC will grow rapidly as royalties and other fees continue to flow into them.

In short, in all cases except Porgera, asset accumulation has been more successful (and much more easily accomplished) through investment than through the operation of Lanco businesses. So if it is true that Lanco business has benefitted the few rather than the community at large, then the holders of such a view can take comfort from the fact that – providing the MRDC and other investment funds are prudently managed – there are much larger assets available for the whole community accumulating in the investment funds.

A final possible implication of the data in table 17 is this: if significant community funds are being accumulated for future use, does this not make the short-term maximisation of consumption of mine benefits obtained through small-scale business more justifiable, more logical even? If investment funds and the larger representative Lancos are accumulating assets, what is wrong with smaller Lancos enjoying the fruits, hard won, of their labour? Does *everything* have to be sustainable for everyone?

Figure 23 shows the performance of each company for which there are available data over its life in terms of the annual value of its accumulated assets. It needs to be stressed that this is only one way of measuring a company's performance and that what might seem a 'poor' performance on this indicator must be referred to a) the Lanco's aims and b) other

<sup>78</sup> The two funds (one for Western Province as a whole and one for Ok Tedi people) had had, up to 2009, the same rate of success – both were worth between K70m and K80m.

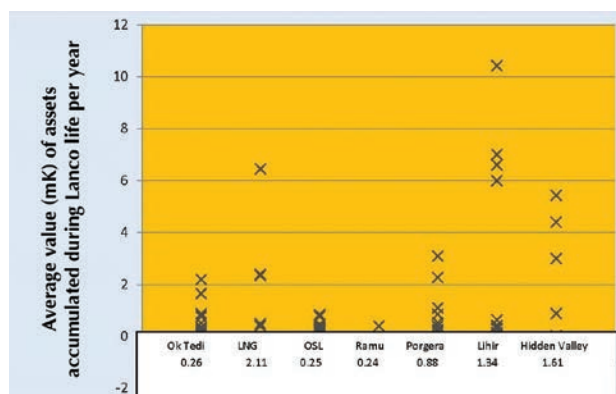


Figure 23: Annual average level of asset accumulation by Lancos at each site.

**Note:** Each X represents one Lanco; the values shown beneath each project name shows the average for all Lancos at that site; Lihir includes two small companies that had just been established at the time of their last IPA report with funds from the project which were included in their assets. Many other companies have received similar subsidies which are included in their assets.

indicators of performance. There are 93 Lancos in all in the diagram which contains some surprises as well as also confirming earlier conclusions. In terms of confirming earlier impressions, the outstanding performance of Lihir (overwhelmingly due to Anitua and NCSH), the similar dominance of Porgera Lancos by IPI and Kupiane Investments and the relatively weak performance of the Ok Tedi Lancos (where there is no such large leading company) are all relevant. The LNG data used are rather thin and not too much significance should be read into them, even if they were doing well in this respect when the most recent available data was provided.

The two surprises in Figure 23 are:

- Lancos originally set up to serve OSL (but continuing to trade since the arrival of the PNG LNG project) have not accumulated many assets and those that they have accumulated have been acquired slowly. Their overall performance in this respect is no better than that of the Ok Tedi Lancos despite the thoroughness that OSL staff have exercised in assisting these Lancos. This may well be due to the fact that there appears to have emerged no oilfield equivalent to Anitua or IPI -
- Hidden Valley Lancos (i.e. those associated with NKWH rather than the individual landowner investment companies) have had a good start. This may be due at least in part to their location in Lae (as well as to energetic management).

Figure 23 shows, as has been previously been referred to, that effectively Lancos operate in a dual system: there is a small layer of large companies that operate on a large scale, across several sectors and across a wide geographical region and which, today at least, are now accumulating significant assets while the great majority of companies are small, tied to a single resource site, performing a particular function and not able (or choosing not) to accumulate much in the way of assets. The clustering of crosses at the base of each site's column in Figure 23 indicates what most Lancos do: they accumulate assets, if at all, very slowly. Thirty nine of those shown have on average accumulated assets at an annual average rate of less than K100,000 and only 25 have an accumulation rate in excess of half a million kina per year. In the present consultant's opinion, this is not surprising; as stated several times earlier, why should we expect small companies to accumulate assets any more than we would expect them to be able to move part of their operations (as larger Lancos can) to a large urban market? Even though these companies do not have to submit audited financial returns, it was very evident from the interviews carried out during this study (if unprovable statistically) that they get by on small profit margins, only just survive irregular cash flow problems and do not make their shareholders wealthy. It is the dozen or so large Lancos where the wealth lies.

## 13.5 Outcomes of various LBD strategies

### 13.5.1 Has the concept of umbrella companies proved workable?

**13.5.1.1 Umbrella companies as incubators/protectors of small Lancos:** If one accepts the definition of an umbrella company, which was adopted back in 1980 for the original Ok Tedi project, to be one which provides shelter to infant companies by assisting them with business and compliance advice, then the only umbrella company to have succeeded at all in this fashion appears to be Anitua. Even Anitua, according to Bainton and Macintyre's accounts can hardly be said to be a fulsome success given the dissatisfaction said to be voiced by many Lihirians at the assistance they actually obtain from LBS in setting up their own businesses. But at least Anitua does offer such a service. At Porgera, IPI cannot be said to do so and, like Anitua for the main part, has concentrated, with success, its efforts on developing its own interests even if these are in the name of the Porgera community as a whole. Raibus at Madang does not operate as an umbrella company, in the sense in use here, even if it is described as such by all concerned with that project. The same goes for NKW Holdings – although changes are currently underway there. At Ok Tedi itself there is no remaining umbrella company, even if a revival of the concept was being considered there

in mid-2014. So, overall, it can be concluded that umbrella companies have not generally served as a means of incubating smaller local Lancos.

If this is the case at most sites, then the question arises: what other agency could take on this role? Without support in their initial stages it seems highly improbable that local businesses in remote areas of the country could ever arise. So, since resource companies are, as part of their licence to operate, bound to help develop local business, the answer is clear: the resource companies themselves are the only organisations likely to perform this function. They are the ones who control the award of contracts and for whom, access to reasonably efficient Lanco contractors who can do work cheaper than the company itself (or more distant contractors) can be a net advantage.

A corollary of this conclusion is that the term used by the PNG LNG project – ‘representative company’ – is a more accurate, though not perfectly accurate, term to describe the larger Lancos than is ‘umbrella company’. The need to insert the reservation the previous sentence arises because it is not entirely clear that all these large Lancos actually do represent the impacted communities as a whole; some do more nearly approach this ideal than others.

**13.5.1.2 Have umbrella/representative companies succeeded commercially?** For the time being, the umbrella companies at Lihir and Porgera can be said to have done very well after falling into trouble early on; those at Ok Tedi have failed. No equivalent company has emerged on the oilfields. This, according to John Brooksbank (see section 8.2.1. above) was due to disjointed project development and competition between, rather than co-operation amongst, parochial power bases. But they have a second chance insofar as the gasfield developments may help one (or more) emerge. The gasfield developments themselves have put in place several large representative companies, including Laba Holdings in Port Moresby. It is too early to say whether those at Ramu, Hidden Valley or the gasfields will succeed but Trans Wonderland and NKWH have had promising starts. Moreover, in the two cases where the umbrella/representative companies have succeeded commercially (IPI and Anitua), they have done so rather spectacularly and have also shown themselves to be capable of accumulating assets which will provide them with the potential to be successful for many years to come. No other Lancos have done this although a few, by dint of very hard work over many years during which they have slowly accumulated assets, are worthy of notice. In other words, if one is tempted to dismiss umbrella/representative companies entirely, then one should bear in mind that these Lancos have proven, once properly established, capable (not necessarily

assured, however) of being sustainable and generating large assets.

**13.5.1.3 The future for umbrella/representative companies:** From the above, it is reasonable to conclude that

- **It is difficult to envisage how businesses can be started in remote areas without the umbrella concept being applied in some way.**
- **Umbrella companies, in general, have not really nurtured smaller local companies even if, with considerable help from the resource companies, they have themselves (and in some cases) prospered commercially....**
- **.....and it is equally difficult to envisage LBD leading to asset accumulation for the future benefit of the community without the existence of a large, representative company.**
- **Since the evidence presented here strongly, but not unambiguously, points to the conclusion that most of the larger Lancos, designated as ‘representative’ or ‘umbrella’ companies are unlikely to support the growth of smaller ones but are more likely to gather up all business opportunities for themselves, then the ‘nurturing support’ aspect of the umbrella concept needs to be retained by the resource company itself.**

**13.5.2 What success have resource companies had in establishing and guiding Lancos?**

In theory, given that resource companies are the biggest source of funds for Lancos, especially in the earliest days of their existence, companies could be expected to exert more or less full control over them. However, in practice and as companies develop, most resource projects appear to have only a fair level of influence over their semi-dependent Lancos and an even weaker one on those Lancos that are maturing beyond dependence on the resource company. This appears to be partly a natural sequence of events but also, at least in part, because of **internal weaknesses or perhaps inconsistencies in the implementation of LBD policy by companies and also by some lack of follow through by responsible government agencies.** In relation to the resource companies, one can point to OTML which, after two major attempts (first under Siop and then under the *Back to Basics* program), found that it was increasingly unable to gather accurate statistics on local Lancos, is currently trying to re-assert more control over them. Porgera is confronted with hundreds of individual business entities, very few of which are formally registered with IPA, clamouring for individual small contracts; it is doubted if anyone at PJV would dare to claim that they have the Lancos



under control. Lihir seemingly abdicated, with relief, its responsibilities in this area when Lihir Business Services was taken over by Anitua. Even ExxonMobil passed on the responsibility for LBD capacity-building to its major contractors during construction. To a large degree, this was a deliberate aspect of that company's policy which is that its National Content Plan is to create independent, free-standing PNG companies. It will be of interest to see if it will ever need to modify this strategy, and, if it does need to, whether it can re-assert control now that the first construction phase is ended and business opportunities decline.

