

Papua New Guinea Extractive Industries Transparency Initiative (PNG EITI)

Report for 2015

21 December 2017



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Independent administrator's notes

Reporting period

This report covers the calendar year from 1 January 2015 to 31 December 2015. In instances where figures for 2015 could not be obtained, the most recent available data is given. Where relevant, we have also included data subsequent to the reporting period. We have annotated data relating to years other than 2015 within the text.

Reporting on cash basis

Receipts and payments reconciliations incorporated within this report is on 'cash basis', consistent with decisions made by the MSG. That is, we included only payments made or received during the 2016 calendar year. Some of these payments may have been accrued in previous years. Where payments were accrued during 2015, but made during 2016, these will be included in the 2016 EITI Report.

Currency

Most figures in this report are given in PNG kina (PGK), while some are in US dollars (USD). This reflects the data as received; the independent administrator has not converted any amounts, nor have we checked conversion rates. A suggested average 2015 exchange rate of USD1: PGK2.698 was included in the reporting templates.

Data accuracy

The data contained in this report was compiled from a mixture of publically available information and data sourced from documents provided directly by reporting entities and members of the MSG. Where variances were found during the reconciliation process, we have worked with reporting entities to explain and, where, possible, resolve these variances. Other than the reconciliation process, no quality assurance, audit, verification, or review has been provided to test or confirm the accuracy of the data, meaning that no conclusion is provided as to the accuracy and completeness of the data and information presented.

Report completeness

We have experienced varied levels of cooperation from reporting entities. In general, reporting entities have shown an increasing level of understanding of the process and willingness to participate since the first PNG EITI Report on 2013. However, some significant gaps remain in this report. An index of report content relative to the EITI Standard can be found on page vii.

Abbreviations

AML	Alluvial Mining Lease	MRA	Mineral Resources Authority
APF	Agogo Processing Facility	MRDC	Mineral Resources Development Company Ltd
APT	Additional profits tax	MMscf	Millions of standard cubic feet (gas)
BDO	Business Development Grant	MRE	Mineral Resource Enga Ltd
BO	beneficial ownership	MRM	Mineral Resource Magang Ltd
CDOA	Coordinated Development and Operating Agreement	MROT	Mineral Resource Ok Tedi No. 2 Ltd
CEPA	Conservation and Environment Protection Authority	MRSM	Mineral Resources Star Mountains Ltd
CMCA	Community Mine Continuation Agreement	MSG	Multi-stakeholder group
CPF	Central Processing Facility	MTFS	Medium Term Fiscal Strategy 2013-2017
CRF	Consolidated Revenue Fund	MYEFO	Mid-Year Economic and Fiscal Outlook
DMPGM	Department of Mineral Policy and Geohazard Management	NEC	National Executive Council
DNPM	Department of National Planning and Monitoring	NEFC	National Economic & Fiscal Commission
DOF	Department of Finance	NGO	Non-government organisation
DPE	Department of Petroleum and Energy	OGA	<i>Oil and Gas Act 1998</i>
EIR	environmental impact report	OTDF	Ok Tedi Development Foundation
EIS	environmental impact statement	OTML	Ok Tedi Mining Ltd
EITI	Extractive Industries Transparency Initiative	oz	ounce
EL	Exploration License	PDL	Petroleum Development Licence
EMC	Executive Management Committee	PEP	Politically exposed person
FGTF	Future Generation Trust Funds	PIP	Public Investment Program
FOB	Free on board	PGK	Papua New Guinea kina
GBT	General Business Trust	PNG	Papua New Guinea
GDP	Gross Domestic Product	PNGSDP	Papua New Guinea Sustainable Development Program
GST	Goods and Services Tax	PPFL	Petroleum Processing Facility Licence
IA	Independent Administrator	PPL	Petroleum Prospecting Licence
IDG	Infrastructure Development Grant	PRG	Petroleum Resources Gobe Ltd
ILG	Incorporated Land Group	PRK	Petroleum Resources Kutubu Ltd
IMF	International Monetary Fund	PRL	Petroleum Retention Licence
IPBC	Independent Public Business Corporation	PRM	Petroleum Resources Moran Ltd
IRC	Internal Revenue Commission	scf	standard cubic feet (gas)
ITA	<i>Income Tax Act 1959</i>	SML	Special Mining Lease
JV	Joint Venture	SOE	State-owned enterprise
KCH	Kumul Consolidated Holdings Ltd	SSG	special support grants
KMH	Kumul Mineral Holdings Ltd	STARS	Responsible Sustainable Development Strategy
KPH	Kumul Petroleum Holdings Ltd	stbo	standard barrels of oil
LBBSA	Licence Based Benefits Sharing Agreement	stbopd	standard barrels of oil per day
LNG	Liquefied natural gas	SWF	Sovereign Wealth Fund
m ³	cubic metres	TCS	Tax Credit Scheme
MA	<i>Mining Act 1992</i>	TWL	tax waiver letter
MAC	Mining Advisory Council	UBSA	Umbrella Benefit Sharing Agreement
MCC	Metallurgical Corporation of China Ltd	UHA	Unconventional Hydrocarbons Act
ML	Mining Lease		
MoA	Memorandum of Agreement		

Minister's foreword



It is my great pleasure to deliver the third Extractive Industries Transparency Initiative (EITI) Report for Papua New Guinea. The 2015 Financial Year Report is the first report delivered under the O'Neil - Abel Government and demonstrates the tremendous collaboration and sustained efforts between the Government, extractive industry players and civil society organizations. The Report presents to our populace an informative illustration of the PNG extractives sector, its economic impacts and particularly the revenue it generates, and how these revenues are managed.

This is the third Report that builds on from the first two reports for financial years 2013 and 2014. This Report highlights the strategies and key actions being undertaken by respective government agencies in the implementation of recommendations made from the first two reports.

I believe this Report will be utilised by the public to enhance understanding of the economic impacts of the extractives sector. From the Government perspective, the Report not only highlights a very sound fiscal setting surrounding the sector but also illustrates where information management may give rise to better systems, processes, policy and legislative reforms to enhance the ease of doing business in the sector.

PNG is endowed with vast reserves of oil, gas, gold, copper and other minerals. A significant proportion of export receipts to PNG's economy is derived from these mineral wealth. In an effort to promote and improve transparency and accountability to achieve good governance within the oil, gas and mining sectors, the Government has committed to support this global initiative and in ensuring that the extraction of PNG's mineral wealth remains commercially sound.

