

10 April, 2018

Oil Search response to article in *The Conversation* by Michael Main: *Papua New Guinea gets a dose of the resource curse as Exxon Mobil's natural gas project foments unrest, 9 March, 2017*

Oil Search would like to thank the Business and Human Rights Resource Centre for the opportunity to respond to the claims made in the referenced article.

We note that ExxonMobil is the operator of the PNG LNG project, and we refer readers to their response on the claims made by the author (see below). The information provided here is intended as supporting information, and to describe the socio-economic impact of broader oil and gas development in the region, and describe our approach to human rights management.

Information on other aspects of our operational approach is disclosed on our website and in our annual suite of Social Responsibility Reports. These can be found [here](#).

Oil Search and our relationship to the PNG LNG Project in Papua New Guinea

Oil Search is a PNG company. We were established in Papua New Guinea (PNG) in 1929 and we operate all of the country's producing oil fields, hold an extensive appraisal and exploration portfolio and have a 29% interest in the PNG LNG Project, which is operated by ExxonMobil PNG Limited, and a 23% interest in the Papua LNG Project (Elk-Antelope), which is operated by Total SA. We are the country's largest company, private sector employer, and investor.

Accordingly, what is good for Oil Search is good for PNG. We have a strategic interest in ensuring that we maintain a stable operating environment based on strong and enduring relationships with local communities.

The PNG LNG Project has seven contributing fields: the Hides, Angore and Juha gas fields and associated gas in the Oil Search-operated Kutubu, Agogo, Moran and Gobe Main oil fields, which will provide approximately 20% of gas over the PNG LNG Project's life. Gas is also purchased on a third party basis from the SE Gobe field. These fields are located across three provinces: Gulf, Southern Highlands and Hela.

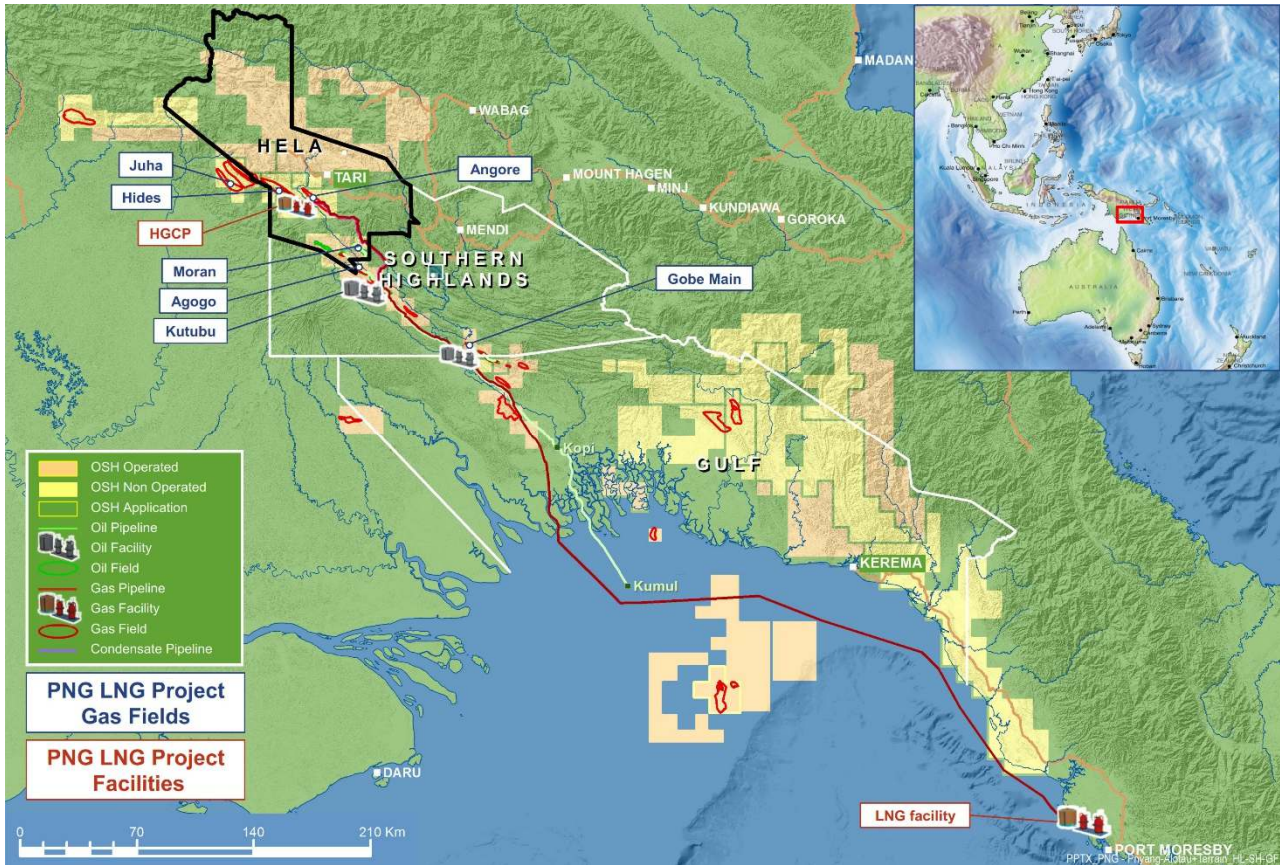
Unrest is largely isolated to the Hela Province, and not across the whole PNG LNG Project area. Tribal conflicts are a prominent feature of law and order issues in Hela province, and as cited in the article, there is a very long history of inter-tribal warfare in this culturally complex area.