One company is a clear exception to this conclusion: Oil Search may not exactly control the Lancos which work with it but it does the next best thing: it knows their workforce numbers and composition, it knows their degree of compliance with national business requirements, and it keeps full records (and is willing to make them publicly available) of its payments to the companies. This last might seem to be a rather simple, elementary form of data keeping – but OSL was the only company that could provide the present study with the results of such accounting which did not contain errors and which extended for more than a decade.

Of course resource companies should not expect to be able to control Lancos – the whole point of LBD is to generate business that eventually stands on its own feet and controls itself. But since any failure of any sort associated with resource projects will generally said, especially by the resource industry's ideological opponents, to be the industry's 'fault', then simply as a matter of self-interest the industry needs to at least consistently keep tabs on what is happening to the Lancos it has helped to create and which are to some degree dependent upon it. It is self-evidently not easy to do this and to keep track of contractors including Lancos, but the OSL case shows that it is not impossible.

Further, it is not only in the matter of LBD that accurate and continuous data collection on contractors of all sorts can pay dividends. In the very different area of trying to deal with the problems of project-associated inward migration, it is very clear at mining sites around the world that unless contractors are kept under control, then no matter what measures the resource company takes in its efforts to restrict such migration, they will tend to be undermined by the behaviour of contractors. Even in this study this link between LBD and migration is evident – one of the most popular forms of business taken up by landowners is labour hire. This automatically is liable to lead to in-migration as local labour hire Lancos are almost certain to bring in non-locals, even if these people are solemnly declared to be 'original residents'.

In short, there is more than one reason to recommend that resource companies keep a close track of the contractors, including Lancos, they hire. Other resource companies should, now that PNG has signed up to the EITI, seriously consider trying to emulate the Oil Search model of data collection for their Lancos and other contractors. But to do so, perhaps they need a little more assistance from the State than is usually forthcoming.

### **13.5.3 Has the PNG national policy of pushing resource developers into supporting LBD been successful?**

While there have been many failures among Lancos, it seems reasonable to conclude that the overall policy thrust of insisting that resource project developers commit to LBD has been quite successful given the challenges that its implementation has had to face. Perhaps this is why the Prime Minister, as noted in the opening of this study, is keen for even greater efforts to be made in the area.

However, two qualifications need to be made to the conclusion just reached: the State's own policies towards LBD have shifted very considerably over time and, other than a degree of supervision exercised by some of its officers of the process of implementing LBD by the companies, its own direct contributions to this success have – until quite recently – been very limited.

#### **13.5.3.1 Changing government policy towards LBD:**

When Ok Tedi was being planned, local business development was a part of the planning but government itself gave no financial support to it; all assistance was to come from the resource company. The Ipili people of Porgera managed to negotiate financial support in the form of government guarantees for their representative company as well as some direct financial support. Lihir people also obtained some financial support from government. In all these (and other) cases the principal government role was to monitor the resource companies' performance. However, the development of the PNG LNG project set a very different set of precedents with the State agreeing to provide business arms of ILGs with a million kina 'seed money'. In the most recent case of the Stanley Gas Project K30m was provided by the State; this sum is equivalent to total assets accumulated by the most successful Lanco at Ok Tedi over a fifteen year period. Whatever the future role of the State as a seed-funder of LBD (and it will be difficult for it to abandon this role), **there are potentially and actually much more important roles for the State and its agencies in the encouragement of good practice amongst Lancos (see 13.6 below).**

**13.5.3.2 State input into LBD to date:** Whilst the State has become increasingly generous in its financial

assistance to Lancos, until only a few years ago the role it was assigned in the various MoAs governing stakeholder commitments in resource projects was simply that of monitoring LBD progress and insuring that resource companies were fulfilling their commitments. Companies were supposed to submit periodic (three or six-monthly) reports on LBD, contracts awarded and supplies and services contracted for, and government-led committees would oversee them. In fact, these arrangements have rather lapsed at almost all sites. LBD has met, as seen above, with some success but, other than having introduced its support by others as a policy, the State cannot take a great deal of credit for this success, because, until quite recently, it has contributed little to it.

However, things are changing and not only in terms of the State throwing cash at LBD. The MRA has been particularly active at some sites, most evidently at Ramu Nickel, as the agent for the construction of community infrastructure – and in fulfilling this role it has been very active in liaising with and encouraging local businesses. At Madang, the MRA was the only stakeholder in the mine that received unanimous praise from the people (mainly small business owners) interviewed for this study.

Further, as described earlier, the audit of LBD at Hidden Valley by the team led by DCTI but including IPA staff members has been received as a trail-blazing and exceptionally useful exercise by almost all stakeholders at that project. Whether the Department (or IPA) have the resources to extend such audits to other projects remains to be seen. However, with Prime Minister O'Neill's push for SMEs illustrated by his address to the 2014 PNG Mining and Petroleum Investment Conference, there are evidently some prospects of this occurring.

#### **13.5.4 LBD's role in the mix of project benefits**

It is by no means clear what the relative benefits to any community impacted by a resource project are from the various components of the benefit packages presently in place. In terms of generating income, it was seen earlier (Table 17) that simply investing proceeds from landowner equity has accumulated more assets than have LBD operations at almost all sites. Further, providing MRDC follows prudent investment policies in future and providing the funds it generates are distributed equitably among the landowners its branches represent, such investments are likely to benefit many more people in project-impacted communities than are LBD programs. This is because most of the smaller Lancos are for the benefit of only a small subset of the impacted population. As for the larger Lancos, the 'representative' or 'umbrella' Lancos, their undoubted financial success over the last six or seven years has not yet, it seems, won over

support from all their respective local communities.

This is not to say that LBD is an inefficient means of providing benefits to impacted populations. This study cannot arrive at such a conclusion and it will require detailed studies at a number of sites of the effectiveness of employment, training, royalty, equity and compensation payments, investment, community infrastructure investment to show which of these (or any other) resource project investments in the communities has had the best returns for different stakeholders, whether those returns be expressed in purely financial terms or in terms of community satisfaction.

#### **13.5.5 Can community-based companies work or is fragmentation inevitable?**

The answer is that fragmentation in most cases does seem to take over but that in a few cases, communal unity of ownership can be maintained. Most of the exceptions so far are in the PNG LNG area but given the prosperity generated during the construction of that project, and the short time that has elapsed in the evolution of the project, it is certainly too early to say that the issues associated with fragmentation have been overcome there. Even within the PNG LNG project there is already some sign of a tendency towards fragmentation within the LABA group. Outside of that project, and of Oil Search operations, only a very few companies have managed to maintain a widespread shareholding largely under the control of clans or other large social groups over a long period of time. IPI and Anitua are the biggest examples of this, but it also happens that among the few medium or small companies that have avoided fragmentation are some of the best performing ones – Camp Administration and Faiwol Investors for example at Ok Tedi; indeed the clans around the Ok Tedi project have shown remarkable staying powers despite many meetings with disappointing investments in the past. Outside of Ok Tedi, it seems as if either very strong leadership or good leadership accompanied by regular dividend payments are the keys to maintaining such support (and that the latter is likely to be ultimately more important than the former). The leadership is required to ensure that infant companies are allowed to build up retained earnings and not forced to distribute all profits shortly after they are earned; but delicate judgement is required as to when to start paying dividends if shareholders are not either to lose patience with the company or lose faith in its board members.

It was observed in the course of this study that several companies – Raibus at Madang for example – feel obliged to make donations or loans to community members, and give this as one of the reasons why they have not paid dividends. This is taking CSR too far

– after all their shareholders (who forego dividends) are, by reason of restrictions on shareholding in the companies, community members too.

However, whilst eventual fragmentation seems to be the norm, when business structures are first established it is most acceptable to communities that community-based companies are given priority – even if it can reasonably be expected that they will fragment at a later stage. In this sense, the umbrella company strategy is closely related to this issue – commit to it, but be prepared to see it collapse, if it has not become sufficiently established before individual ambitions take over.

