Impact of LNG on Agriculture Sector and Policy Implications

Coffee Industry Corporation Ltd

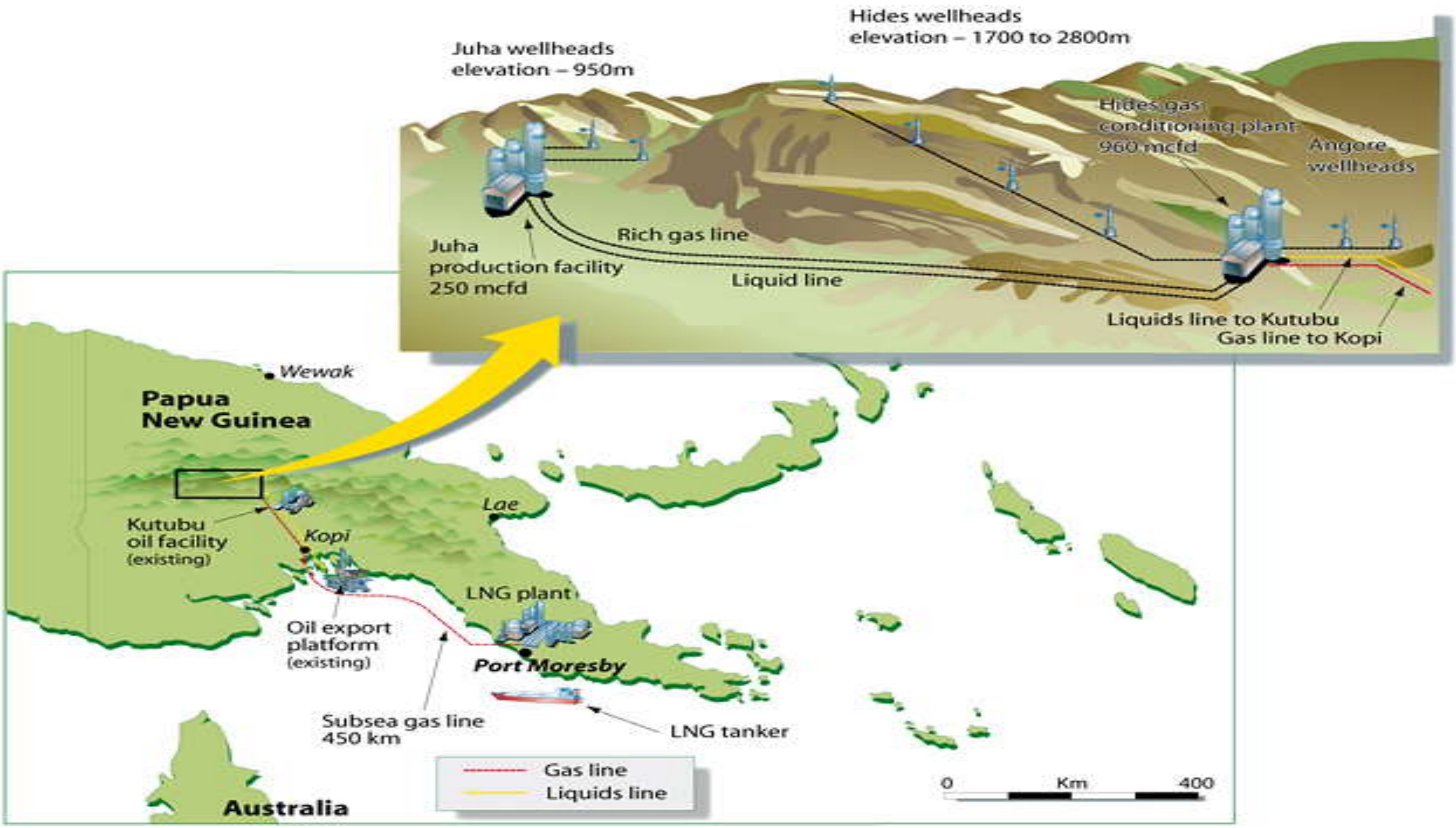
Kessy Kufinale,

Acting General Manager

Industry Operations division