Law and order issues are exacerbated by tribal issues and not necessarily related to the distribution of PNG LNG benefits to landowners.

The PNG Government has a responsibility to distribute the financial benefits it derives from oil and gas to project area communities in a timely way. However, a delay by the PNG Government in completing verification processes has created frustration and concerns that at times have led landowners to use the Project as a lever to get Government attention, given the Project's accessibility in these remote locations.

As a Project equity-holder, the government has declared PNG LNG as a project of significant national importance. In this regard, as and when law and order issues manifest and require additional support, the Government works very closely with the Operator to ensure safety and security of the Project.

Oil Search has and continues to play an important role in assisting dialogue between government and community stakeholders, and supporting efforts to resolve the complex web of inter-tribal legal and non-legal disputes, and those between government and communities. In these situations, Oil Search draws on its



almost 90-year history and experience in PNG as well its strong network of Community Affairs team members and Village Liaison Officers.

During 2017, royalty payments were distributed to the PNG LNG plant site and Hides landowners. However, there are still significant payments outstanding. It is a Company priority to actively assist the PNG Government in meeting its obligation to effectively distribute PNG LNG Project benefits to landowners.

The PNG LNG website <https://www.pnglng.com/> provides extensive information on the Project, including all studies undertaken during the development phase of the Project, and information on ExxonMobil-led community investment since Project inception.

Distribution of benefits from oil and gas projects in PNG

Commitment to Transparency

Oil Search supports and advocates for improved transparency of payments made to governments by extractive companies and demonstrate this by voluntarily disclosing payments to government annually in our [Social Responsibility Report](#), our [online data centre](#), contributing data to the PNG EITI reports, and in 2017 through our Transparency Report (release imminent at time of writing).

Oil Search has been a participating Company in the Extractive Industry Transparency Initiative (EITI) since 2013, and is an active participant in the PNG Multi-Stakeholder Group (MSG). As unequal distribution of power and wealth has the potential to undermine stability in our operating environment, our support of EITI and our

commitment to transparency play an important role in the success of our business strategy and maintaining stability.

Benefits arrangements

For PNG LNG, the Oil and Gas Act guides the benefits agreement negotiation process and the PNG LNG Project Umbrella Benefits Sharing Agreement (UBSA) defines the benefits to landowners, local governments and provincial governments from PNG LNG revenue streams. **These benefits were negotiated between the landowners and the Government, which the Government then committed to deliver.**

Based on the agreements reached and reflected in the UBSA, the Government then negotiated Licence-Based Benefits Sharing Agreements (LBSA) with the landowners, which defines the distribution of benefits at the licence area level.

Landowner benefits comprise different types of payments, including royalties, equity, development levies, infrastructure development grants and business development grants. Negotiations between the PNG Government and landowners for the PNG LNG Project resulted in a number of additional commitments from the PNG Government to various beneficiaries, in the form of cash payments and project funds.