### **13.5.6 Should a company wean itself away from the original project?**

If almost all sites exhibit a tendency for the individualisation of Lancos even where one or two larger Lancos exist, then most Lancos will not be big enough to even contemplate moving away from the project that gave rise to them. Lancos that are tied to a specific resource site are unlikely to outlive that site. In that sense they are unsustainable (though with mines with long lives – like Ok Tedi or Lihir – a business tied to a particular project can last for three, four or five decades, for long enough to hardly warrant being called ‘unsustainable’). But while the original business may not be sustainable, what of the profits it generates? – whether or not they are sustainable will depend on the use to which they are put. **Just because a business is unlikely to last beyond the life of the mine does not mean that the effort put into it does not reap sustainable rewards – if profits are invested wisely, the original effort in a relatively short-lived business might bring benefits for many years.** This is precisely the reason why a development strategy based on mining is not necessarily unsustainable: because its benefits can be put to use long after the mine has closed. In short, to expect all Lancos to be sustainable in the sense of their business built up to serve the resource project to outlive that project is rather ridiculous; smaller Lancos in particular really cannot expect to do otherwise. What they could be encouraged to do is to invest the profits they make in this way into activities that will outlast the project’s life.

In other words, it is unreasonable to expect all the smaller Lancos to be ‘sustainable’ in their original form. It is reasonable however that – as with project employees’ use of their wages – resource companies should consider educating local business owners and shareholders on other forms of investment that will outlast resource operations. Some small Lancos might well survive mine closure and that is to be encouraged. However, it should be one of the duties of the larger Lancos, who represent the communities as a whole,

who should be expected to build up businesses during a project’s life that can be carried on, in a similar fashion and with similar characteristics, after project closure so as to provide a post-project closure income for the community.

### **13.5.7 How does a company wean itself from its original dependence on a particular resource project?**

One key here appears to be ‘set up at least part of the business in an urban location where business opportunities are less restricted than at the resource site’. It is evidently not THE key since Anitua did not (at first) follow such a strategy but rather went in for selling its expertise in a particular field (mass catering) in a wide variety of places across PNG. Of the 25 Lihir Lancos shown in Appendix A, all but two have their office on the island. But Anitua has located its investment activities off Lihir. And IPI’s real successes started to mount up once it acquired a Lae base for part of its operations just as the one really bright spot for Hidden Valley landowners (in business) is that NKW was able to exert leverage from its location in Lae. Further, at least some of the Ramu project Lancos would probably not have survived had they not been able to taken up non-project work around Madang, while several of the offspring of the PNG LNG project and OSL have invested heavily in urban activities (and real estate) in Port Moresby. Twenty-one of the 32 hydrocarbon Lancos shown in Appendix A have their offices in Port Moresby (and the biggest of all, Trans Wonderland has its in Lae). Conversely, the Ok Tedi landowners have hardly been able to bestir themselves to invest in Kiunga, where many service opportunities today are under foreign control, let alone Port Moresby. Other than the cluster of companies established by Warren Dutton out of his Kiunga base, the only Port Moresby activity by Ok Tedi-dependent companies outside of investment in a house or two, was actually stimulated by the manager of the branch of MRSM – in a hotel, although it is true that the Star Mountains Clothing Company has managed to expand to Lae.

### **13.5.8 Are there any obvious characteristics in common among the currently more successful companies?**

It would be remiss to overlook one not very palatable fact about many of the more successful companies: who runs the two biggest companies at Ok Tedi (MRSM and Ningerum Transport), who are the CEOs of IPI, Anitua and HGDC, and the COO of NKW? Foreigners or naturalised citizens. Should one take this as a weakness? On the whole, the answer is no, for several reasons. First, although a good CEO is essential to any business, a good Board of Directors is often just as important; the CEO is part of a team in a well-run company. The boards of all these



companies are fully staffed by Papua New Guineans. Secondly all the CEOs in the companies mentioned have more than two decades experience in helping run businesses. Very few Papua New Guineans at resource sites can as yet match this. Thirdly, some of the larger companies, and most of the smaller ones, that are achieving success are doing so entirely under Papua New Guinean leadership especially those working with OSL and the PNG LNG project but also at Ok Tedi and Madang. In short, there are emerging at all levels of Lancos competent Papua New Guinean CEOs and managers; certainly Lancos are moving quickly towards localisation of management but have not fully achieved it yet<sup>79</sup>.

A second rather vaguer characteristic should not go unmentioned: some form of non-material stimulation seems to be linked with success. The confidence of both the Lihir and the Huli people that they will succeed in business, and the apparent connection between this confidence and long-held cultural beliefs have already been mentioned. Further, it is interesting that the two most successful middle-level companies at Ok Tedi have been or are run by individuals with strong and overtly expressed orthodox Christian beliefs: the Camp Administration Annual Reports attribute the ultimate source of the company's success to the blessings of Almighty God, while Faiwol Investors still (after 30 years in business) pay tithes to the church in Olsobip. On Lihir the basic philosophy of the Tan movement for Personal Viability (which has now spread to several other sites) seems to have been based, at least in part, on the old Protestant belief in personal responsibility in all aspects of one's life, not least in participating in business and other forms of hard work for the financial improvement of the family. In an area which has been often in the past and to a lesser extent still is today liable to attract confidence tricksters and unprincipled carpet-baggers it is, at the very least, refreshing to see businesses being run (and run successfully) by individuals with an internal source of ethical values in addition to anything the IPA or the *Companies Act* might provide.

Aside from these factors, the basic principles of business seem to apply: slow and steady, balancing cash accumulation against investment, take reasonable risks, keep the functions of the board and the executives separate, and treat employees and customers well.

### 13.5.9 LBD as everlasting compensation?

When, during the course of this study, the PJV

announced its intention to transfer a cleaning contract (once the contract period ended) from one small group of landowners to the business arm of the Porgera women's association, the previous contract owners managed to organise considerable opposition to the move and one of its four major shareholders observed that since the mine had taken his land then it was its duty to provide him with a business for the rest of his life. He regarded his business as compensation. On a much bigger scale, the Lihir Integrated Benefits Package also tends to blur the line between compensation *sensu stricto* and other benefits. That Porgera landowner's view is almost certainly shared by the great majority of impacted landowners at resource sites across PNG. Further it is a view with a degree of justification; world best practice is that projects shall at a minimum restore livelihoods which the original level of compensation at Porgera may (or may not) have done – in this case the landowner thinks it did not. What world best practice does not give any guidance on is what maximum improvement in the livelihood of an impacted person might be; it leaves such issues – which are challenges to be dealt with on a daily basis by projects – up in the air.

This is an unfortunate, because it implies that the original compensation given for the complainant's land was inadequate (in the view of the landowner) and was only made up for by the free gift of a business which has paid him – in director's fees, allowances and in dividends hundreds of thousands of kina over the years. This, in turn, implies that everyone at Porgera who gave up land should have also had an income like his every year as real compensation. Without passing any judgement on how his company ran the contract awarded to it, his view further implies that such a level of compensation is required no matter how well (or badly) run this 'business-as-compensation' has been.

Ideally, LBD is a benefit of project development and not compensation. If this distinction is not made clear then it is likely that there is little or no incentive for a Lanco to be well managed. Unfortunately, the very first plan for LBD – at Ok Tedi in 1979/80 by a team that included the present consultant – made the mistake of pushing for Lanco development effectively as a substitute for the lack (at that time) of several real forms of compensation to landowners; to some extent that recommendation confused the issue and that confusion has continued to this day. In practical terms by now it is virtually impossible to disentangle what is compensation and what is a benefit in terms of LBD. It is a situation that will have to be lived with it seems.

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<sup>79</sup> There is an additional reason which needs a mention as it is an almost universal truth: business and trade throughout history and in all parts of the world has been initiated and stimulated by outsiders who are often in a position to recognise commercial possibilities in any given area better than do its residents.



The more general issue this dispute over the Porgera contract raises is whether or not it might be desirable to have time limits, or 'sunset clauses', built into preference for and assistance to Lancos. The only instance of a company attempting to develop such a policy this study has come across was the *Back to Basics* program of 2006 at Ok Tedi – which, it should be remembered, was proposed at a time when it was thought that project would cease operations in 2012/12. There are several aspects to this issue amongst which are:

- a) if the emphasis of LBD at a particular project site – as with the LNG project – is to be on a single 'representative' company, a strategy that has many advantages to it, then does this mean that, throughout the whole life of the project only that single company and no other has preference for project business?
- b) how many times has a Lanco to be rescued (and by whom?) if it runs into serious financial trouble?
- c) once an umbrella/representative company diversifies itself both in terms of its sources of revenue and its business locations away from the original project, does it always retain its preferred status? Does it continue to operate in national business with the added advantage of having preferential treatment in the project area?

This study has not gathered sufficient information to give answers to any of these questions, but they need to be addressed by the industry as a whole.

#### 13.5.10 Do Joint Ventures work?

Several interviewees, especially managers within resource companies, argued strongly that ultimately many joint ventures had not proved to be beneficial for landowner businesses. These interviewees generally conceded that such arrangements are often necessary for large, standard types of local business when businesses are first being established (in the late exploration stage). However even then it was stressed that care needs to be taken in the forms of contracts drawn up relating to joint ventures, particularly to ensure that the outside partner's shares can be redeemed by the local participant.

The limited evidence available from this study tends to reinforce those views. If the bigger local Lancos have, in general, not leant over backwards to help other local companies through their infancy, it is unrealistic to expect external companies to find it in their interests to do so. There are examples of joint ventures two or more decades old which appear to have accumulated very few assets and which are still controlled by outside interests, sometimes by foreign-owned entities.

In short, therefore the conclusion appears to be that joint ventures have their uses in the early stages of LBD but those uses must be carefully prescribed when they are first initiated.