This Report provides investors and Papua New Guineans with renewed confidence that the Government of PNG is committed to transparency, and an improved investment environment for enhanced development outcomes for its people.

I commend the EITI 2015 Financial Year Report and officially endorse for publication and release.

A handwritten signature in black ink, appearing to read 'Charles Abel', written in a cursive style.

HON. CHARLES ABEL, MP
Deputy Prime Minister, Minister for Treasury & Chairman,
PNG Extractive Industries Transparency Initiative

Multi-stakeholder group statement

The Papua New Guinea Extractive Industries Multi-Stakeholder Group (PNG EITI MSG) has continued to provide guidance and maintained its oversight on the EITI implementation in the country. This has resulted in the publication of PNG's third EITI Report based on the financial year (FY) 2015. The third report clearly demonstrates the enhanced collaboration between the Government, Industry and Civil Society organisations in advancing EITI implementation in the country. The 2015 Report further adds value to the volume of work already undertaken in the production of previous two reports, the FY2013 and FY2014 Reports that were published. It is hoped that the publication of this Report will continue to stimulate discussions on the management of the sector and enhance an emerging trust between local communities, government and the industry for greater transparency and accountability.

The 2015 Report continues to focus on maintaining the key objectives of the PNG EITI in ensuring:

- ▶ Improved public understanding of the management of the extractive industries
- ▶ Improved accountability of both Government and Industry through enhanced understanding of how the extractive industries sectors are managed
- ▶ Improved transparency of payments made to national, provincial and local level government and landowner groups
- ▶ Revenue generation and collection remains consistent with government policy settings.

The activities of the MSG have not only resulted in the publication of this Report but have also given rise to other opportunities for government, industry and civil society groups to work together and improve awareness on the extractives sector.

Some of the activities of the MSG can be found on the PNG EITI website (www.pngeiti.org.pg) including the annual activity reports, MSG Work Plan and a range of awareness activities aimed at providing an insight into the operational process of the EITI and its implementation. The MSG has achieved milestones in endorsing the Beneficial Ownership Roadmap in January 2017 and this is being implemented in preparation for reporting in 2020. The MSG had established a Legislative and Policy Committee to undertake communications and outreach engagement activities through the PNG EITI Communication Policy and Strategy in 2016. The MSG had also commissioned a scoping study on sub-national payments and transfers in 2017 to determine the feasibility of extending EITI implementation to these levels of government.

Generally, engagement by MSG members continued to improve significantly in 2015. This was largely owing to members becoming familiar with the EITI Standard and its requirements, the related processes and the expectation of MSG to work hard to ensure PNG met the requirements set by the EITI Standards. Another factor that contributed to increased activities by MSG was due to the fact that the PNGEITI National Secretariat office became fully operational in 2015 which assisted the MSG to undertake additional work as per the PNGEITI Work Plan. There were open and fruitful discussions on issues and challenges affecting the extractive sector at MSG meetings. However, there is still room for further improvement through increased participation by MSG members at workshops and training opportunities to enhance their level of understating of the EITI Standards, and learn from the experiences of other implementing countries.

The Chairmanship of the MSG by Government has helped forge good working relationship between policy, revenue administration and regulating agencies. The MSG process has allowed for better inter-agency collaboration in terms of better revenue collections, expenditure and transparency aspects and also in identifying opportunities for improved systems and processes for business. Through the MSG, an NEC Policy Submission on the findings and recommendations from the first EITI Report was made to Cabinet through the Minister for Treasury as Chair of the PNGEITI MSG. This culminated in securing a Cabinet directive (NEC Decision #91/2017) that tasked each government entity to implement key recommendations from the first report. It is encouraging to note that a number of government entities affected by this directive have taken positive steps to act on some of these recommendations.

The industry representatives from the oil, gas and the mining sector have worked consistently with us to advance all aspects of the EITI process. This third report demonstrates how valuable partners they are in the pursuit of our development objectives as a nation and the real contribution they can make to the economy.

Civil society organisations (CSOs) have also been critical partners in the EITI process since the establishment of the MSG. This active participation is key to ensure that the transparency created by EITI leads to greater accountability. Civil society groups have a wider network and a voice for Papua New Guineas from impacted areas and the community more generally. These groups have their own perspectives on the impacts and contributions of the extractives industry to economic development.

The MSG process has provided an avenue for meaningful inter-agency collaboration and consultation on policy developments and legislative reforms arising from EITI reports. It has also enhanced greater access to industry and civil society groups by the government.

The MSG extends their appreciation to the PNG EITI National Secretariat headed by Mr Lucas Alkan for diligently supporting the MSG in advancing the work of the EITI in the country. The MSG also acknowledges the valuable advice and support accorded by EITI International Secretariat in the PNGEITI implementation process. Finally, the MSG would like to thank EY for performing its duties as the Independent Administrator in the compilation and preparation of this report.



PNG Council of Churches



ExxonMobil



**PNG MINING
WATCH GROUP ASSOCIATION**



Executive Summary

What is EITI?

The Extractive Industries Transparency Initiative (EITI) is a global organisation established in 2002 with a goal of increasing industry transparency and accountability. Countries participate by issuing annual reports reconciling payments from the extractive industries to receipts by governments, in accordance with the EITI Standard. This is Papua New Guinea's fourth EITI report, covering the 2015 calendar year. In accordance with the EITI Standard, the reporting process has been overseen by a multi-stakeholder group (MSG), and has been compiled by an independent administrator, Ernst & Young (EY).

Through participation in EITI, Papua New Guinea (PNG) is seeking to improve public understanding of the management of the extractive industries, increase the accountability of both government and industry, and improve the attractiveness of PNG as a destination for foreign investment.

About PNG

PNG comprises the eastern half of the island of New Guinea and surrounding islands, in the southwestern Pacific. The country has around 7.3 million inhabitants, and is extremely diverse geographically, biologically, culturally and linguistically. It comprises 22 provinces, with the capital in Port Moresby.

According to World Bank classifications, PNG is 'lower middle income'. The country is still establishing infrastructure and governance structures, and faces the complexities of a substantially non-monetised economy and a diverse population. PNG currently ranks 154 out of 187 countries in the United Nations' Human Development Index, and many social indicators such as health, education and gender equality are poor.¹ The PNG Government has expressed a strong commitment to address these issues and to meet the Sustainable Development Goals.²

PNG's economy is dominated by two sectors: agriculture, forestry and fishing, which engages most of the labor force (the majority informally); and the extractives sector (oil and gas extraction; mining and quarrying), which accounts for the majority of export earnings.³ In 2015, PNG's Gross Domestic Product (GDP) was PGK59,350.9 million.⁴

What extractive industries are there in PNG?