31st March-1st April, 2011

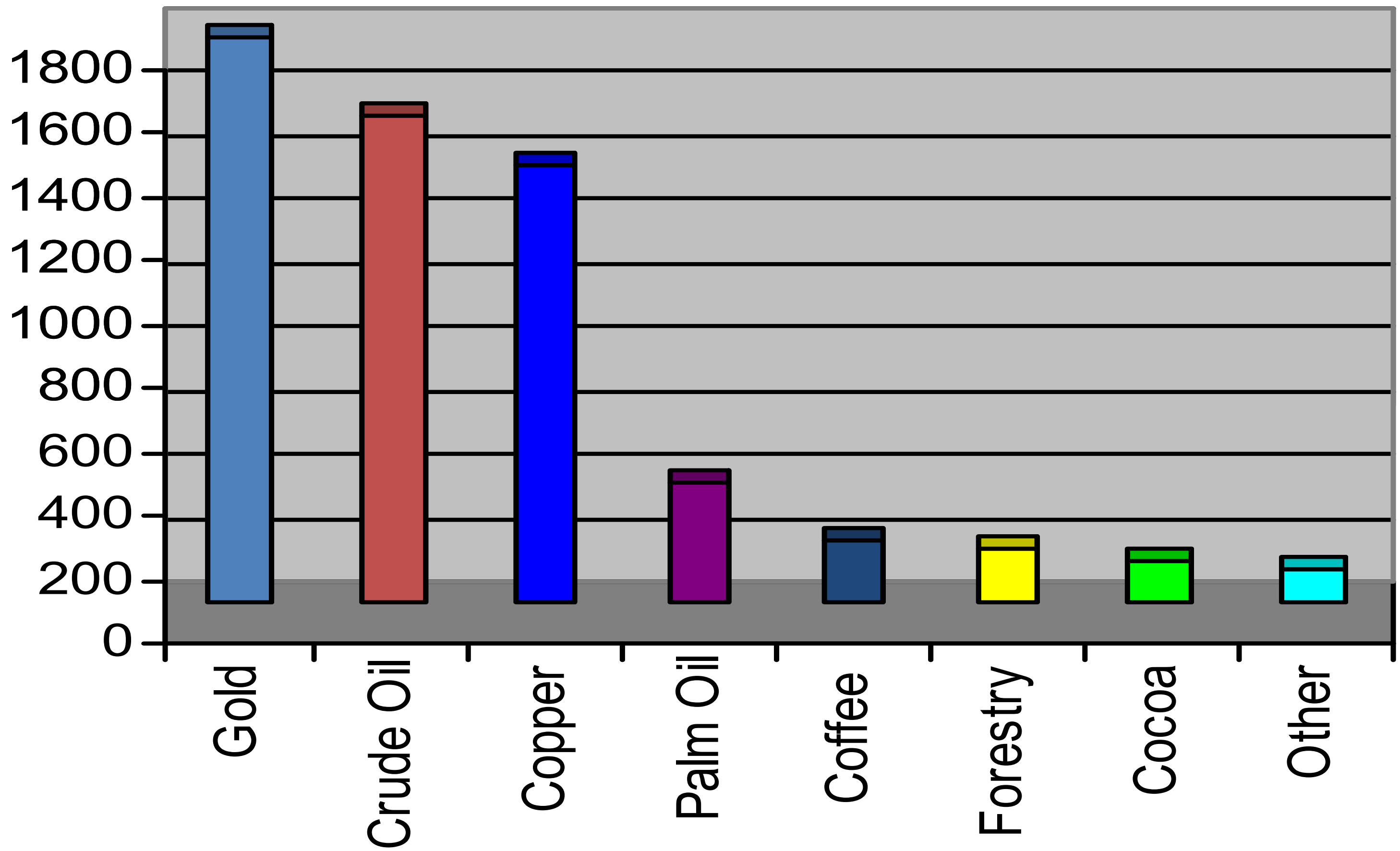
LNG Project Map



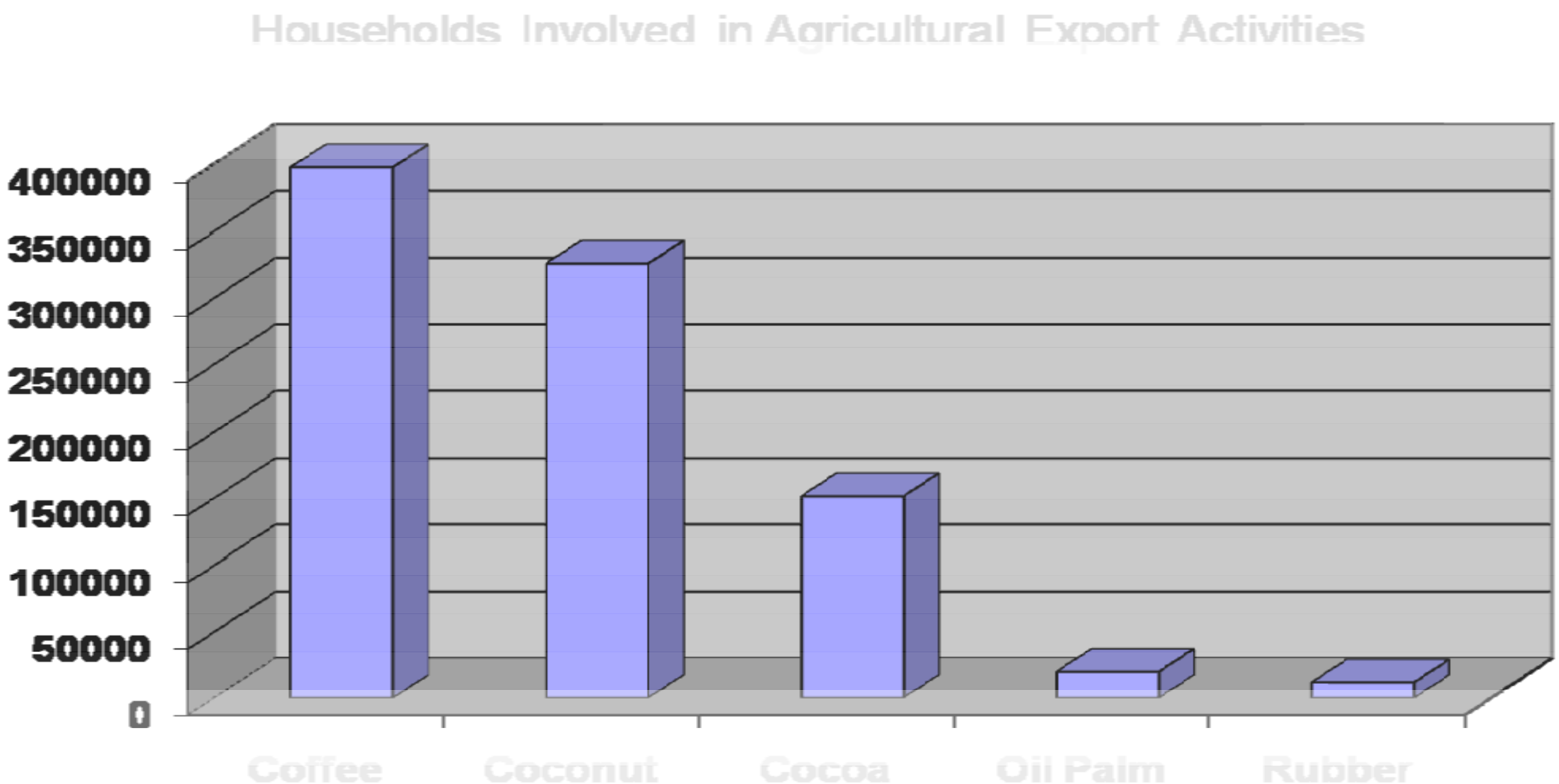
Introduction

1. Exxon Mobile started work on the LNG project in 2010.
2. The impact of LNG on the economy of PNG will be huge.
3. The national Impact will significantly affect other sectors, including agriculture.
4. What can be done to mitigate the negative impacts and take advantage of the positive ones.