### 13.6 The future of Lancos

At the time of writing this report, both metal and hydrocarbon prices are continuing to weaken. This will place some stress on local business development as projects seek, as most will, to find ways of reducing costs. **No Lanco, not even the largest, is in a position to avoid such stresses.** So, until such time as prices pick up again the ongoing close relationships between Lancos, resource projects, communities and the various levels of PNG government will need to be ones of co-operation and ones that recognise the fact of their mutual dependence.

However, potentially, all the building blocks of a continually improving national system for LBD are in place. Whether or not the links between these blocks can be strengthened to ensure the progress of all stakeholders will be a matter for close consultation and co-operation. In this concluding section, what are believed to be the key individual stakeholders in and facilitators are identified and some suggestions are provided which might help achieve progress.

#### 13.6.1 The role of the State

In his address to the 2014 Mining and Petroleum Investment Conference, Prime Minister O'Neill offered his government's assistance in advancing local business development. The following suggestions are made with this offer in mind. The first area where the State could play a more helpful role is in guiding resource companies as to what is expected of them in terms of local business development. Resource companies sign up, when starting up a project, to very detailed requirements laid down by the State in most aspects of the project. But they receive very little guidance on what is expected of them in the way of local business development – and, until recently, almost no assistance from that source in the monitoring of Lancos and their compliance with national regulations. In terms of guidance, there is remarkably little difference in the wording of the 'business development clauses' applicable to the Hidden Valley project to that designed for Ok Tedi twenty five years earlier – if anything the earlier project received slightly more specific guidance. Equally, there is remarkably little difference in the wording of these same clauses in project MoAs for a small project like Simberi or a large one. But even though people of Pigiput might well have had expectations of managing another Anitua, how is a tiny project like Simberi supposed to run a business development program of the sort that is possible on Lihir?

The second area – a responsibility which, in fact the State has always claimed for itself since the days of the Ok Tedi agreements – is in monitoring LBD. All the necessary agencies to do this are in place – there is no need to create any new ones. With only relatively few additional funds but a considerable increase in co-ordination, it seems probable that considerable strengthening of Lanco operations could be achieved. As noted earlier, the resource companies have no authority to discipline or close down Lancos (and, in view of local politics, should in any case have no desire to be given such authority). There is a degree of monitoring resource companies they can fulfil (i.e. by building conditions into the award of contracts on such matters as compliance with national [as well as site] safety, labour hire and business requirements) but ultimately only the State has the authority (at least in legal, if not always in real, terms) to pull errant Lancos into line.

In terms of monitoring a number of State agencies already play key roles which could be improved even further:

**13.6.1.1 The Mineral Resources Authority:** In the course of the interviews undertaken for this study one State agency was commented upon favourably by many respondents: the MRA. Almost all these compliments came in relation to Lancos' experience of working on MRA-funded projects which arise when the State, through MRA, provides funds as part of an MoA or other agreement. Thus MRA is in a position to assess the competency of the Lancos it deals with on a day-to-day basis, much like the resource companies themselves, and thus take a somewhat different approach from other government agencies.

**13.6.1.2 Investment Promotion Authority:** The IPA website was the single most valuable resource in the preparation of this report. An IFC project is currently in process of finalising the improvement of IPA operations (including the website) still further and as the conclusions of this report were being written, the IPA was in the midst of an information publicity campaign urging all companies to log on to their website and bring their entries up to date. If the ease of searching the site (e.g. by location of the company's centre of operations) was improved, then the sole major weaknesses of the site remaining are likely to be:

- the failure of many companies to actually lodge Annual Returns on time,
- and the power (or commitment) of the IPA to enforce its lodgement rules.

Up-to-date lodgement of transparent and full Lanco annual returns is not just something that would

make the writing of reports such as this one easier; it is one means whereby ongoing disputes between communities as a whole and Lancos might be mediated insofar as they would assist any mediator to accurately assess what are the ultimate destinations of LBD benefits.

**13.6.1.3 The Companies Act:** There are several instances in this report of fairly large Lancos which not only do not report to IPA very promptly, but, because they are classified as exempt (a status which in at least some cases seems puzzling in view of the rules for exemption) do not have to submit audited reports. **If, as is sometimes the case, AGMs are infrequent or have never been held, and especially if the Lanco is purportedly owned by whole communities, then how are supposed shareholders ever to find out the status of the company acting in their names? Whilst the provisions of section 212 (3) under which a company need not disclose various aspects of its operations, including payments to its directors if all shareholders agree to such non-disclosure, are understandable, where – even if appearances are to the contrary – all shares are held by directors, those provisions can lead to a lack of transparency, especially when no proof that shareholders have agreed to non-disclosure appears to be required.**

Associated with this is the fact that perhaps in two thirds of all the Lancos listed in Appendix A, in their Annual Returns to IPA, directors are major shareholders but are stated in those ARs as NOT being shareholders.

**It would appear that some minor revisions of the Companies Act would reduce the potential for ongoing conflict and arguments over the distribution of LBD benefits.**

**13.6.1.4 The Department of Trade, Commerce and Industry:** The audit undertaken by DTIC of the whole LBD program of the Hidden Valley project was an extremely valuable exercise and one never before undertaken. It showed that the Department could play an ongoing role as a national level arbiter and judge of the manner in which such programs are managed. As matter of fact, the Department has effectively always had this power in most projects since it can be found written into most projects' MoAs. But it appears that it did not have either the resources (or perhaps the willingness?) to exercise it. Whether or not the Hidden Valley audit was a one-off event is yet to be seen, but clearly a structure can be envisaged wherein the Department could play a key and continuing role in the general upgrading of standards both of Lanco operations and the ways in which resource companies manage their business development programs.

It should be noted that whilst DTIC led the audit, the team which did most of the work depended heavily

on staff seconded from IPA. It is not the intention of this report to suggest which agency of the State should undertake specific tasks, but it is evident that whether or not DTCL or IPA were to take the lead in acting as a formal monitor of LBD programs at different sites, either of them would require more skilled resources.

**13.6.1.5 MRDC:** The MRDC frequently issues press releases to inform the public about its investments, which is an initiative to be welcomed. What it does not do is report to IPA promptly and provide to the public details of its accounts including information, independently audited, about the value of the investments it has made. It is unreasonable to expect small and medium sized Lancos to be prompt in their reporting of ARs if MRDC, which deals with hundreds of millions of kina of landowner investments does not set a good example.

### **13.6.2 Private sector organisations**

**13.6.2.1 The future of the Business Enterprise Centre:** With the winding down of the first and most important phase of PNG LNG construction, the BEC, which was established by the project, will now lose a significant portion of its automatic funding from ExxonMobil. It has built up an excellent reputation in the five years of its operations and, whilst it will continue to gain new clients as oil/gas exploration/exploitation continues to expand, it is likely to face a period of significantly reduced activity shortly.

Its courses for the training of Lanco directors are especially valued across most resource projects in PNG and there is no reason why these should not continue to be of high value. But its focus whilst working largely with ExxonMobil was on company assessment; were that focus to shift a little from assessment more in the direction of business management services then it would also be a valuable and more importantly national centre for small business excellence. For some mining companies, especially smaller ones with limited resources, it is possible that using BEC services could be more effective than committing resources which are in short supply to on site specialist business development officers. The one qualification that may need to be made is that the fees charged by BEC for such advice, having been used to dealing with a multi-billion dollar gas project, may need to be revised downwards if it is to attract smaller Lancos and smaller resource project operators as clients.

**13.6.2.2 Continuing roles for the PNG Chamber of Mines and Petroleum:** Across all resource sites, companies face the same sorts of challenges in helping establish and then – to some degree – sustaining Lancos. Interestingly they all seem to have developed their approach to these issues in virtual isolation from one another, all have met with the same

sorts of reverses and crises and all have attempted to deal with such crises independently of one another. The PNGCOMP session on Lancos at its August 2014 meeting in Lae appears to have been the first time ever that they compared notes on this particular aspect of their socio-economic impacts. **There is certainly scope for the Chamber to prepare, by means of consultation with business development practitioners already in place, a Guide for Local Business Development.**

More generally, given the variety of potential stakeholders in the improvement of Lanco performance listed above, it would be in the best interest of all of them for the PNGCOMP to take the lead in bringing all parties together to establish and agree upon a structure in which all could contribute but leave the regulatory agencies in an uncompromised position as the ultimate arbiters of what is in PNG's best interests overall.

As a community affairs specialist, the present consultant is envious of the amount of effort the mining industry puts into matters of safety – whilst understanding why that is so. If a small fraction of the effort put into safety was devoted to raising the awareness – especially in PNG circumstances – of the critical nature of community matters, then perhaps there would be fewer problems for the industry to deal with. It is noted that the mining sector runs an annual safety week where all sites get together and keenly compete against one another for best practice safety awards. Such events are appreciated by the industry and have been very successful. Other countries heavily involved in the industry have similar events, but some, including the Philippines, go further and have national awards for a variety of aspects of the industry including environmental management and community programs. In terms of local business development, one simple way of raising awareness would be for the Chamber to find ways of sponsoring an annual awards night which could include awards for:

- the best resource company LBD program
- the best resource company associated large Lanco (with an annual turnover in excess of K75m)
- the best resource company associated small company (with an annual turnover less than K75m).