PNG is rich in minerals, ranking in the top 20 world gold and copper producers, and also producing silver, nickel and cobalt. PNG also has reserves of oil and gas; the country ranks 99 out of 103 countries with proven oil reserves, but its location close to Asia Pacific buyers, and the relatively low production costs,⁵ give the industry strategic advantages.⁶

¹ World DataBank Development Indicators, <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>, accessed 13 November 2017

² PNG Department of National Planning and Monitoring, Millennium Development Goals Final Summary Report 2015, http://www.pg.undp.org/content/papua_new_guinea/en/home/library/millennium-development-goals-final-summary-report-2015.html accessed 26 September 2017

³ 'PNG Overview', <http://www.worldbank.org/en/country/png/overview>, accessed 11 November 2016.

⁴ 2017 National Budget, Vol 1, Appx 3, Table 1, p. 102 (Actual data for 2007 to 2014: National Statistical Office. Estimates and projections: Dept. of Treasury) http://www.treasury.gov.pg/html/national_budget/files/2017/2017%20Budget%20Volume%201%20Economic%20and%20Development%20Policies.pdf

⁵ Oil Search Presentation at CLSA Hong Kong Investors' Forum, 2016, p.9 (accessed via <http://www.oilsearch.com/Media/docs/160919%20CLSA%20Investors'%20Forum%20Hong%20Kong%20-%20presentation-Update-85eecba7-f7cd-4aea-9764-217eaca5d2ca-0.pdf>, 7 February 2017)

⁶ 'International Energy Statistics,' *Energy Information Administration* <http://www.eia.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=57&aid=6>, accessed 07 February 2017

Who owns mineral resources in PNG?

Subsoil assets in PNG belong to the State. Developers of resource projects generally enter into an agreement with the State of PNG in addition to obtaining a resource development licence or mining tenement. This typically involves a broad consultation process with all affected parties. The details of contracts and licences are confidential and not publicly available.

The State has the right, but not the obligation, to acquire up to 22.5% of a participating interest in a designated gas or petroleum project, and up to 30% of a mining project. The State generally also grants free equity in resource projects to landowners from the area in which a project is located.

How do the extractive industries contribute to the PNG economy?

The extractive industries make up the majority of PNG's exports, and the commencement of the PNG LNG project has been the primary driver of GDP growth in recent years. Extractives contribute a smaller proportion of Gross Domestic Product, government revenue and employment.

Figure 1: Percentage contribution of the extractive industries to economic measures 2015

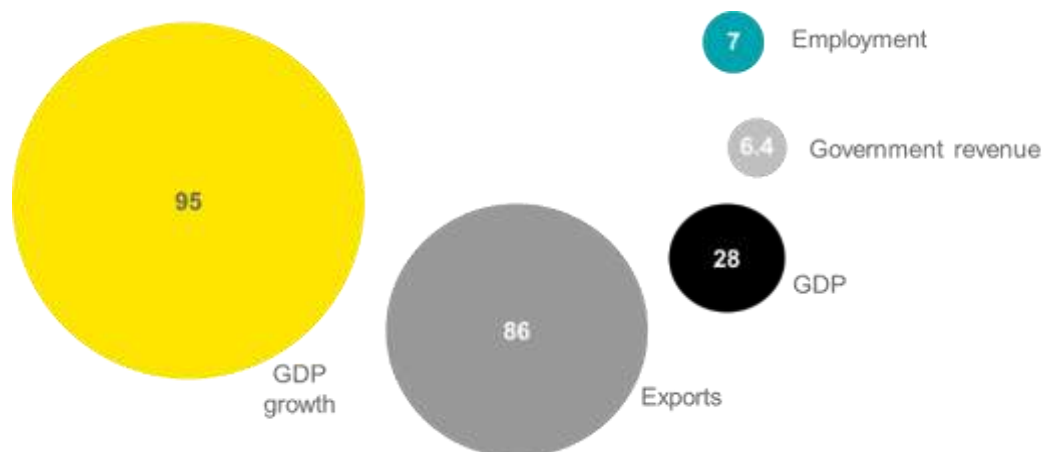
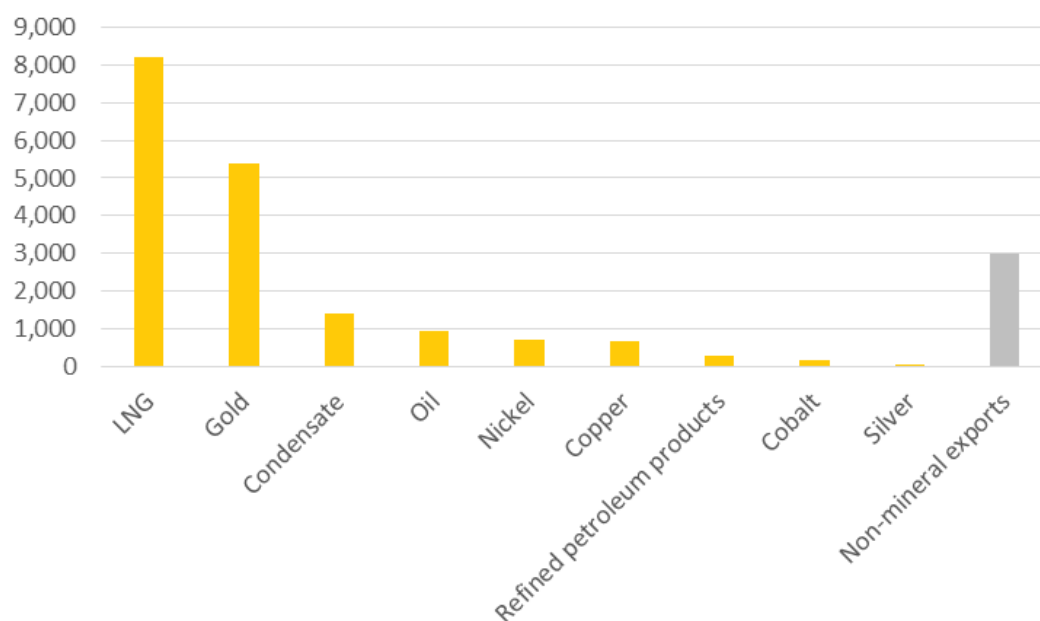


