



MINISTRY OF PUBLIC ENTERPRISES

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Statement in Parliament by The Rt Hon Mekere Morauta, KCMG MP, Minister for Public Enterprises 24 November 2011

THE STATE OF PNG's PUBLIC ENTERPRISES

Introduction

When the O'Neill-Namah Government took over from the Somare regime in early August, I was given the task of sorting out the mess which had been created among all of the state owned enterprises by the former Minister for Public Enterprises, the (currently suspended) Member for Angoram.

The main responsibility of this ministry is the Independent Public Business Corporation, IPBC, which is the sole shareholder of all of the state owned enterprises such as Air Niugini, Telikom, PNG Power, Ports PNG, Eda Ranu and PNG Waterboard, as well as some other businesses in which IPBC has a minority interest, such as Bmobile, Bank South Pacific, Oil Search and Kula Palm Oil.

Since August we have been reviewing not only the IPBC but all of the SOEs, to find out why they have been performing poorly and why no dividends have been paid to IPBC by any SOE since 2007. In essence, where has all the money gone? Why has the service delivery of SOEs fallen so far below accepted levels?

The Government has appointed a new Board and new Managing Director to the IPBC, and is in the process of renewing the boards of the SOEs and replacing some of their CEOs. The Department of Public Enterprises has been abolished, as it served no functional purpose; its staff will be redeployed elsewhere in the public service. And we are still investigating what has happened to the enormous public resources which have been given to the IPBC and the SOEs, but which have not produced rural air services, reliable power, efficient ports, competitive telecommunications or fast and affordable internet services.

It seems that the IPBC and its SOEs were seen as the Somare family "honey pot", with family members and cronies being appointed to the boards of SOEs and IPBC, and deals being done which make no commercial sense and which have proven to be of little or no benefit to the public. In the midst of this, the family financial adviser was appointed as Managing Director of IPBC (no conflict of interest was apparently noticed) and even the Somare family legal adviser was given chairmanship of IPBC for a period. As Minister, Arthur Somare regarded the SOEs as toys to be owned to glorify his image, not to provide services to people.

Sorting out this mess has been a difficult task, though I must say the new Managing Director and staff of IPBC have worked extremely hard and for long hours in the last few months. I will give some examples of what we have found out in particular SOEs, and what we are doing to rectify the problems.

IPIC Loan

The largest investment decision made by Government ever in PNG was the investment of public money in the PNG LNG project. This required the borrowing of 1.68 billion Australian dollars which then Minister Somare and the then IPBC Managing Director arranged through the little-known IPIC, a fund in the Middle Eastern oil state of Abu Dhabi. We have had to investigate the circumstances of this loan, because there is now a 900 million Kina shortfall in the loan which the current Government will have to find.

It is still not clear exactly why this very large shortfall has occurred, but some of the decisions taken in relation to this loan and administration of the funds seem very hard to explain, or were based on bad advice, but they certainly produced disastrous results. Without going into details, it seems very strange, and an appalling lapse of judgment on the part of Arthur Somare and Glenn Blake, to agree to repay the loan in full in March 2014, before the LNG project starts producing significant revenue. In other words, we need to repay this very large loan before we have an income stream from the project for which the loan was taken out. To agree to this was completely stupid, which raises many questions about the motives of the borrowers.

Would it not have been more sensible to take out the loan for a longer period, which would have enabled the loan repayments to have been made after the project was in full production? And why was the loan money drawn down (and earning little interest) months before it was required for the LNG project? That issue alone guaranteed there would be a significant shortfall which would have to be made up. Also, very large foreign exchange losses were incurred when the loan money was all converted to one currency without any currency hedging in place, a normal precaution for such large financial transactions.

All in all, the initial development of this loan, and its administration since being taken out in 2009, have been characterised by very poor decision making which has resulted in a loss to the Government, to the people of Papua New Guinea, of 900 million Kina. That money could have paid for a lot of schools, hospitals and roads, but is now needed just to repay the loan arranged by Arthur Somare.

MVIL

As an insurance company, MVIL needs significant financial resources available to it to meet claims and other unexpected expenses. Thus a large part of its business is in arranging appropriate secure investments in which to place its long-term funds.

We would therefore expect MVIL to act professionally and prudently in investing its premium income. I was most surprised to find, on taking over the ministry, that large sums of MVIL money have in recent years apparently been placed in and through highly questionable investment vehicles, resulting in some of those investments being lost. In particular, 90 million Kina of MVIL public money had been placed with a dubious investment company operating through a bank in rural New South Wales, in peculiar circumstances. Approval for that investment was neither sought nor obtained from IPBC.