The criteria by which 'best' could be assessed would include, governance, compliance, shareholder relations, innovation and sustainability.

For many years the Chamber has attempted to become a central collecting point for all manner of statistics relating to mining and hydrocarbon activities



in the country. Data on Lancos – for reasons indicated elsewhere in this report – are critical in indicating the extent to which these industries support economic activity both around the sites of their operations and more widely across all sectors of PNG. **The Chamber should re-double its earlier efforts to collect from all its members statistics relating to all aspects of the extractive industries in PNG including those relating to business development.**

**13.6.2.3 Resource companies:** The history of LBD in Papua New Guinea strongly suggests that, despite the effort required of resource companies, a reasonably efficient local business sector accessible to all projects has in fact proved useful to the companies themselves, not necessarily in terms of maintaining social licence to operate, but in terms of project operations. History also demonstrates the absolute necessity of LBD receiving very considerable support if it is to become self-sustaining and that this support needs to be provided for several years after initial establishment. While it may be that the PNG LNG approach to LBD will prove, through the degree of training it involved, the best model to follow and one which might circumvent local businesses' dependence on the resource project that creates them, at almost all other sites such supervision has had to be provided. In the past emphasis has generally been placed on some sort of umbrella company or representative company offering such support. However, this generally either impedes the larger company from following its own best interests and/or results in dissatisfaction amongst the smaller Lancos. It is difficult to come to any conclusion other than that the support services to infant local businesses (the 'umbrella' functions) need to be located within the resource company or in some organisation supported by the resource company that is itself not involved in business.

Resource companies have done a reasonably good job in developing LBD in Papua New Guinea and deserve credit for this even if they have done so in response to the demands made of them by the State and its laws and regulations. One area where they can increase their contribution to the development of associated local business is to encourage (or continue to encourage) best practice in LBD by insisting that the contractors to whom they award business are compliant with national reporting requirements as well as practicing transparency with their own shareholders. In this regard, Oil Search's efforts need to be picked out for special commendation.

While several Lancos have now grown and have garnered experience to such an extent that they can properly look after their own interests in this regard, there have been unsatisfactory aspects to the establishment and maintenance of Joint

Ventures between inexperienced local businesses and outsiders. It is to be understood that this is not necessarily a criticism of such outsiders – they are after the best deal for themselves and cannot be blamed for wishing to achieve that. Unfortunately several of the less satisfactory JVs were put in place by the Business Development Offices of the resource company. This is unfortunate because it suggests that one cannot simply advise that all JVs arranged on behalf of local landowner businesses need to be overseen by resource company staff. Even though resource company staff are, in this consultant's opinion, by far the persons best placed to continue to arrange such JVs, it appears desirable to provide them with better guidelines and examples of previous JVs, both good and bad – probably a function of the PNGCOMP.

Companies newly arrived in PNG often have very considerable experience elsewhere of the sponsoring of local suppliers (if not exactly of LBD) and may have important lessons that existing companies could learn from. Many smaller companies, especially in the mining sector – but they also exist in the hydrocarbon sector, have little or no idea what is expected of them in the LBD area and can certainly learn from pre-existing companies' experience. The circulation of LBD experiences at different sites, of which this is one example, may assist in this learning process.

**13.6.2.4 Landowner companies:** Whatever the model imagined for Lancos has been in the past, a fairly clear pattern of Lanco development has emerged:

- a) at several long-established sites, such as at Porgera or Lihir (and possibly now at Hidden Valley), a representative company has, after considerable struggle and near collapse, emerged successfully. By 'successfully' I mean that it is competed well in the open commercial market and shed at least part of its dependence on the project that gave rise to it. But, in all three cases mentioned, such companies have not been especially successful in performing 'umbrella' functions; indeed their within their project sites they are more or less the only Lanco operating (though perhaps Lihir is a partial exception to this) as smaller companies seem to have not been able to grow in the shadow they cast. At newer gas sites, similar representative companies have also emerged and, although it is too early to be sure, many have already shown some signs of success. The success these companies have had in accumulating assets is very good news and has the potential to provide the communities that own them with income for many years to come; but only if such representative companies continue to act prudently but with initiative, and only if they are governed well, keep their shareholders



fully informed of their activities, and fully comply with best commercial practice. Because they are increasingly independent from the resource companies that helped create them, the resource companies are in no position to fully monitor their progress any longer – such monitoring has to be undertaken by the normal State agencies charged with the oversight of regular businesses.

- b) at other sites, notably Ok Tedi (and possibly those associated with Oil Search), representative companies have not emerged or have emerged and then failed. Although at these sites, unlike those sites where powerful representative companies have emerged, a rather large number of Lancos have flourished very few have succeeded in entering the national mainstream of business and most of them remain overwhelmingly dependent on the resource companies with which they are associated. Asset accumulation is weak. Because of this dependence, their sustainability in their existing form beyond the life of their associated resource project has to be doubted. This is not necessarily an indication of failure since if such companies can invest the short-term profits they make in other forms of activity which have sustainable outcomes, such as investment in either financial projects or in educating the children of their shareholders, then an alternative sustainable outcome might be achieved. Resource projects might consider putting some effort into assisting such Lancos to achieve such outcomes.
- c) at several small sites LBD has not been successful – notably at Tolukuma, the now closed Misima and the mothballed Kainantu gold project and it is struggling at Simberi. In all these cases, the projects are so small, that the gains to be made from LBD during operations are (or were) likely to be very small in relation to the effort required to establish them. In addition, their isolation (with the exception of Kainantu) is so great that it is improbable that any business activity established at site to service the project in the course of operations would outlast the resource project itself. The project will not result in any reduction in the isolation geography has bequeathed to such sites. Perhaps a closely supervised (by the resource company in partnership with the community) program of investment of short-term profits from project-servicing activities in opportunities well away from the resource site at a more accessible location would work. Just as the really large Lancos have only begun to grow once they spread their activities well beyond their

initial site location, so too this is the only way in which sustainable benefits from small, short-lived projects in isolated locations might be generated through LBD. It might also be worthwhile for such projects, or projects like them in future (such as Woodlark), to be granted a greater degree of flexibility in the manner in which LBD fits into the overall communal benefits packages of a project as opposed to imposing upon them the programs applied to much larger projects.

The key to success (in addition to good governance and business acumen) both for small projects and large ones in terms both of growth and sustainability therefore appears to be: expand beyond the site that gave rise to them.

### 13.7 Final observation

When this consultant reflects on what seemed possible in terms of local business at places like Ok Tedi in 1979 or at Lihir in 1986, and compares that with what has actually happened at such places, then the overwhelming conclusion is one of astonishment at the progress that has been achieved<sup>80</sup>. It is easy to overlook this basic fact when confronted with the ongoing, day-to-day challenges that need to be met to make such achievements possible and the mistakes that are made on the way - as well as with some of the less pleasant outcomes of the process.

The great majority of local business associated with resource projects in PNG has grown up on the assumption (usually held by outsiders) that it can represent the interests of and be owned by communities. Business has been grafted onto 'traditional' (but continually evolving) structures – few of which are properly appreciated by those who have introduced these new forms of economic activity; indeed, it seems likely that the members of those communities themselves have a far from full appreciation of what the evolution of their social structures imply for them. This has been well-intentioned and has the potential, it is true, to provide benefits for communities in resource project areas long after such projects have ceased to operate. But it is also true that, if the destination proverbially arrived at on roads paved with good intentions is to be avoided, in this case, 'tradition' alone is an inadequate guide.

The greatest potential danger involved in LBD in Papua New Guinea is that its successes benefit only a very few people and that good intentions, expressed by trying to match LBD structures to imagined traditional social structures, run the risk of realising that potential. In this case the outside world's experience and

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<sup>80</sup> This, in my opinion, applies equally well to Papua New Guinea's accomplishments as a nation in its brief history.

accumulated understanding of what constitute the basis of good (if not perfect) business practice need to be followed faithfully, regardless of custom, if the twin objectives of most LBD (financial success with benefits to the community as a whole) are to have a chance of success: and that starts with a carefully thought out company constitution which spells out what the company's aims are and how it will be managed and is followed up by full information flow to its shareholders. In less fancy language, local businesses that are supposed to represent their communities need to do better at letting their communities know what

they are doing and need to ensure that any benefits accrued by the business as distributed amongst the community according to the rules of the company's agreed constitution.

If anyone has any doubt as to whether mining benefits and companies based on mining can be sustainable consider this: the world's oldest surviving limited liability company is a paper/pulp manufacturer in Finland called Stora Enso. It was originally founded 727 years ago in 1288.....as a copper mining company.



