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Papua New Guinea Economy Report

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APEC SOM2 – MINING TASK FORCE – PNG ECONOMY REPORT 2016

PAPUA NEW GUINEA MINERAL SECTOR – THE YEAR IN RETROSPECT

The Mineral Resources Authority (MRA) is the statutory entity responsible for the regulation of mining in Papua New Guinea (PNG). MRA is self-funded from industry production levies, tenement rents and administration fees. I am the Executive Manager for MRA's regulatory operations.

Papua New Guinea (PNG) produces gold, copper, silver, nickel and cobalt from 8 producing mines, out of 13 approved mines, excluding the alluvial sector. PNG is currently the world's 13th largest producer of gold, with the Lihir mine producing 805,000 ounces in calendar year 2015. Lihir is ranked 3rd globally for reserves and is in the top 10 global producers.

We believe 2015 was a pivotal year for the mining industry, and represents the bottom of the current commodity cycle - you heard it here first if this ends up being an accurate prediction!

While PNG celebrated its 40th anniversary of independence and the successful hosting of the Pacific Games in 2015, the year was unfolding as our worst year for production and revenue, achieving a total K7.19 billion in mineral exports. This outcome was the result of the commodity price collapse impacting all our key mineral exports, with the exception of cobalt, combined with a devastating El Nino induced drought, which forced temporary closures to the 2nd and 3rd largest mines operating in PNG, Barrick/Zijin's Porgera mine and the State owned Ok Tedi mine.

We believe, however, that out of this difficult period will emerge a number of positives, which will establish PNG mining as:

- a leader in technology development;
- a global gold, copper and nickel powerhouse;
- an exponent of mineral policy reform;
- a leading proponent and champion of the alluvial sector; and
- an example of social integration and transparency within the sector.

This will be achieved through a platform of initiatives and developments accomplished during this year in review, including:

- drafting of the Mining Bill 2016, representing the first substantive policy and legislative reform in the mining sector in 24 years. The Bill received approval from the State Solicitor's office in July 2015, and is scheduled to be presented to Parliament this year;
- meeting critical milestones in the development of the world's first deep sea mine, being Nautilus' Solwara 1, located in the Bismark Sea. These achievements included settlement of a 15% State equity interest in this leading edge venture; completion of the manufacture of key sea floor mining equipment; and, commencement of design and construction of the mining support vessel;
- advances in the alluvial (or artisanal sub-sector) through international promotion via an annual convention, investment reform in joint venture mechanised mining; training, with

over 4,300 miners have been certified through our Small Scale Mining training school. These initiatives have underpinned a steady production and revenue outcome for the alluvial sector, which, at K385 million last year, ranks alluvial as our 6th largest gold and silver producer;

- progress of two world class copper/gold deposits, located at Frieda River and Wafi-Golpu, with both proponents about to lodge mining lease applications over the coming months;
- committed exploration investment in a pipeline of significant further, advanced gold, copper and nickel resources. PNG anticipates the decades from 2020 to be again led by the mineral sector through a period of considerable investment and expansion placing PNG within the top 10 of APEC economies in our 4 key minerals – gold, copper, silver and nickel; and
- PNG produced its first Extractive Industries Transparency Initiative (EITI) Report, which covered the 2013 year and was published in February 2016.

Policy and Legislative Reform

Drawing upon the experience of the past 40 years of mining in PNG, the Mining Bill 2016, whilst retaining much of the current, proven regulatory structure, will take PNG forward, competitively for the coming decades by:

- Leveraging off a strong history of social and community engagement in the sector, by regulation of social mapping, land identification studies and resettlement and compensation plans;
- Introduction of greater levels of prescription to improve regulatory guidance;
- Improved tenement options attractive to investment – longer terms for exploration licences and a new resource retention option;
- Robust environment protection initiatives, including specific rehabilitation and mine closure provisions;
- Setting a platform for technical innovation through off-shore and geothermal mining development; and
- Eradication of poor performance through improved powers for compliance, enforcement and prosecution.

EITI & Reporting

The recent introduction of an electronic tenement management system (Flexicadastre), combined with PNG endorsing the reporting performance standards of EITI, has already considerably increased MRA's data gathering and reporting capacity over the past 12 months.

PNG Production & Revenue

In 2015, Lihir, PNG's largest producer, increased production to 800,000 ounces and maintains confidence in increasing that level of production in coming years.

The Porgera mine has also increased gold production now exceeding 600,000 ounces pa.

Ok Tedi took the opportunity, during its 7 month drought enforced closure, to restructure its operation and reduce the workforce to ensure, after 32 years of continual production, that it can

maintain output at 2014 levels. An adjoining tenement holds a potentially significant further resource, and Ok Tedi has committed to ongoing advanced exploration of this area.

The Simberi mine doubled its production last year to achieve 107,000 ounces and will shortly make a decision to transition from oxide to sulphide mining.

The Ramu nickel/cobalt mine and refinery has continued to bring production to its full capacity since commencing in 2013.

The Wafi/Golpu deposit has a potential mine life of 65 years, Frieda River in excess of 30 years and the nickel resources in Oro Province substantially exceed those of Ramu.

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