Figure 2: Mineral exports 2015 (PGK million)⁷



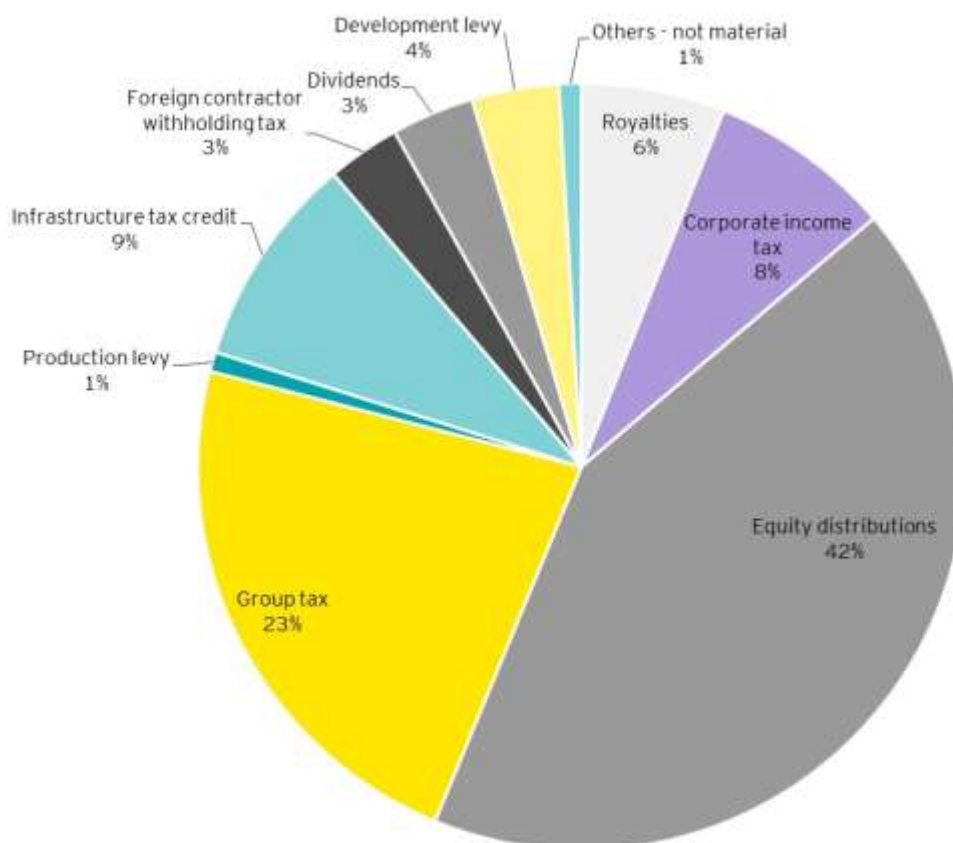
⁷ 2017 Budget, Vol 1, Appx 3, Table 5, p. 106 (actuals from BPNG), http://www.treasury.gov.pg/html/national_budget/files/2017/2017%20Budget%20Volume%201%20Economic%20and%20Development%20Policies.pdf

How do the extractive industries contribute to State revenue?

In 2015, the government derived income from the industry through:

equity distributions	received by state-owned enterprises (SOEs) participating in the extractive industries	42%
taxes	such as corporate income tax and group tax	34%
dividends	Paid by SOEs to the State	3%
royalties	2% of the gross revenue from resource sales or wellhead value	6%
levies	development levy on oil and gas projects is 2% of the wellhead value; production levy on mining projects is generally 0.25% of assessable income	5%
other revenue streams	such as fees	1%

Figure 3: Relative contribution of revenue streams from the extractive industries 2015



Most of this revenue goes into consolidated government revenue. PNG's budget is prepared by the Department of Treasury through a public consultative process. In recent years there has been an effort to make the process more strategic and rules-based so that it is directed towards achieving sound fiscal policy.

Some revenue from the extractive industries is earmarked for specific purposes, such as the Public Investment Program.

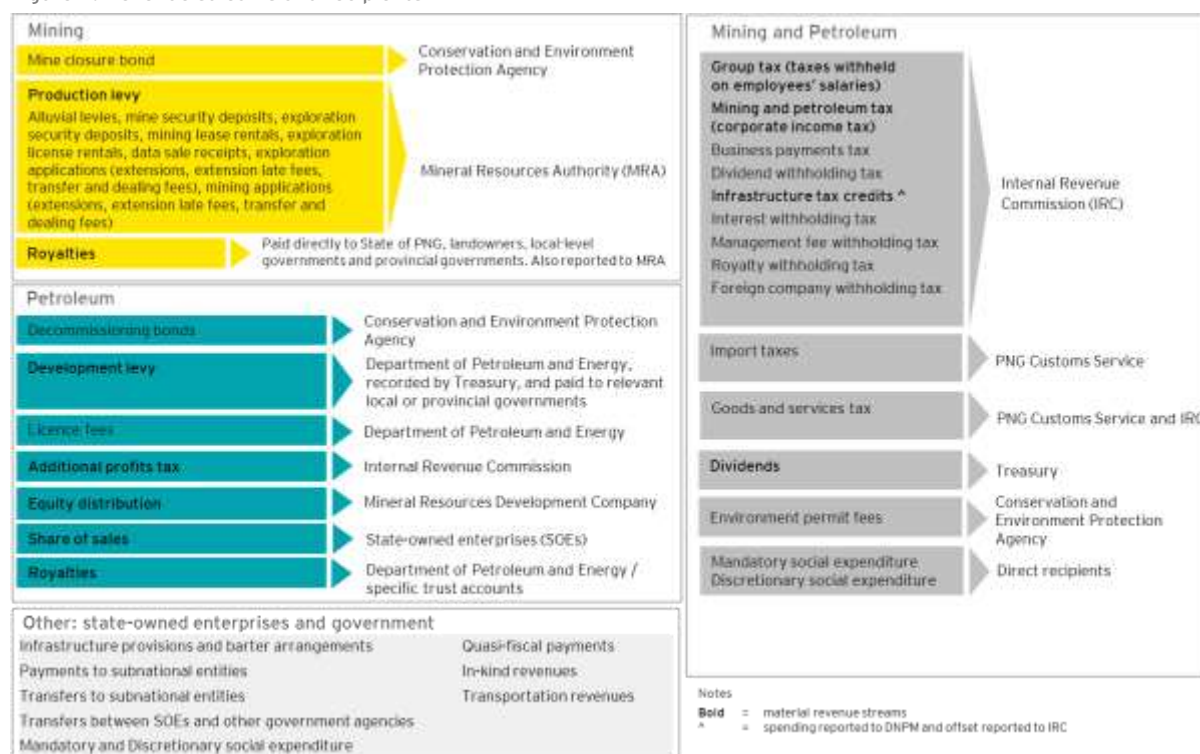
The PNG Sovereign Wealth Fund was recently established to ensure that some of the wealth generated by the extractive industries and is saved for the benefit of future generations. However, the fund is yet to come into operation.