# APPENDIX A:

## Lanco Data

### DATA DERIVED FROM IPA COMPANY REGISTER

Companies shown in **bold** have financial statements shown separately

Companies highlighted in **yellow** were interviewed

Companies highlighted in **blue** were interviewed by a third party on our behalf



DATA DERIVED FROM IPA COMPANY REGISTER																
PROJECT	Company	Constituti on	Date Incorp	Effective date date Reg.	Last return	Reg Off	Directors	Share	Shareholders	AR years	Employees	Assets	Liabilities	Exempt	Notes	
OK TEDI	Tabubil Engineering	Yes	23.3.82	2.9.98	1.13[11]	Tabubil	8M	6000 see right	MRS M + 2BG	99 to 11	347	37.2mK[11]	8.6mK[11]	No	Shareholders: Bolangon BG inc 1200, Imiba Investments 1800, MRS M 3000	
	Fubilan Catering Services	Yes	15.4.99	4.11.99	5.09[07]	Hohola	5M	2	MRS M	99 to 07 [no 2001]	450	23.6mK[07]	10.3mK[07]	No	This and preceding company interviewed twice	
	Cloudlands Investments Ltd	No	18.11.75	2.9.98	11.11[10]	Pt Moresby	4M	22046 see right		03 to 10	1	2.4mK[10]	0.5mK[10]	Yes	As of 8.13: One person held 77% shares	
	Camp Administration Ltd	Yes	7.11.94	2.9.98	[09*]	Tabubil	5M	100097	3 cos 4 BGS 5 indiv	94 to 09*	370	25.2mK[11]	10.3mK[11]	No	* 2011 Audited report supplied	
	Faiwol Holdings Ltd	No	3.1.08	3.1.08	4.12 [11]	Tabubil	4M	1708310	5BGs 46 individuals	08 to 11	30	NA	NA	Yes	Assets & liabilities page missing in IPA record	
	Faiwol Investors Ltd	No	11.1.83	2.9.98	6.13 [12]	Tabubil	8M	161996	11BGs hold 52% 42 individuals rest include 4 F who hold 1.2%	91 to 12	144	7.9mK	4mK	Yes	Almost in liquidation in 2002 use as Best Practice study	
	W & W Construction Ltd	No	26.1.93	2.9.98	10.11[10]	Tabubil	5M	200 5	Individuals	98 to 01 & 04 to 10	125	1.9mK	1.1mK	Yes	Only change in Directors since foundation was when Bubec MP got in in 2000	
	Hore Binkia Engineering Ltd	No	23.8.04	23.8.04	4.13 [11]	Tabubil	9M	100	1Individual 20,1Company 80 (latter owned by 8 individuals)	04 to 11	86	0.5mK	0.5mK	Yes	JV in Highway Transport and in labour hire company	
	Tabubil Security Services Ltd	No	1.2.01	1.2.01	6.13[12]	Tabubil	5M	1000 8	Individuals, one holds 83.5%	01 to 12; no2003	158	3.0mK	2.7mK	Yes		
	Star Mt Clothing Ltd	No	28.2.96	2.9.98	2.13[11]	Tabubil	4M + 1F	426900	3 Cos hold 41%, 8 individuals 59%	97 to 11	145	6.3mK	3.3mK	Yes	Branches in Madang Lae and Pt Moresby; employment figures relate to group, assets and	
	Kana Kumkit JV Ltd	No	16.1.95	2.9.98	6.10[09]	Mt Hagen	2M	10002	51% held by Ialibu 49% by Kumgit BG	95 to 09	98	4.9mK	0	Yes		
	Tawap Kamen Ltd	No	13.11.89	2.9.98	4.12[09]	Mt Hagen	6M	10000	75% 3 Cos, 25% 3 individuals	98 to 09	30 (incl 6 XPs)	9.8mK	4.8mK	No	Subsidiary (security) has 350 employees and manpower has 180. Set up by Ok Ma villagers	
	Highway Transport Ltd	Yes	15.10.08	15.10.08	7.12[10]	Tabubil	5M	2800000	50% Tab Eng, 25% Hore Binkia, 25% H.W.D.C.	09 to 10	10	4.4mK	1.1mK	No		

DATA DERIVED FROM IPA COMPANY REGISTER																
PROJECT	Company	Constituti on	Date Incorp	Effective dateate Reg.	Last return	Reg Off	Directors	Share	Shareholders	AR years	Employees	Assets	Liabilities	Exempt	Notes	
OIL SEARCH PNG/ING a) formed in LNG time	Klunga Co-op Co Ltd	No	19.6.68	21.5.78	10.11[09]	Klunga	5M + 1 F	11116	10 individuals + CSR (91%)	96 to 09 (03,04 missing)	5	3.8mK	1.4mK	Yes		
	Tukupa Laitepo Ltd	No	4.4.06	23.10.09	6.09[08]	Badili	1M	1 1		06 to 08	0	1		Yes		
	Bebehoya Ltd	No	13.10.08	13.10.08	None	Nogoli	5M	2 2		None	na	na	na	7Yes		
	Tugu Tapira Ltd	No	3.6.09	3.6.09	None	Nogoli	13M		478993 12clans +12 individuals	None	na	na	na	7Yes	6.5% shares to clans; 93.5% to individuals. Two Individuals control 67% of shares	
	Angore Corporation Ltd	No	12.6.09	12.6.09	None	Six Mile	5M	5	Five companies	None	na	na	na	7Yes	Companies: Angore Sust Dev Ltd, Hulli Petroleum Resources Ltd, Komo Sust Dev Ltd.	
	Hides 4 Hids Ltd	Yes	17.6.09	13.10.09	None	Badili	7M	1 1		None	na	na	na	7Yes		
	Komo Dai Hids Ltd	No	2.2.09	2.2.09	None	Mendi	9M	800 8		None	na	na	na	7Yes	All shareholders are directors	
	Hides Hiwa Hids Ltd	No	18.6.10	16.6.10	None	Pt Moresby	10M	3 3		None	na	na	na	7Yes	All shareholders are directors	
	Tuguba Holdings Ltd	No	7.10.09	13.10.09	None	Pt Moresby	14M	5 5		None	na	na	na	7Yes	Shareholders are NOT directors	
	Hides Gas Dev Co Ltd	Yes	19.4.08	14.7.09	3.12[10]	Pt Moresby	14M		955000 14 Lancos	05 to 10	1326	44.7mK[10]	39.9mK[10]	Yes		
	Moran Ina Naga	Yes	23.12.09	23.12.09	4.13[12]	Moro	4M		4000 4 individuals	10 to 12	0	0	0	Yes		
	Timiala Gangulu Hahal Ltd	No	18.6.09	18.8.10	None	Pt Moresby	18M		4 3	None	na	na	na	7Yes	All shareholders are directors	
	Trans Wonderland	Yes	9.9.02	10.12.07	11.13[11]	Lae	10M		1680000 12 Lancos	03 to 11	336	96mK	70.2mK	No		
	SE Mananda UVV	No	05.05.05	05.05.05	6.07[16]	Moro	7M		1900 19 individuals	05 to 06	0	K1900	0	Yes		
	Mananda Umbrella	Yes	3.8.06	3.8.06	11.13[11]	M	8M		1920000 12 individuals + SR	06 to 11	35	4.1mK	1.7mK	Yes		
	Laba Holdings	Yes	10.6.09	10.6.09	11.12[11]	Pt Moresby	9M		4 village Lancos	09 to 11	1700	22.8mK	18.1mK	Yes		
	Kutnor	Yes	4.9.09	13.2.12	10.13[12]	Pt Moresby	11M		1 1 individual	10 to 12	29	1.4mK	1mK	Yes		
	Ylamo Gira Ltd	No	20.12.05	20.12.05	6.09[08]	Kutubu	10M		11000 \$630 held by individuals	06 to 08	0	0.2mK	0.2mK	Yes		
	b) formed before LNG	Gigira Dev Corp Ltd	Yes	10.4.90	28.9.92	4.13[11]	Nogoli	13M		1263582 10 individuals + company share register	98 to 11	250	18.9mK[11]	14.8mK[11]	No	
Moran Dev Corp		Yes	4.8.99	19.10.99	5.13[10]	Pt Moresby	11M		12 12 Clan trustees	00 to 10	254	9.6mK	11.4mK	Yes		
Maka Inv Corp Ltd		No	11.6.97	2.9.98	11.12[11]	Moro	9M		112932 31 trustees for LGs +4individuals	98 to 11	120	11.3mK	5.9mK	Yes		
Kutubu Security Services		No	27.1.94	2.9.98	6.13[12]	Moro	5M		33100 34 trustees for clans	97 to 11	300	6.9mK	4.2mK	Yes		
Kutubu Catering Ltd		No	5.4.00	5.4.00	11.13[10]	Pt Moresby	6M		100 Owned by Yasuku O&G Ltd	00 to 10	310	15.2mK	7.4mK	No		
Kawaso Ltd		Yes	4.5.00	18.1.02	31.06[05]	Pt Moresby	11M + 1F		96872 11 individuals	00 to 05	126	8.5mK	7.2mK	Yes		
Gobe Business Dev Co Ltd		No	9.11.95	2.9.98	10.13[10]	Pt Moresby	8M		Gulf Oil 30%; Gobe Hongu 40%; 51 30%individuals	98 to 10	165	13.6mK	8.2mK	Yes		
Gobe Catering Ltd		No	25.9.97	2.9.98	11.13[12]	Pt Moresby	2M		1Lanco (Gobe Hongu) 46%; Gulf Oil 20%; P&O 34%)	98to 12	35	3.0mK	2.3mK	No	2010 and 2011 AR missing	
Kikori Oil Investments Ltd		Yes	22.2.90	2.9.98	6.13[12]	Pt Moresby	10M		5 lots of 20 split 50/50 between trustee and individual	98 to 12	110	0.5mK	0.1mK	No	Not exempt but no FS	
Yasuku Oil & Gas Inv Ltd		No	3.3.99	5.07[06]	Pt Moresby	13M			121970 48 LG/LG & 152 Individuals	00 to 06	4	3.7mK	1mK	Yes		
Kewapa Dev Corp Ltd		No	23.3.98	14.4.98	9.09[08]	Nogoli	12M		302672 965 individuals	99 to 08	12	0.3mK	0.2mK	Yes		
Eurest Gigira Camp Ltd		No	10.4.90	31.1.01	6.09[08]	Pt Moresby	2M		151 Gigira Dev Co 100, P&O 51*	98 to 08	19	0.8mK	0.5mK	No	* P&O shareholders???	
GFS Ltd		Yes	25.7.97	15.7.98	1.13[11]	Pt Moresby	6M		100 each to Kikori OI, Pagini Transport and Gobe Bus Dev Co	97 to 11	250	24.5mK	12.8mK	Yes		
Kutubu Transport Ltd		No	5.12.95	2.9.98	6.10[07]	Lae	4M (3XP)		100 65% owned by Pagini	96 to 07	337	20.9mK	17.4mK	No		
RAMU		Raiabus Ltd	No	11.1.07	11.1.07	6.11[10]	Madang	7M		100 4 companies	07 to 10	145	3.5mK[10]	2.3mK[10]	Yes	Shares: Each of Basamuk Enterprises, Maigari and Wass Matau 20%, Kurumbukari 40%
		Kurumbukari Ltd	Yes	11.1.07	11.1.07	None	Madang	6M		1 Held by IPA	None	na	na	na	Yes	Each shareholder holds 62500 shares; two are directors
		Maigari Ltd	No	11.1.07	11.1.07	None	Madang	4M		250000 4 individuals	None	na	na	na	Yes	
		Wass Matau Ltd	No	11.1.07	11.1.07	None	Madang	5M		250000 4 individuals	None	na	na	na	Yes	
		Basamuk Enterprises	No	11.1.07	11.1.07	5.10[09]	Madang	7M		1 1 individual	07 to 09	1	0.2mK	0.2mK	Yes	Individual effectively owns whole company
	EI Sisters Ltd	No	13.8.99	13.8.99	5.13[12]	Mt Hagen	3M + 2F		100000 1M 1F	00 to 12	16	6.2mK[12]	1.0mK[12]	Yes	Both shareholders are directors	
	Ipilili Porgera Investments Ltd	Yes	25.8.83	2.9.98	6.08[07]	Porgera	9M		292338 10	?	385[13]	252.3mK[13]	175mK[13]	No	Seven of the ten sh'h are also directors; one sh'h controls 31% shares	
PORGERA	Kuplane Investments Ltd	No	5.97	5.97	6.08[07]	Porgera	6M (as of 2011)		1 see right	06 to 07	1	23.9mK[07]	1.2mK[07]	?No	All shares held by Kuplane Yuu Anduane Co Ltd	
	Kuplane Yuu Anduane Co Ltd	No	25.10.87	29.10.97	2.11[07]	PDA Porgera	14M		2individuals (17%), PDA (9%), 23 Subclan trustees)	97 to 07	1	10.4mK[07]	[0.2mK][07]	?No	Clan totals (sum of sub-clans): Tieni clan 36000; Tuanda clan 25000; Waiva clan 3000; Pulumani clan 12000; Angalaini clan 8000; Maimai clan 3000; Aniga clan 1000; PDA 10000	