For oil and gas projects, royalty payments are made by the operating company to the Government. Royalties are then distributed by the Government through the Department of Petroleum (DoP) or Mineral Resources Development Company (MRDC) to licence area landowner Incorporated Land Groups (ILGs) and impacted provincial and local governments. These government entities are mandated to distribute landowner benefits once these have been disbursed by the operating company. Sharing of royalties between these various bodies depends on the relevant licence.

In line with the Oil & Gas Act, royalties paid are split between cash payment, a percentage to a trust for future generations and a percentage to an infrastructure trust.

A Fact Sheet on Benefits Distribution can be found here <[LINK](#)>.

Payment of Benefits

Please refer to the response by ExxonMobil for information on the payments of benefits by the PNG LNG project (attached).

We note that all financial and non-financial obligations due by the PNG LNG Project joint venture partners to the PNG Government have been paid.

As at [insert date], US\$32.2 million in PNG LNG royalties and development levies have been paid by Oil Search since Project commencement. This is in addition to royalties and development levies paid by ExxonMobil as the operator and other joint venture proponents and are related to Associated Gas generated by the Oil-Search operated oil fields.

Socioeconomic benefit of oil and gas development

The socio-economic benefit of oil and gas development in PNG is significant. Please refer to our website and our annual suite of Social Responsibility Reports for comprehensive information on our sustainable development activities in PNG. These reports can be found [here](#).

Examples include:

- Oil Search has supported the PNG Government’s development objectives by **pre-paying corporate income tax of US\$249 million since 2009** through our funding and delivery of infrastructure projects selected by the PNG Government.
- Oil Search committed US\$56M in 2016 over five years to the Oil Search Foundation for delivery of signature programmes in health, education and leadership, and women’s protection and empowerment.
- In 2017 Oil Search:
 - invested US\$384M in total socio-economic contributions in PNG which includes, payments to the PNG government, local suppliers and landowner companies (US\$52M), shareholders, communities and employees.
 - Provided US\$344M in drought relief assistance and completed two major water projects which provided approximately 700 community members with reliable access to potable water.
 - Provided access to 80 children to attend the Tari Literacy Library Program, and two new OSF Literacy Libraries were approved for development in 2018.
- In 2017, the Oil Search Foundation.
 - Signed a new agreement with the Hela Provincial Health Authority (HPHA) to continue to improve provincial health service delivery, building on work to rebuild services at the hospital over the past two years.
 - Entered into a partnership with Femili PNG Inc to strengthen the response of the HPHA’s family and sexual violence assault service. In 2017, 1440 people accessed the Family Support Centre’s services.

Oil Search’s approach to human rights, security and grievance management

Oil Search’s **Social Responsibility Policy** identifies our high level commitment to human rights.

Oil Search is a signatory to the UN Global Compact and a corporate participant in the **Voluntary Principles on Security and Human Rights (VPSHR)**. We report our performance against the VPSHR Verification and Reporting Framework and make this report accessible on the [Oil Search](#) and the [VPSHR](#) websites.

We have a Memorandum of Understanding with the Royal PNG Constabulary (RPNGC) which outlines shared expectations in alignment with the VPSHR.

Our human rights approach also considers and aligns with the UN Guiding Principles for Business and Human Rights and the IFC Performance Standards on Environmental and Social Sustainability.

These important initiatives inform our approach and affirm our commitment to:

- Respect international norms of behaviour and recognised human rights, including the rights of Indigenous peoples, by seeking to avoid causing or contributing to adverse human rights impacts from our activities
- Undertake human rights due diligence and consider human rights in our risk and impact assessments
- If any impacts inadvertently occur, act to mitigate or address them. While we have a significant commitment to sustainable development, first and foremost we are committed to ‘doing no harm’
- Respect laws wherever we operate
- Have and continue to undertake appropriate due diligence of our activities and management controls

- Support appropriate access to grievance mechanisms and appropriate remedies when required.

Our human rights management controls are embedded within relevant procedures and practices. We have an extensive project level grievance system which is structured around a network of village liaison officers from local communities, community affairs officers and a more formalised grievance and response mechanism. Grievances are escalated within the business based on risk and impact to both the complainant and the Company.