Revenue flows to the government from the extractives industry can be volatile, as the financial performance of the individual operations can fluctuate due to factors including commodity prices, and impacts of severe weather events such as drought and flood.⁸ For example, Ok Tedi Mining Ltd suspended operations for seven months from August 2015 due to severe dry weather conditions.⁹

What are the revenue streams from the extractives industry?

The diagram below outlines the main revenue streams and their recipients.

Figure 4: Revenue streams and recipients



Which revenue streams are considered material for this report?

This report covers all revenue streams that contribute 2% or more to the total known revenue received by the government from the mining and oil and gas sectors. It also includes some revenue streams that were below that threshold but considered to be of interest, such as production levies. The material revenue streams are shown in bold in the diagram above.

Which organisations are considered material for this report?

The report includes all mining and oil and gas companies which had interests in operations that were producing saleable commodities during the reporting period, together with all state-owned enterprises (SOEs) and government entities that received payments from them.

⁸ World Bank East Asia and Pacific Economic Update October 2015 and 2016
<http://pubdocs.worldbank.org/en/414911444005973491/pdf/EAP-Economic-Update-2015-10.pdf> and
<https://openknowledge.worldbank.org/bitstream/handle/10986/25088/9781464809910.pdf>, accessed 18 October 2016

⁹ Ok Tedi Mining Limited Annual Review 2016, p. 2, <http://www.oktedi.com/media-items/publications/annual-review/488-2016-annual-review/file>, accessed 27 September 2017

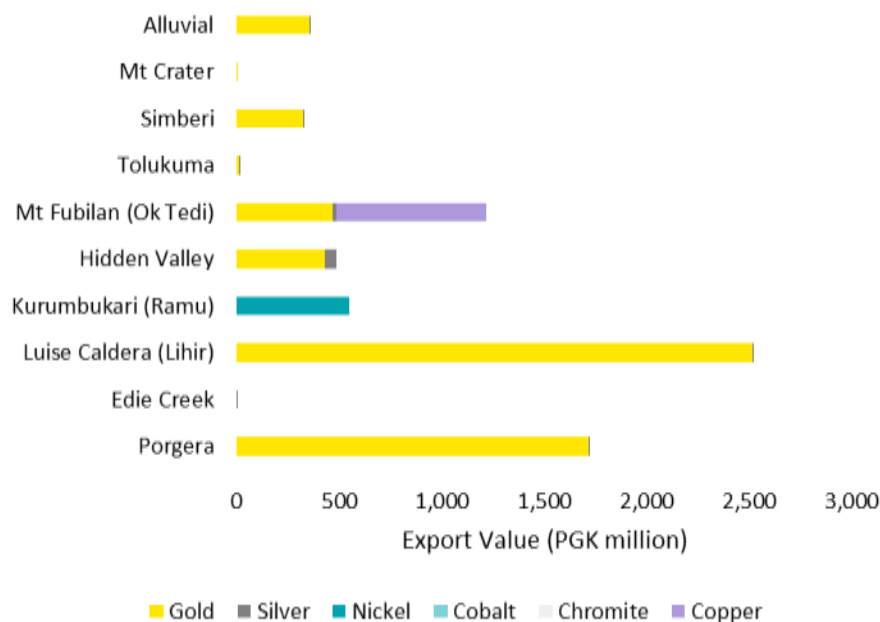
Figure 5: Material reporting entities 2015

Mining companies	Oil and gas companies	State-owned enterprises	Government departments and statutory authorities
<ul style="list-style-type: none"> ▶ Barrick (Niugini) Ltd ▶ Hidden Valley JV ▶ Lihir Gold Ltd ▶ MCC Ramu NiCo Ltd ▶ Niuminco Edie Creek Ltd ▶ Simberi Gold Co. Ltd ▶ Ramu Nickel Ltd 	<ul style="list-style-type: none"> ▶ ExxonMobil PNG Ltd (and subsidiaries) ▶ JX Nippon Oil and Gas Exploration Corporation (and subsidiaries) ▶ Oil Search (PNG) Ltd ▶ Santos Ltd (and subsidiaries) 	<ul style="list-style-type: none"> ▶ Independent Public Business Corporation ▶ National Petroleum Company of PNG Ltd (NPCP Holdings Ltd) ▶ Kumul Petroleum Holdings Ltd ▶ Kumul Consolidated Holdings Ltd ▶ Petromin PNG Holdings Ltd ▶ Ok Tedi Mining Ltd ▶ Mineral Resources Development Company Ltd (and subsidiaries) 	<ul style="list-style-type: none"> ▶ Bank of PNG ▶ Conservation and Environment Protection Authority ▶ Department of Finance ▶ Department of National Planning and Monitoring ▶ Department of Petroleum and Energy ▶ Department of Treasury ▶ Internal Revenue Commission ▶ Mineral Resources Authority

The mining industry in PNG

During 2015, nine mines were operating in PNG, distributed over a number of provinces. Companies active in mining and exploration in PNG include large international companies, state-owned enterprises, and a large number of junior companies, together with a significant contribution from up to 80,000 small-scale alluvial miners.

Figure 6: Mining exports by project, 2015¹⁰



Mining in PNG is governed principally by the *Mining Act* 1992 (MA) and administered by the Mineral Resources Authority (MRA), an independent statutory body.

¹⁰ Figures from MRA except for Lihir figures provided by company

There are four principal channels by which communities benefit economically from mining projects, other than through employment and procurement: royalties, Infrastructure Development Grants, Special Support Grants, and the Public Investment Program. The benefits for a particular project are agreed in a development forum with relevant stakeholders, including the State, company, provincial government, local level government and landowners, and set out in a Memorandum of Agreement. These agreements are not publicly disclosed.

