



*"Promoting development that meets the needs of the present generation  
and establishes the foundation for continuing progress for  
future generations of Papua New Guineans"*

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20160815 MR PM twisting the truth again

## **MEDIA RELEASE**

**15 August 2016**

### **Prime Minister twisting the truth - AGAIN**

Prime Minister Peter O'Neill made a number of statements about PNG Sustainable Development Program Ltd and me in Parliament on Wednesday 10 August, which were published in the media.

All of them are untrue. The Prime Minister should apologise for misleading Parliament and the public.

"It reflects very badly on the Office of the Prime Minister for Mr O'Neill to regularly twist the facts, tell half-truths and make misleading statements designed to deceive the public and justify his actions," Sir Mekere said.

"He fools no-one with his sweet talk. The public knows that the Prime Minister is just trying to justify and cover up his illegal and unconscionable deed in expropriating PNGSDP's shareholding in Ok Tedi Mining Ltd (OTML)."

The Prime Minister made five main allegations:

1. PNGSDP wanted to shut down the mine
2. Former OTML chairman Ross Garnaut and I had suggested that the Prime Minister take over Ok Tedi
3. The value of Ok Tedi mine at the time of expropriation (September 2013) was less than \$US500 million
4. Ok Tedi was losing money every day when PNGSDP owned it
5. Ok Tedi had debts of \$US200 million

These allegations are completely incorrect in every respect. The facts are:

#### **1. Neither I nor Ross Garnaut ever suggested that the mine be closed. Far from wanting to close the mine, while PNGSDP was a shareholder Ok Tedi and PNGSDP invested hundreds of millions of dollars in a Mine Life Extension project to keep Ok Tedi going beyond the original mine closure date of 2015.**

PNGSDP did point out that unless the Government approved OTML's plan to extend the mine's life from 2015 to 2025, the mine would have to close because there was not enough profitable ore left in the existing mining area.

PNGSDP made a direct contribution to OTML's MLE feasibility study of \$US30.6 million.

OTML's 2013 financial statements show total OTML expenditure on MLE was approximately K1.38 billion (\$US552 million) which meant the shareholders agreed to forego large amounts of dividends to meet MLE costs. PNGSDP's share of foregone dividends is almost K875 million (\$US 350 million) based on its shareholding of 63.4% in OTML.

#### **2. Neither I nor Ross Garnaut ever suggested that the Prime Minister take over Ok Tedi.**

It was the Prime Minister who first approached PNGSDP in his letter of 2 March 2013, where he stated that "the Independent State of Papua New Guinea decided to commence immediate negotiations with PNGSDP to purchase shares held by PNGSDP in Ok Tedi Mining Limited".

*(Note: the Prime Minister's letter said he wanted to PURCHASE PNGSDP's shares, not expropriate without compensation – which is what he actually did.)*

In the same letter Mr O'Neill also stated that "PNGSDP does not have and will not get approval of Mine Life Extension, and the value it adds to OTML should not have any bearing on the purchase price."

So it was in fact the Prime Minister who wanted to fully own the mine. It was the Prime Minister who threatened not to approve the company's request for Mine Life Extension if PNGSDP did not sell its shares to him. In effect it was the Prime Minister who threatened to shut the mine.

PNGSDP replied to Mr O'Neill's letter on 22 March 2013 setting out the terms under which PNGSDP would be prepared to negotiate a sale of OTML shares to the State:

*"1. Government and PNGSDP would agree to negotiate mutually acceptable terms for an orderly sale, at a price that is approved by a jointly instructed independent expert and which is based on the following preliminary parameters:*

- *The value of the whole of OTML, including a control premium for the full 63.4% of PNGSDP's shares in OTML*
- *A 7.5% discount rate to reflect the cost of capital*
- *The future mineral pricing projections as outlined in the Feasibility Study*
- *The assets comprising;*
  - *The existing business to 2015*
  - *Mine Life Extension to 2025 as outlined in the feasibility Study*
  - *The risked value of the already discovered minerals upside and exploration potential in the OTML licenses*
  - *The risked upside from future value that OTML will receive from further minerals developments in the close vicinity.*

*"2. The Government and PNGSDP would seek to work together under these parameters to show that the sale is fair and transparent and can be seen by the people of Western Province and Papua New Guinea as a transaction which realizes the full value of PNGSDP's and its beneficiaries' interest in OTML.*

*"3. The sales proceeds would be paid in cash on settlement in US dollars. All sales proceeds are to be deposited into our Long Term Fund to support sustainable development in accordance with the objects of PNGSDP, for the benefit of current and future generations of people in Western Province."*

"The Prime Minister did not reply to my letter," Sir Mekere said. "Nonetheless, I subsequently made a number of attempts in my private capacity to offer solutions that would be fair to PNGSDP, the State, the people of Western Province, and Ok Tedi.

"Again, the Prime Minister did not reply.