Exports by Commodity



Importance of Agriculture



Impact of LNG on the National Economy

1. Start up cost $A12 billion
2. Production 6.3 million tonnes of Liquefied Natural GAS.
3. Export revenue $A4 billion annually, compared to PNG exports of $A6 billion.
4. Government revenues $A225.37 billion over 30 years.

Impact of LNG on the National Economy

5. Direct cash flow to land owners.
6. GDP double from $US 3.2 to $US 6.9 billion.
7. Infrastructure developments
8. Employment 12-15,000 initial phase, 1250 permanent.

Next section: How will the impact of LNG on the national economy affect the agriculture sector?

Impact of LNG on agriculture sector

1. High costs of goods and services.
   - Subsistence farmers affected most, they do not have a fixed wage income.
   - Unskilled rural workers would find it hard to meet make ends meet.
   - Agricultural employers are finding it difficult to find affordable accommodation for their staff.
   - High costs will result in lower living standards of rural citizens.
   - Impact negatively impacts on the viability and sustainability of agricultural employers.

Impact of LNG on agriculture sector

2. Appreciation of the exchange rate negatively impacts on kina export revenue.

eg; 10% appreciation 0.339 - 0.3729 given price 100 US c/lb result in a loss of K35 million, 10% of total coffee revenue.

- Any change in the export price always affects the producers, not middle men.
- A combination of lower export prices and appreciated exchange rate could spell disaster for our agricultural export industries.

Impact of LNG on agriculture sector

- Our export products will become dearer hence less competitive on the world markets.
- Cheaper imports may make it affordable for agricultural export producers, especially plantations to purchase and apply imported inputs such as fertilisers and other chemicals.
- Agricultural export producers are currently enjoying high prices; fall in price will result in more plantation esp. going out of business

Impact of LNG on Agriculture

3. Loss of labour to LNG

- Coffee exporters and plantations reported that they have lost workers to LNG.
- This creates skills gap within these organisations.
- To retain skilled workers would add to their already high labour costs.

Impact of LNG on Agriculture Sector

4. Food producers will experience a boom in business as LNG places increased demand on their food products.

- The question is has PNG the capacity to produce sufficient foods locally to meet this demand, probably not.
- If increased demand for food products cannot be met locally, then there would be increased imports of foods from overseas.

Impact of LNG on Agriculture Sector

5. Freighting companies shifting to service LNG

- smaller coffee exporters (nationals) resorting to small private truck operators, despite the higher risks this entails.

6. Port facility in Lae is unable to handle increased traffic.

- Delayed shipments due to congestion is potentially damaging to PNG's reputation as a reliable supplier of coffee.

Policy Implications

1. Appropriate fiscal, monetary and exchange rate policies need to in place to mitigate thee negative impacts on the competitiveness and sustainability of our agricultural export commodities
2. Appropriate infrastructure (physical, financial, market) need be developed to assist build the capacity of food producers to response positively to increased demand for their food products.

Policy Implications

3. State food agencies need to be revamped and resourced.

4. Agricultural export sector will continue to loose skilled labour LNG unless LNG generates skills workers for itself and other others

5.LNG windfall revenues must be invested in agriculture.

Policy Implications

Possible investment program in agriculture sector:

- Infrastructure development
- rehabilitation and expansion
- Quality improvement
- Freight Subsidy
- Research and Extension

Conclusion

- Investments in the agriculture sector that have had significantly impacted on the lives of our rural citizens abound. Use these as guides to invest windfall LNG revenues if our economy and its people are continued to be sustained after LNG is gone

End

Thank you