The oil and gas industry in PNG

Commercial oil production began in PNG in 1992, and has been in slow but steady decline since the mid-1990s. There are currently five principal oil fields.

Oil and gas interests in PNG are predominantly in listed companies and state-owned enterprises. A range of companies are actively engaged in exploration and production in PNG, with a number of new projects in planning and development stages.

Gas production at scale is a new industry; the PNG LNG project shipped its first liquefied natural gas (LNG) in May 2014.¹¹ The project has design capacity of 6.9 million tonnes of LNG per annum,¹² and despite current low commodity prices, is expected to make a significant long-term contribution to the economy and government revenues. However, falling global LNG prices have already negatively impacted project returns, with potential ramifications for the government's financial position.¹³ The project has had significant impacts on affected communities, both positive and negative.

Production figures for 2015 were sourced from Oil Search and ExxonMobil, in the absence of data from the Department of Petroleum and Energy.¹⁴

Table 1: Oil and gas production and export data 2015

Source	Amount reported produced by operator	Amount reported exported by operator	Total export value reported by operator (PGK)	Total export value reported in Budget (PGK)
Oil	15,081 stbopd	5,297,638 stbo	752,047,605	943,200,000
Condensate	9,274 stbopd	3,065,055 stbo	435,112,265	1,413,500,000
Hides Gas	5,312 MMscf	8,362,693 MMscf	Not provided	0
PNG LNG Project LNG	7,423,719 tonnes	7,339,524 tonnes	Not provided	8,206,600,000

The oil and gas industry in PNG is governed principally by the *Oil and Gas Act 1998* (OGA), and overseen by the Department of Petroleum and Energy (DPE). DPE is chronically under-resourced and lacking in capacity, and was the subject of a number of priority recommendations in the PNG EITI Report 2013. On 6 April 2017, the National Executive Council (NEC) endorsed the recommendations from the first PNG EITI report. The DPE has since held a workshop to begin developing a licensing database and has begun implementing the electronic registry system by scanning the relevant documents. An increase of resourcing for DPE will be required to facilitate additional changes required to adhere to the EITI Standard.

¹¹ 'PNG LNG Project ships first LNG cargo,' *PNG LNG*, <https://pnglng.com/Newsroom/Media-Release/PNG-LNG-Project-ships-first-LNG-cargo>, accessed 7 February 2017

¹² 'project capacity of 6.9 million tonnes of LNG', *ibid*.

¹³ 'PNG Government works to stimulate growth', *Oxford Business Group*, <https://www.oxfordbusinessgroup.com/overview/png-government-works-stimulate-growth>, accessed 7 February 2017

¹⁴ Information included in Oil Search and ExxonMobil data templates provided for this report, received 8 and 19 September 2017

State-owned enterprises

The State holds the right to acquire a participating interest in any mining or petroleum project in PNG at par value, or 'sunk cost'. In return, the State can receive a share of the profits of the project, paid as dividends in accordance with its rights as a shareholder.

During 2015 changes were made to the structure of PNG SOEs in accordance with the Kumul Consolidation Agenda. The relevant state-owned enterprises (SOEs) during the period were:

- ▶ Independent Public Business Corporation (IPBC) - until August 2015 when it was became Kumul Consolidated Holdings Ltd (KCH)
- ▶ National Petroleum Company of PNG (NPCP) Holdings Ltd - until June 2015 when the *Kumul Petroleum Holdings Ltd Authorization Act 2015* was passed changing the name to Kumul Petroleum Holdings Ltd (KPH)
- ▶ Petromin PNG Holdings Ltd - until January 2016 when Petromin's assets were divided between Kumul Mineral Holdings Ltd (KMH) and Kumul Petroleum Holdings Ltd
- ▶ Ok Tedi Mining Ltd
- ▶ Mineral Resources Development Company Ltd (MRDC)

MRDC acts as a trustee shareholder for beneficiary landowners and provincial governments. It holds and manages shareholdings and pays royalties and equity to project landowners. The OGA specifies MRDC's role in holding and managing hydrocarbon assets for landholders, including investment of funds in future generation and community infrastructure trust funds. All oil and gas projects therefore have associated trusts which are wholly owned subsidiaries of MRDC. The MA allows for MRDC to hold the State's interest, but does not mandate it;¹⁵ consequently, not all mining operations have an associated MRDC subsidiary.

Beneficial ownership

A beneficial owner in respect of a company means the natural person(s) who directly or indirectly ultimately owns or controls the corporate entity.¹⁶

The PNG Government does not require companies to disclose the beneficial owners of companies producing oil and gas or minerals, and does not have a publically available register of the beneficial owners of the corporate entities in the sector. This report includes information on beneficial owners of material entities, as far as could be established through direct enquiry, reference to corporate websites and annual reports, and the PNG Mining Cadastre Portal database, hosted by the MRA website. Most interests are held by listed companies and/or state-owned enterprises.

The 2016 EITI Standard (2.5c) requires that reports from 2020 onward include detailed information relating to beneficial ownership. The MSG has developed a [roadmap](#) and [scoping study](#) to address this requirement, and work has begun on implementing the roadmap.

Subnational governments

Information relating to transfers and payments to subnational (provincial and local level) governments in PNG is difficult to obtain. The IA has attempted to include as much information as possible in this report.

¹⁵ Mining Act 1992 s.16A

¹⁶ The EITI Standard, 2016 - Requirement 2.5 Beneficial Ownership

Subnational payments include royalties, dividends, compensation payments, development levies, Special Support Grants, and other benefits as agreed through memoranda of agreement.

PNG EITI have commissioned a scoping study to investigate the possibility of implementing the EITI Standard to subnational governments and landowner associations, which is expected to be completed during 2018.

Reconciliation of revenue streams

For most revenue streams, the IA attempted to obtain data from both the paying and receiving entity, so the amounts could be reconciled. In some instances, however, the MSG agreed that data would be collected unilaterally. This can be seen in Table 3 below.

The response rate was encouraging, although it would give more confidence to the quality of the data if more reporting templates were signed by an authorised officer.