DATA DERIVED FROM IPA COMPANY REGISTER

PROJECT	Company	Constitution	Date Incorp	Effective date at Reg.	Last return	Reg Off	Directors	Share	Shareholders	AR years	Employees	Assets	Liabilities	Exempt	Notes
LUHR	Total Cleaning & H'Keeping Serv Ltd (formerly P	Yes	1.8.95	1.11.08	11.13[12]	Mt Hagen	3M + 1F	508000	12 individuals	98 to 12	493 (488PT)	4.6mK[12]	1.6mK[12]	Yes	The four directors own 500000 shares the other eight sh'h have 8000
	Soakofa Trading Ltd	No	8.7.77	2.9.98	3.1.1[09]	Mt Hagen	2M	22	2 individuals	98 to 09	21	1.6mK[09]	1.8mK[09]	Yes	Directors and sh'h all from one family
	Mapai Customs & Forwarding Agency Ltd.	No	30.4.02	31.12.07	5.11[08]	Mt Hagen	1M	1	1M	07 to 08	7	0.5mK [08]	0.5mK [08]	Yes	
	Mapai Transport Ltd	No	30.1.92	4.12[10]	3.8.07	Lae	5M	603388	2 individuals, 1 holds >95%	92 to 10	210	39mK [10]	23.6mK [10]	No	
	Tupa Resources Ltd	No	24.9.97	2.9.98	1.09[08]	Yoko	4M	3	3M	00 to 12	30	3mK [10]	0[10]	Yes	
	Jin Leo Watum Express Ltd	No	20.8.09	20.8.09	7.13[12]	Mt. Hagen	1M	10000	1M	12	4	1.6mK[12]	1.7mK[12]	Yes	
	Maymadams Contractors Ltd	No	13.7.11	13.7.11	None	Porgera	1M	2	1M1F	None	34	NA	NA	Yes	As much a CD organization as a company training youth
	Gapa Ltd	No	10.3.10	10.3.10	10.13[12]	Mt. Hagen	1M	200000	1M	10 to 12	5	2.1mK	(0.135m)	Yes	
	Kairik Cleaners Ltd	No	5.4.07	5.4.07	11.13[09]	Yoko	1M	1	1M	07 to 12	6	NA	NA	Yes	Assets and liabilities page missing on IPA site
	Peroko Ltd	No	21.10.04	21.10.04	None	Yoko	1M	100	1M	None	NA	NA	NA	Yes	
	Ipilil Wanda Inv't Ltd	No	12.6.09	12.6.09	None	Porgera	8F	1	Porgera District Women's Assocn Inc	None	NA	NA	NA	Yes	
	NCS Higs Ltd	Yes	14.10.93	20.6.05	6.10[09]	Londolovit	9M	1500000	3 companies Antua, Tinetalgo, Unawos	97 to 09	548 (Lihir) 1364 elsewhere in PNG	68.6mK[09]	6mK[09]	No	In early 2013 the two clan companies sold their shares back to Anitua
	Lihir Business Services	No	29.5.08	29.5.08	6.10[09]	Londolovit	1M	100	1 company Antua	08/09	34	4.1mK	3.7mK	No	
	Kuridala Ltd	Yes	13.1.94	2.9.98	6.10[06]	Pt Moresby	6M	280500	6 clan ILS	97 to 09	0	8.8mK	3.6mK	Yes	
	Lihir Civil and Construction Ltd	No	4.9.98	4.9.98	6.11[10]	Londolovit	6M	270000	Unawos IL, 4 trustees, 4 individuals	99 to 10	145	6mK	4.2mK	Yes	On 2010 AR sh'h are: Unawos IL, 7 subclan trustees, 6 individuals
	Lihir Contracting Services Ltd	Yes	3.8.01	3.8.01	6.13[12]	Pt Moresby	2M	100	1 company, 1 individual (Australian) 66%	01 to 12	230	15.3mK	8.3mK	Yes	How can a foreign owned co be a Lanco?
	Anitua Ltd (excluding components of it listed ab	Yes	24.3.93	18.12.08	6.11[10]	Londolovit	8M	2683751	32% by six clans, 7.5% by LLG, 60.5% individuals	97 to 09	1039	228.7mK[12]	116.4mK[12]	No	
	Lamatilik IL	No	20.12.95	2.9.98	[05]	Londolovit	3M + 3F	10000	2 companies	96 to 05	0	0.001	OK	Yes	
	Nikama IL	No	31.7.96	31.7.96	6.12[08]	Londolovit	3M + 3F	10000	2 companies	98 to 11	0	0	0	Yes	
	Nissal IL	No	16.4.96	2.9.98	6.11[09]	Londolovit	5M	10000	2 companies + 2 individuals	96 to 99	4	0.002	0	Yes	
	Tengawom IL	No	16.4.96	2.9.98	6.12[04]	Londolovit	3M	10000	2 companies + 2 individuals	96 to 11	0	0	0	Yes	
	Tinetalgo IL	No	19.10.95	2.9.98	4.07[06]	Londolovit	2M + 1F	4	All Alila Ltd	96 to 06	4	0	0	Yes	
	Unawos IL	No	21.5.96	2.9.98	4.11[09]	Londolovit	7M	10000	2 companies	97 to 09	0	5.7mK	2.5mK	Yes	
	Saberte Ltd	No	10.2.09	10.2.09	6.12[09]	Londolovit	5M + 1F	4	3M&1F individuals	09 to 11	150	6mK	0.03	Yes	
	Caldera Ltd	No	4.12.97	9.2.09	None	Londolovit	6M	17	15M + 2F [14 Putput]	None	na	na	na	?Yes	
	Kunaye Ltd	No	10.2.09	10.2.09	None	Londolovit	6M + 1F	742	23M + 2F individuals [all Kunaye]	None	na	na	na	?Yes	
	Londolovit Weir Ltd	No	10.2.09	10.2.09	6.11[10]	Londolovit	6M	10	10 individuals	None	na	na	na	?Yes	
	Nenelam Ltd	No	2.10.10	2.10.10	None	Londolovit	7M	5	5 individuals [Hurtol/Zuen]	None	na	na	na	?Yes	
	Nu Londo Ltd	No	12.4.11	12.4.11	None	Londolovit	3M + 1F	4	4 companies	None	na	na	na	?Yes	
	Becasa Ltd	No	22.4.10	22.4.10	6.11[10]	Londolovit	3M	3	3 companies	10	0	18.4mK	11.4mK	Yes	
	Noram Ltd	No	18.6.09	18.6.09	None	Londolovit	6M	100	Maron Ltd 40% + 6 individuals all Putput	None	na	na	na	?Yes	
	Tulekta Ltd	Yes	30.4.08	30.4.08	6.11[08]	Londolovit	4M + 2F	6	6 individuals [all Kunaye]	08 to 10	1	>0	0	Yes	
	Unapual Ltd	No	29.4.08	29.4.08	4.10[09]	Londolovit	4M + 2F	4	4 individuals [all Putput]	08 and 09	0	0	0	Yes	
	Kalo Ltd	No	19.10.95	2.9.98	6.10[08]	Londolovit	1M	36500	All held by one man who is also the director from Putput	97 to 08	20	1.704mK	1.744mK	Yes	
	Maron Ltd	No	3.1.94	2.9.98	3.11[09]	Londolovit	5M	232	4 individuals x 52 + 1 individual 24	97 to 10	8	4.6mK	2.5mK	Yes	Previously Maroni Plumbers and later Sapate 43
	Sivetal Ltd	No	24.3.95	2.9.98	2.08[05]	Londolovit	3M	20000	3 individuals Putput	96 to 07	2	0.25mK	0.14mK	Yes	
HIDDEN VALLEY	NKW Holdings	No	19.4.04	19.4.04	4.13[11]	Lae	5M	3	1M (Trustee)	04 to 11	70[11]	29.3mK	8.3mK	Yes	161 employees reported to the consultant by NKWH in 2014; a press release earlier in 2014 stated that it had 214 at HV site plus 302 employees for whose livelihoods it was responsible.
	NKW Construction & Transport	No	2.9.04	2.9.04	4.13[11]	Lae	4M + 1F	100	1 NKWH	04 to 11	1[11]	5.1mK	5mK	Yes	
	NKW Management Services Ltd	No	12.8.04	12.8.04	6.12[11]	Lae	4M + 1F	1	NKWH	04 to 11	0[11]	>0	0	Yes	
	Nauri Investments Ltd	No	28.6.04	28.6.04	6.12[11]	Lae	4M	4	4M (directors)	04 to 11	1[11]	0.2mK	0.1mK	Yes	
	Kuambu Investments Ltd	No	5.4.04	5.4.04	6.12[11]	Lae	4M	4	4M (directors)	04 to 11	1[11]	0.3mK	0.3mK	Yes	
	Winima Inv. Ltd	No	28.6.04	28.6.04	6.13[10]	Lae	4M	4	4M (directors)	04 to 10	1[10]	0.15mK	>0	Yes	