Our investigations have so far failed to establish whether that 90 million Kina is safe, or reduced in value, or totally lost, other than a vague and unsubstantiated claim from the former MVIL CEO, at the time of his dismissal in September, that *[quote]* “the investment is safe and still there”. MVIL has been directed by IPBC to require the Australian investment company to return the whole investment amount to PNG, but we do not yet know whether that will be done. While I hope for the best, I fear the worst – there is a chance that some or all of 90 million Kina of public money has been lost by MVIL in a crooked Australian investment scheme.

Bemobile

This is another example where the previous government, and Arthur Somare in particular, entered into bad deals which have got progressively worse over time.

In 2008, Telikom sold half of its mobile phone company to a private consortium, dominated by a Hong Kong venture capitalist, GEMS. But in doing so, Telikom entered into an extraordinarily lopsided agreement for this new joint venture where, notwithstanding Telikom having half the shares, GEMS, with less than 40 per cent of the joint venture shares, was guaranteed a majority of directors and complete control over the management of Bemobile (including management selection). The agreement locked in Telikom to this arrangement with no prospect of changing it.

Earlier this year Telikom's share of Bemobile was transferred to IPBC and the Asian Development Bank became a minor shareholder. A revised shareholder agreement was signed by the then Managing Director of the IPBC, which is just as lopsided as the original agreement, if not more so, still giving GEMS total management control and permanent domination of the Bemobile board.

The management of Bemobile has been anything but successful. I must be somewhat circumspect about what I say about Bemobile, as a company with private shareholdings (including PNG investors), but it is apparent to anyone that Bemobile is struggling to compete with Digicel. And some of the reasons for this are terrible management decisions taken in the last couple of years by Bemobile under GEMS direction.

It is inexplicable why anyone with the interests of the public of PNG in mind would (twice) sign such unfair and biased shareholder agreements, so plainly detrimental to this nation's interests, as occurred with the former Managing Director of the IPBC, in conjunction with the then Minister. We are trying to overcome these problems, to improve the management of Bemobile and have it managed in PNG rather than from Hong Kong, but it has not been easy and it is not yet resolved.

Telikom

Telikom PNG is one of the worst performing SOEs. Its reputation within the telecommunications industry and with the general public is bad, largely as a result of it failing to meet any of its service quality standards for many years. Under the previous government, the Telikom Board was highly politicised, and this has shown in the way the business has been managed.

In several cases, major capital investment has been made, but not followed through, so that the investment has generated no income nor improved services in any way. One example is the Lae/Madang link. Some years ago, Telikom arranged for a second submarine telecommunications cable to be laid to PNG, at considerable capital cost, to come ashore at Madang. This project was completed in October last year, 2010. However, that submarine cable has been lying idle for the last year because the international gateway to which the cable needs to be connected is at Lae, and there is no high capacity link between Lae and Madang. The project to build that link, a relatively minor task, had been waiting around under the previous Government, not attended to, for many months. In the meantime, the submarine cable has been unused. In September, the IPBC directed Telikom to complete the Lae/Madang link urgently, and gave Telikom the necessary 6 million Dollars funding for the project. That will now be completed early next year, so we will finally have an integrated network with an international capacity ten times as great as the current, old submarine cable from Port Moresby. And Telikom will actually make some money from the new cable.

But Telikom has other major financial and regulatory issues which are not as easy to resolve. As with all SOEs, Telikom is required, under the IPBC Act, to obtain the Treasurer's approval, on the recommendation of IPBC, for all expenditure over one million kina. Telikom and the Telikom Board have blithely ignored that legal obligation, for several years. In May last year, Telikom wrote to the

IPBC, seeking retrospective approval (which cannot legally be granted anyway) for unapproved expenditure by Telikom going back to early 2007, amounting to about 800 million Kina. This is not a minor accounting oversight; 800 million Kina is a lot of money, a significant slice of the government's budget, certainly as far as SOEs are concerned.

This 800 million Kina includes 200 million Kina which Telikom borrowed in 2008 from two banks, as part of a larger proposed borrowing of 340 million Kina, again without any approval from the Treasurer. Not surprisingly, the banks which lent this money to Telikom are now looking to the IPBC or the Government to repay the money, all of which has been spent. However, in Telikom's own words, the 200 million Kina has "not yielded enhanced revenues because the capex programs have not been taken to their logical conclusion". In other words, 200 million Kina of borrowed money has been spent, without the required approval, but that investment is not yet producing revenue for Telikom, which now wants IPBC to bail it out.

This just goes to demonstrate the terrible state of financial management in Telikom, which is costing the Government very large amounts of money. Another legacy of the previous government.