"Every attempt to come to a fair and acceptable solution by negotiation was the initiative of PNGSDP and myself. The Prime Minister ultimately rejected each proposed solution, even after shaking hands and giving his word in agreement at a meeting in the Marshall Islands in early September 2013."

After the expropriation, the Prime Minister set up an Eminent Persons Group in the hope that the PNGSDP Board would agree to give him control of the Board, the management, and the \$US1.4 billion in the Long Term Fund.

The EPG submitted to him two reports that Sir Rabbie Namaliu (as Chairman of the EPG) and I had initialled. He rejected both. The whole exercise was a waste of our time – because the EPG team did not recommend what the PM wanted.

**3. The value of Ok Tedi at the time of expropriation (September 2013) was more than three times the value of \$US500 million claimed by the Prime Minister, and the mine was highly profitable, contrary to the Prime Minister's assertion that it was losing money every day.**

In the Mine Life Extension Study, OTML calculated its value at between \$ US1.8 billion and \$ US2.5 billion.

In the 2013 Budget, Treasury valued the State's 18.3% beneficial shareholding in OTML at K583 million (\$US270 million) as at December 2011, implying a value of \$US1.5 billion for 100%.

"These are official figures, not some random number plucked out of thin air, and they show that the Prime Minister's valuation of \$US500 million is wrong by a factor of three, at least," Sir Mekere said.

**4. OTML was NOT losing money – it was a profitable and well-run company under PNGSDP stewardship.**

OTML's audited financial statements for 2012, the last full year in which PNGSDP was a shareholder, show that Ok Tedi had K2.66 billion in net assets; there was no debt; and the company's pre-tax profit for 2012 was K1.26 billion.

Furthermore, the OTML Summary Report for August 2013, less than one month before expropriation, also shows that the mine was highly profitable. Net profit for the month of August alone was \$US16.8 million, with a year-to-date total of \$US72.5 million. There was \$US220 million cash in the bank.

In December 2012 the then Managing Director of OTML, Mr Nigel Parker, wrote to PNGSDP advising that OTML planned to declare and pay \$US350 million in dividends for each of the 2013 and 2014 years - further proof that the mine was highly profitable under PNGSDP. Companies do not pay dividends if they are losing money.

"But shortly after the Prime Minister's expropriation in September 2013, certain events took place. PNGSDP was not paid its 2012 and 2013 dividends; workers were fired and then rehired under lower wages and conditions; some workers were permanently sacked; cash-flow problems emerged; operational short cuts were taken; existing contractors were sacked and new contractors were hired. Why?

"Finally, the mine was closed – under Mr O'Neill - when the pit wall collapsed, costing tens of millions of kina in lost production and remedial work. A miner was killed in the process of clearing up the mess.

"I warned at the time of expropriation that Ok Tedi would end up a State-owned disaster. My warning became reality."

**5. OTML had NO debt while PNGSDP was a majority shareholder and there was NO debt of \$US200 million when Mr O'Neill expropriated the mine. OTML had sufficient cash to fund its operations and the required exploration and expansion for Mine Life Extension.**

OTML's 2013 Annual Review, an audited document signed off by OTML directors including the Prime Minister's personal economic advisor, Dr Jacob Weiss, and the Treasury Secretary, Mr Dairi Vele, shows there was no debt before the mine was expropriated. In fact there was cash in the bank of K423 million (\$US167 million) at the end of 2013.

"Again, the Prime Minister has made statements and invented numbers that have no truth," Sir Mekere said.

"It is easy to ascertain the truth by looking at the Annual Reviews published by OTML with PNGSDP as majority shareholder."

But, Sir Mekere said, Ok Tedi's operations have become secrets since the Government took over the mine. There are no up-to-date public reports to the shareholders, the people of Papua New Guinea. It seems it only reports to the Prime Minister. The 2015 Annual Review should have been published in May this year, but it is still being kept secret. Other financial statements are also being kept secret.

Some months ago Ok Tedi (now under Mr O'Neill's ownership) was reportedly forced to arrange a borrowing of hundreds of millions of Kina from a PNG commercial bank to finance its operations because the Prime Minister stripped operating funds from the company for the Pacific Games and to prop up his Government's ailing finances.

Because the OTML financial statements have not been published, the details of this loan, plus other facts about Ok Tedi's financial situation and operations, remain a secret.

OTML has become like other SOEs, whose financial operations and results are veiled in secrecy.

Where is the accountability? Where is the transparency? Papua New Guineans should demand them. They are the shareholders, not the Prime Minister.

"It is clear from these facts that the Prime Minister has deliberately deceived the Parliament and the public," Sir Mekere said. "He should apologise and set the record straight immediately."

In other countries that follow Westminster-style democracy, a Prime Minister would be forced to resign if he or she misled the Parliament in the way Prime Minister O'Neill has.

**Mekere Morauta KCMG**

Chairman