DATA DERIVED FROM IPA COMPANY REGISTER																
PROJECT	Company	Constituti on	Date Incorp	Effective dateate Reg.	Last return	Reg Off	Directors	Share	Shareholders	AR years	Employees	Assets	Liabilities	Exempt	Notes	
	Hidden Valley Contractors	Yes	20.3.07	24.7.07	6.13[12]	Lae	4M	100	51% HBS 49% NKWH	07 to 12	320[12]	55mK	33mK	Yes	HBS group is foreign owned and all shares are controlled by one foreign individual	
	Hidden Valley Transport and Logistics	Yes	27.8.07	27.8.07	3.12[11]	Lae	4M (3 Oz)	15000	5000 each to NKWH, Pagini, and Kutubu Transport	07 to 11	70[11]	20mK	16.5mK	Yes	Sanson Kawa local director	
	Black Cat Hires Ltd	No	15.12.10	15.12.10	3.12[11]	Lae	4M + 1F	300	10% Black Cat Ltd 90% Island Mobile Hire	11 only	Nil[11]	>0		0	Yes	This is now a thriving company; same share arrangement as HV Resource Ltd - Mr Rakadui
	Black Cat Ltd	No	26.9.08	26.9.08	3.12[11]	Lae	1M	10	1M who is also sole director	09 to 11	4[11]	0.3mK	0.2mK	Yes		
	NCS (Hidden Valley) Ltd	No	2.9.04	2.9.04	6.12[11]	Lae	6M (3 Lihir 3	100000	50% NCS 50% NKWH	04 to 11	175[11]	8.8mK	5mK	No		
	Simberi Island Inv Co	No	21.2.11	21.2.11	None	Simberi	11M		11 11 individuals (1F)	None		na	na	na	Yes?	
SIMBERI	Simberi Pit Owners LTD	No	25.2.09	25.2.09	10.13 [12]	Simberi	3M		1 1 individual	09 to 12	?	?	?	Yes?	Technically this company belongs to one man	
	Shunamitte Engineering Ltd	No	20.4.01	20.4.01	6.09[08]	Kokopo	3M + 1F	4	1M2 1F2	01 to 03, 06 to 08	?	?	?	Yes?	Husband and wife living in Kokopo	
INTEROIL	Sakura Osura Resources Investment Ltd	No	1.7.09	5.6.13	None	Pt Moresby	9M	1 1M		None	2	na	na	Yes	Technically owned by one man	





# APPENDIX B:

## Terms of Reference for a Study of Resource Project Landowner Companies and Businesses in PNG

### 1. OVERVIEW

This study should provide an analysis of the magnitude, scope, and contribution of the resource project landowner umbrella companies and other project landowner companies and businesses as well as an assessment of issues and challenges common to these operations with recommendations for possible improvement.

### 2. ANALYSIS OF RESOURCE PROJECT LANDOWNER UMBRELLA COMPANIES

The report should provide an in depth analysis of the umbrella landowner companies in PNG including but not limited to:

- Anitua (Lihir)
- NKW Holdings (Hidden Valley)
- Raibus (Ramu)
- IPI (Porgera),
- Star Mountain Holdings Limited (Ok Tedi)
- Laba Holdings (PNG LNG)
- Hides Gas Development Company (PNG LNG)
- Trans Wonderland (Oilfields and PNG LNG)
- Gobe Field Engineering (Oilfields and PNG LNG)
- Gobe Freight Services (Oilfields and PNG LNG)
- Kutubu Catering (Oilfields and PNG LNG)
- Kutubu Security Services (Oilfields and PNG LNG)
- Kawaso (Oilfields and PNG LNG)
- Maka Investment Corporation (Oilfields and PNG LNG)
- Manada Umbrella JV (Oilfields and PNG LNG)
- Kikori Oil Investments (Oilfields and PNG LNG)

- Mineral Resources Development Group of Companies
  - Mineral Resource Star Mountains (Ok Tedi)
  - Mineral Resources Enga (2.5% LO equity in Porgera, 2.5% EPG equity)
  - Mineral Resources Madang
  - Petroleum Resources Gobe
  - Petroleum Resources Kutubu
  - Mineral Resources Moran
  - Gas Resources Kutubu, Gobe, Moran, Hides 4, Gigira, Juha, Angore

The analysis should include the following:

**Business:** structure, location(s), size, diversity, subsidiaries, joint ventures, directors, management, start up (seed funding), future outlook

**Board:** composition, background of directors, training of directors, board fees

**Compliance:** compliance with provisions of PNG *Companies Act*, governance and transparency

**Financial:** turnover, profit, dividends, assets

**Shareholders:** number, landowners only or spread across PNG, dividend policy/returns

**Employees:** number, expat/PNG, birth province of PNG employees, gender, training

**History:** formation, growth, setbacks, problems

The final report should provide a clear understanding of the economic contribution of the individual companies on a provincial, regional and/or national basis as relevant.

The report should also provide an insight into the issues and challenges these companies are facing including but not limited to concerns that are related to their structure and management,

directors, shareholder structure, business activities, compliance and dividend distribution with appropriate recommendations for improvement where relevant.

### **3. OTHER LANDOWNER COMPANIES AND BUSINESSES**

Analyse the scope of other resource project landowner companies and businesses associated with the respective projects that have spawned the major landowner umbrella companies. It is envisaged that this will encompass the larger clan companies down to family and individual businesses. Specific information should be provided on the larger companies (turnover of at least K15 million per annum) but the smaller ones (turnover of between K1 million and K15 million per annum) could be aggregated. Comment on the success of the various businesses and the problems and issues.

The report should provide a clear picture of the overall magnitude and significance of these businesses on a combined basis, and their

contribution to local and provincial economies including employment.

Comment on issues and obstacles faced by these enterprises and why these have arisen. Include recommendations on how these issues might be addressed.

### **4. DATA AND INFORMATION COLLECTION**

Data and other information required from the landowner companies and the respective resource projects to complete this consultancy will be gathered through interviews with management/directors of landowner businesses and the project business development managers, surveys, written requests for data, and other methods selected by the consultant. The Chamber will advise project management and management of the landowner companies listed above of the study before the consultants site visit. Where required, introductions to company management will be facilitated by the Chamber and Chamber Members from the respective resource projects.

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