Management regularly reports on performance against our Human Rights Plan and any material community grievances to the Board Health Safety and Sustainability Committee.

Oil Search proactively works with our joint venture partners to ensure outcomes are aligned and generally consistent with our policy positions, recognising and respecting that there are different approaches to implementation.

More information on our [human rights](#) and [security management](#) approach can be found on our website.

EXXONMOBIL RESPONSE

Thank you for the opportunity to respond to the issues raised in the March 2017 article in 'The Conversation' publication regarding the PNG LNG Project.

ExxonMobil PNG Limited (EMPNG), as operator of the PNG LNG Project, is committed to contributing to the development of Papua New Guinea, and to bringing economic benefits to the country. Papua New Guinea is a complex mosaic, with many of the current socio-economic challenges tied to historical issues that pre-date the onset of the PNG LNG Project by decades. While the PNG LNG Project is not the cause of PNG's or Hela's low socio-economic indicators, when tied to sound national economic policies, it can be part of a solution that helps Papua New Guineans build a more prosperous and sustainable future for themselves.

PNG LNG royalty payments due to the government began, and have continued, since the start of production operations in 2014. Payment and distribution of royalties and other benefits due to landowners in the Project area is the responsibility of the PNG government and is based upon benefits sharing agreements previously executed between the government and Project area landowners. Government distribution of royalties and benefits to LNG plant-area landowners began in 2017. Payment of royalties and other benefits due to landowners in Hela Province and other upstream areas will commence as benefits claims previously filed by certain landowners in the courts are resolved, and the government completes the additional landowner identification process that it commenced in the fourth quarter of 2017.

PNG LNG has contributed some 14 billion PGK to local businesses and the government through employment taxes, MRDC and Kumul Petroleum disbursements, development levies, royalties, and license maintenance fees. Of this, more than 3.5 billion PGK has been spent with landowner companies. Nearly 2600 employees and contractors are engaged in PNG LNG production operations. Approximately 82 percent are Papua New Guinean and 22 percent are women.

We maintain a social investment program that collaborates with government, donor and civil society priorities around education, community health, and broader socio-economic development. Moreover, we are a lead member of efforts such as the PNG Extractives Industry Transparency Initiative (PNG EITI). In local communities, we have invested more than 800 million PGK to build infrastructure, develop social programs, and implement skills training. Our efforts have a tangible and direct impact on the community.

Our support for local communities also includes disaster response and humanitarian relief in the aftermath of the recent earthquake. In addition to the company's US\$1 million contribution for humanitarian relief, we have donated more than 37 tons of food and 14 tons of potable water and a mix of shelters and other non-food items to the areas most affected by the earthquake. We have also distributed medical and other supplies provided by the Australian and New Zealand governments, the International Organization for Migration (IOM) and other donor and relief organizations. We are engaged with the PNG National Disaster Centre (NDC) and are coordinating our efforts with the NDC and UN-led Disaster Management Team.

For further details on the evolution of the PNG LNG Project we encourage you to review in detail the current and historical reporting available at www.pnglng.com, including [PNG LNG Environmental & Social Reports](#) to obtain a perspective on the comprehensive measures that the Project is taking to contribute to supporting community livelihoods.

ExxonMobil is committed to respecting human rights as a fundamental value in our company. We comply with applicable laws and regulations, and seek to work with suppliers and business partners who share this commitment. Our operations and approach to human rights are consistent with the goals of the United Nations Guiding Principles on Business and Human Rights and we have been a member of the Voluntary Principles on Security and Human Rights Initiative since 2002. The PNG government is responsible for law and order in the area of our project facilities. The Royal Papua New Guinea Constabulary coordinates all police and other government security personnel assigned to support our facilities, staff and operations. Additional detail on ExxonMobil's approach, principles, and policies on human rights and community engagement is available on the Corporation's website at www.exxonmobil.com.

ExxonMobil has set a standard for corporate excellence in PNG, and continues to demonstrate leadership across a spectrum of activities. We are proud of the role we play in supporting Papua New Guineans as they build a sustainable future for themselves. To build a future that Papua New Guineans deserve requires ongoing collaboration – led by the PNG government – between the public sector, industry and civil society.

ExxonMobil is committed to helping develop human, social and economic capacity in PNG.