Air Niugini – Flights of Fancy

Air Niugini was forced by the Somare Government to make some very expensive aircraft purchases using public money which made no commercial sense at the time, and which are of little or no benefit to the travelling public.

The only justification for purchasing the Falcon executive jet in 2010 for well over 40 million US dollars was to satisfy the Somare ego and vanity. While that aircraft was used as a personal executive jet for the then Prime Minister, his family and friends to go wherever they chose (including frequent private trips to Wewak, Singapore and Australia for family reasons or medical check-ups), the Falcon could only land at a handful of airports in PNG and was thus of little or no use for any flights, scheduled or charter, other than for satisfying the whims of the then Prime Minister and his entourage.

Air Niugini is now selling the Falcon jet, on the Government's instructions. While we will make a loss on the sale, Air Niugini will save the very considerable crewing and servicing costs for the Falcon which are mounting up on a daily basis and we will get a significant amount of the capital cost back for the Government. While awaiting sale, the Falcon has had some use, being chartered for the Prime Minister on official travel, for which the government is paying Air Niugini proper charter rates.

Another *bilas* purchase forced on Air Niugini by Arthur Somare was to buy a Boeing 787 Dreamliner – the most expensive aircraft in the world at 140 US million dollars apiece – and to get the earliest possible delivery. It was to be delivered next year, but manufacturing delays have put that back to 2014. It makes poor commercial sense to have a 787 in the Air Niugini fleet in 2014, so the airline is now negotiating with Boeing to delay delivery for at least a couple of years, by which time it will make commercial sense.

While Arthur Somare dreamt of – and used people's money to buy - Falcon jets and Dreamliners, what did he do in nine years to extend Air Niugini services to rural areas? Nil, nothing.

Finally, Air Niugini was told by the Government to continue its unprofitable Japan services, in return for which it was promised a subsidy from the Government. A subsidy payment of thirty million kina, intended for Air Niugini, was instead paid to the Department of National Planning, from which it promptly disappeared. Air Niugini is still waiting for payment. We are trying to find out what happened to the money, but have so far had no explanation. The Member for Pomio, Paul Tiensten

was of course Minister for National Planning at the time. Perhaps Air Niugini's money was diverted to his pet private airline, Travel Air, or its owner?

PNG Power

Like its sister SOEs, PNG Power is paralysed by lack of capital. It is literally stumbling in the dark, intermittent power being provided thanks to the ingenuity and skills of its linesmen and technicians.

PNG Power requires major surgery and a major capital injection. Cabinet has a number of submissions before it which, when implemented, will transform the electricity industry of our country and introduce partners to PNG Power to assist in power generation. These projects will greatly increase capacity and provide solutions for the energy requirements of Port Moresby, Lae, Morobe, Madang, Western and all the Highlands provinces, as well as provide a base for the export of power and for huge industrial expansion from the power to be generated by a hydro scheme on the Purari River. Taken together, these projects will solve the country's power problems for scores of years ahead, and PNG Power will be an active participant in this bright future.

PNG Ports

The two major ports in the country, Lae and Port Moresby, are really struggling. The lack of capacity of both ports is resulting in delays in moving cargo and high costs, which are in turn being passed on to the general public in the cost of goods in supermarkets and stores. Port Moresby desperately needs a new port, out of the central downtown area. And while a new port is planned for Lae, the project is frankly a mess. It has design issues, and already there has been a 100 per cent increase in the capital cost of the project. Lae port handles 60 per cent of the export and import trade of the country, and generates 50 per cent of all port revenue. The current port has huge capacity problems, and is not only inflating the cost structure in Morobe and the Highlands, but causing great headaches for the construction of the LNG project and other major mining projects served by Lae for cargo – not helped by the dreadful state of the Highlands Highway.

IPBC is grappling with these problems with our major ports, and is determined to provide solutions.

Conclusion

Mr Speaker, the picture I have painted of the major SOEs looks depressing, and unfortunately it is. The examples I have given demonstrate one main thing – the politicisation of the SOEs and the IPBC under the previous government has led to poor management, poor governance, a lack of commercial understanding and, as a result, poor performance from the SOEs in terms of the services they deliver to the public of PNG, and their poor financial and commercial performance.

It has been an enormous task to try to come to grips with what is occurring in each of the SOEs and then trying to fix the problems, turn the SOEs around commercially and financially, and improve their quality of service to their customers. And in the midst of it, trying to find where a lot of the money has gone. We are still working on it, and will continue to do so in the coming months. It will take time to overcome the years of mismanagement and neglect of SOEs and their politicisation under the Somare government, but it must be done; the SOEs are too important to the daily lives of all our people to let them stay so unhealthy.