Table 2: Rates of compliance with EITI reporting 2015

Source	Reporting template submitted (%)	Reporting template signed (%)	Signed tax waiver submitted (%)
Mining companies	88	38	88
Oil & gas companies	100	75	100
Government entities	86	57	n/a
Total	84	58	94

A summary of the payment streams reported and reconciled is presented below:

Table 3: Reconciliation overview

	Revenue stream	Reconciled/unilateral	Receiving entity	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)
Mining	Production levy	Reconciled	MRA	20,321,174	20,336,502	(15,328)	(0.08)
	MRA fees	Unilaterally declared (MRA)	MRA	n/a	5,587,804	n/a	n/a
Oil & gas	Development levy	Reconciled	Finance (via DPE)	90,763,062	16,136,232	74,626,830	82.22
	Licence fees	Unilaterally declared (DPE)	DPE	n/a	4,497,944	n/a	n/a
	Additional profits tax	Reconciled	IRC	365,585	0	365,585	100.00
	Equity distributions	Unilaterally declared (KPH)	KPH	n/a	1,016,668,891	n/a	n/a
	Equity distributions (Oil Search shares)	Reconciled	KPH	74,323,960	34,807,038	39,516,922	53.17
	Share of sales	Unilaterally declared (SOEs)	State partners in PNG LNG	2,442,860,571	0	n/a	n/a

	Revenue stream	Reconciled/unilateral	Receiving entity	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)
Mining and petroleum	Mandatory social expenditure	Unilaterally declared (companies)	See section 6.5	146,905,425	n/a	n/a	n/a
	Discretionary social expenditure	Unilaterally declared (companies and SOEs)	See section 6.5	72,856,766	n/a	n/a	n/a
	Dividends	Reconciled	State (Treasury)	372,800,000	86,400,000	286,400,000	76.82
	Group tax	Partially reconciled	IRC	500,453,862	563,980,366	(63,526,504)	(11)
	Corporate income tax	Reconciled	IRC	98,480,705	191,619,705	(93,139,053)	(48.61)
	Infrastructure tax credits (offset against income tax payable)	Reconciled	IRC	30,750,233	61,888,348	(31,138,115)	(50.31)
	Infrastructure tax credits	Reconciled	IRC	280,010,567	222,518,923	57,491,645	25.84
	Other Taxes	Unilaterally declared (IRC)	IRC	n/a	88,107,808	n/a	n/a
	Special support grants	Unilaterally declared (Treasury)	Provincial governments, special purpose authorities	100,109,000	n/a	n/a	n/a
	Environmental permit fees	Unilaterally declared (CEPA)	CEPA	n/a	4,099,834	n/a	n/a
	Royalties	Reconciled	DPE, MRA, landowners and subnational governments	224,100,323	150,297,801	73,802,522	49.10

Together, the revenue streams included in the reconciliation equate to approximately 92% of total known revenue from the sector in 2015 (see Figure 3). Group tax was not initially included in the 2015 reconciliation based on a decision made by the MSG in 2015, at a time when these revenue streams were deemed not material.¹⁷ With the PNG LNG project now in operation, this situation has changed, and the IA has included this information in the reconciliation where it was available. A recommendation has also been made to reconcile in future years along with foreign contractor withholding tax that has been shown to represent 3% of the known revenue streams for 2015.

¹⁷ MSG meeting minutes, 17 April 2015, <http://www.pngeiti.org.pg/wp-content/uploads/2016/03/2015.04.13-MSG-Meeting-2-Minutes.pdf> accessed 27 November 2017

An overall material variance was found in all revenue streams reconciled, except for mining production levy and mining royalties. In most cases, however, these overall variances do not imply systemic issues when examined in more detail. In the case of corporate income tax, the majority of payments showed a zero or immaterial variance, but there was one significant variance. In other cases, such as Infrastructure Tax Credits, there appeared to be differing interpretations of which amounts should be reported. This can be further clarified in future reporting periods.

Is the data on the extractive industries revenues reliable?

Entities participating in this EITI report were asked to submit data templates signed by an authorised company representative, confirming that reported amounts are materially consistent with the audited financial statements. Only 58% of reporting entities provided these signatures.

All of the producing companies have accounts audited to international standards. Government entities and state-owned enterprises (other than Ok Tedi) are audited by the PNG Auditor General. Most, however, do not yet have audit statements for the reporting period, and previous audit statements indicated significant shortcomings in the reliability of accounts.

Social expenditures

Many extractive companies contribute to the communities in which they operate beyond the direct economic benefits and employment provided. These contributions may be voluntary, or may be mandated through legislation or through contracts with the government.

The EITI Standard does not define 'social', and the types of payment reported by companies under this heading varied, with some including payments such as compensation or lease payments, which others classify as commercial rather than social.

Discretionary social expenditures by operators ranged from zero to hundreds of millions of Kina. Funds went to support health, education and community projects, among others. Where companies invest in approved infrastructure, they may be entitled to claim Infrastructure Tax Credits.

Findings and recommendations

The 2013 and 2014 PNG EITI Reports made recommendations in relation to a number of areas where weaknesses in systems, processes, or organisational capacity had the potential to materially impact on the quality, accuracy, and comprehensiveness of future PNG EITI reports.

On 6 April 2017, the National Executive Council (NEC) endorsed the recommendations from the 2013 PNG EITI report. Progress has already been made against a number of these directives, some independently of the EITI recommendations. The timing of these improvements meant that not all benefits were noticeable during the 2015 reporting period, but it is expected that these changes will continue to drive improvements in the completeness and accuracy of data relating to the extractives sector in PNG for future EITI reports.

It was pleasing to note a significant increase in engagement from several reporting entities, and in the data provided. This was particularly evident from MRDC.

Additional recommendations have been made in this report, concerning:

1. Reconciliation differences and EITI reporting process	2. Material revenue streams to include group tax and foreign contractor tax in future reports
3. Engagement with government stakeholders to increase EITI participation	4. Reporting of subnational payments, already under consideration through a scoping study
5. Increased clarity and reporting of quasi-fiscal expenditure	6. Increasing transparency of infrastructure tax credit scheme
7. DPE to establish criteria for the transfer of oil and gas licences	8. The MSG to consult with EITI to provide more clarity on definition of social expenditure

1. Introduction

'We hope that the dissemination of these reports will stimulate discussion on the management of the sector, assist in better governance and create greater trust between local communities, Government and industry.'

Prime Minister Hon. Peter O'Neill CMG MP speaking about the EITI at the 14th Papua New Guinea Mining and Petroleum Investment Conference

The development of Papua New Guinea's wealth of natural resources represents a significant opportunity for the government of Papua New Guinea to reduce poverty, increase wealth and improve the wellbeing of its citizens. By becoming an implementing country for the Extractive Industries Transparency Initiative, Papua New Guinea has committed to improving transparency regarding the collection and distribution of revenues from the natural resource sector.

1.1 About the Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative (EITI) was established in 2002 with a goal of increasing transparency and accountability across the oil, gas and mineral resources value chain.

Figure 7: The resources value chain¹⁸



The EITI is a global organisation of sponsoring countries, civil society representatives and companies developing a framework for transparency. Participating countries issue annual reports reconciling payments from the extractive industries to receipts by governments. The adoption of the EITI Standard is discretionary, and must be incorporated into individual countries' laws to be binding. At the time of publishing this report, the EITI website listed 52 countries at various stages of implementing the EITI Standard. Of these 52, nine have achieved meaningful progress against the 2016 EITI Standard, six have been suspended due to inadequate progress and the remaining 37 (including Papua New Guinea) are yet to be assessed against the 2016 EITI Standard through the Validation process.¹⁹

1.2 EITI implementation in Papua New Guinea

Papua New Guinea (PNG) has a wealth of natural resources. Revenue from these resources could contribute to reducing poverty and improving the lives of PNG citizens. A key platform for achieving these outcomes is transparent collection and distribution of revenue from natural resources.

PNG ranked 139 out of 176 countries in Transparency International's *Corruption Perception Index* in 2015.²⁰ Similarly challenging assessments of corruption and attractiveness for foreign

¹⁸ EITI Website, <https://eiti.org/>, accessed 2 October 2017

¹⁹ EITI Website, <https://eiti.org/> countries, accessed 2 September 2017

²⁰ Corruption Perceptions Index 2015, *Transparency International*, https://www.transparency.org/whatwedo/publication/cpi_2015, accessed 14 November 2017

investment have been published by the World Bank,²¹ Natural Resource Governance Institute²² and the Fraser Institute.²³

The PNG Government is endeavouring to address this issue and improve PNG's attractiveness for foreign investment. Led by the PNG Minister for Treasury, PNG applied for EITI candidacy in 2013, and has since published reports for the calendar years 2013 and 2014. This report focuses on the 2015 year.

From 1 April 2018, PNG's EITI reports will be assessed through the Validation process, commencing with the report covering the 2016 calendar year.

Figure 8: PNG EITI Timeline²⁴



The PNG EITI has stated its objectives for implementing EITI in PNG are:²⁵

- ▶ To increase transparency of revenue flows from the companies to government, various landowners' trust funds, associations, and the provincial governments
- ▶ To use EITI as a diagnostic tool to assess government's management of resource revenue and its policy settings with recommendations to be used as a platform for broader reforms
- ▶ To provide reliable data for citizens to stimulate debate and hold government and companies accountable
- ▶ To increase investors' confidence to invest in PNG
- ▶ To provide a forum for enhancing dialogue between the government, industry, landowners and citizens

²¹ Doing Business 2017, Equal Opportunity for All, World Bank, 2016 (accessed via <http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf>, 26 September 2017)

²² 2017 Resource Governance Index', Natural Resource Governance Institute, <https://resourcegovernance.org/sites/default/files/documents/2017-resource-governance-index.pdf>, accessed 26 September 2017

²³ Survey of Mining companies, Fraser Institute, 2015 and 2016, (accessed via <https://www.fraserinstitute.org/categories/mining> 26 September 2017)

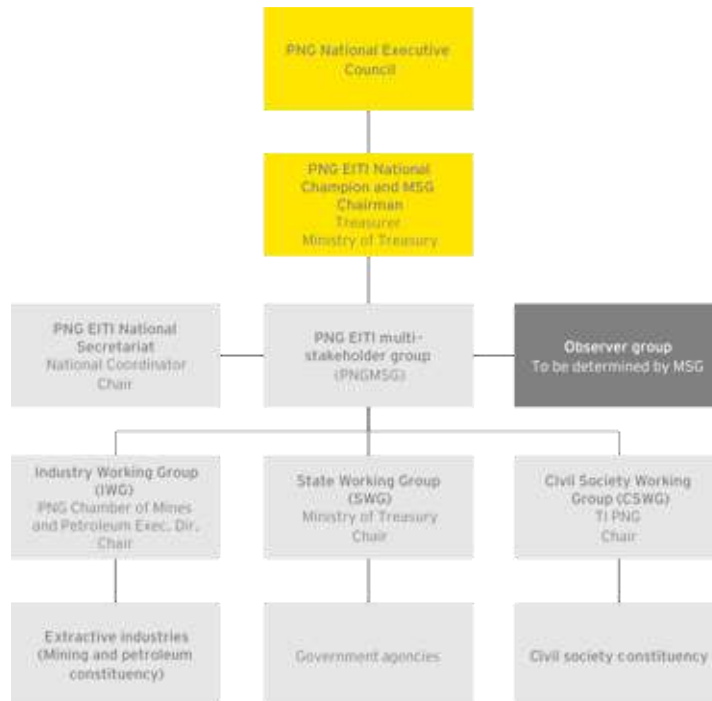
²⁴ EITI, 2017 <https://eiti.org/papua-new-guinea>

²⁵ PNG EITI Annual Progress Report 2016

1.2.1 EITI governance and leadership in PNG

The EITI Standard requires candidate countries to form a multi-stakeholder group (MSG) as the key decision-making body for implementation. The MSG represents government, civil society and industry. An informal group first met in PNG in early 2012, and the group was formalised on 1 November 2013 via a Memorandum of Understanding. Figure 9 shows the governance structure of the PNG EITI including the multi-stakeholder group.

Figure 9: Structure of governance on PNG EITI



The MSG is chaired by the PNG Treasurer, and at the time of writing comprises:

- ▶ Eleven representatives from the Government of PNG, including four voting and seven non-voting members, selected through internal processes and through direct engagement with participating ministries, agencies and departments
- ▶ Four representatives from state-owned enterprises, including three voting members and one non-voting member
- ▶ Eight representatives from civil society, including seven voting members and one non-voting member, selected through a democratic process based on agreed criteria, representing a range of perspectives and constituencies
- ▶ Seven representatives from the extractive industries, selected through a democratic process based on agreed criteria, in collaboration with the PNG Chamber of Mines and Petroleum.

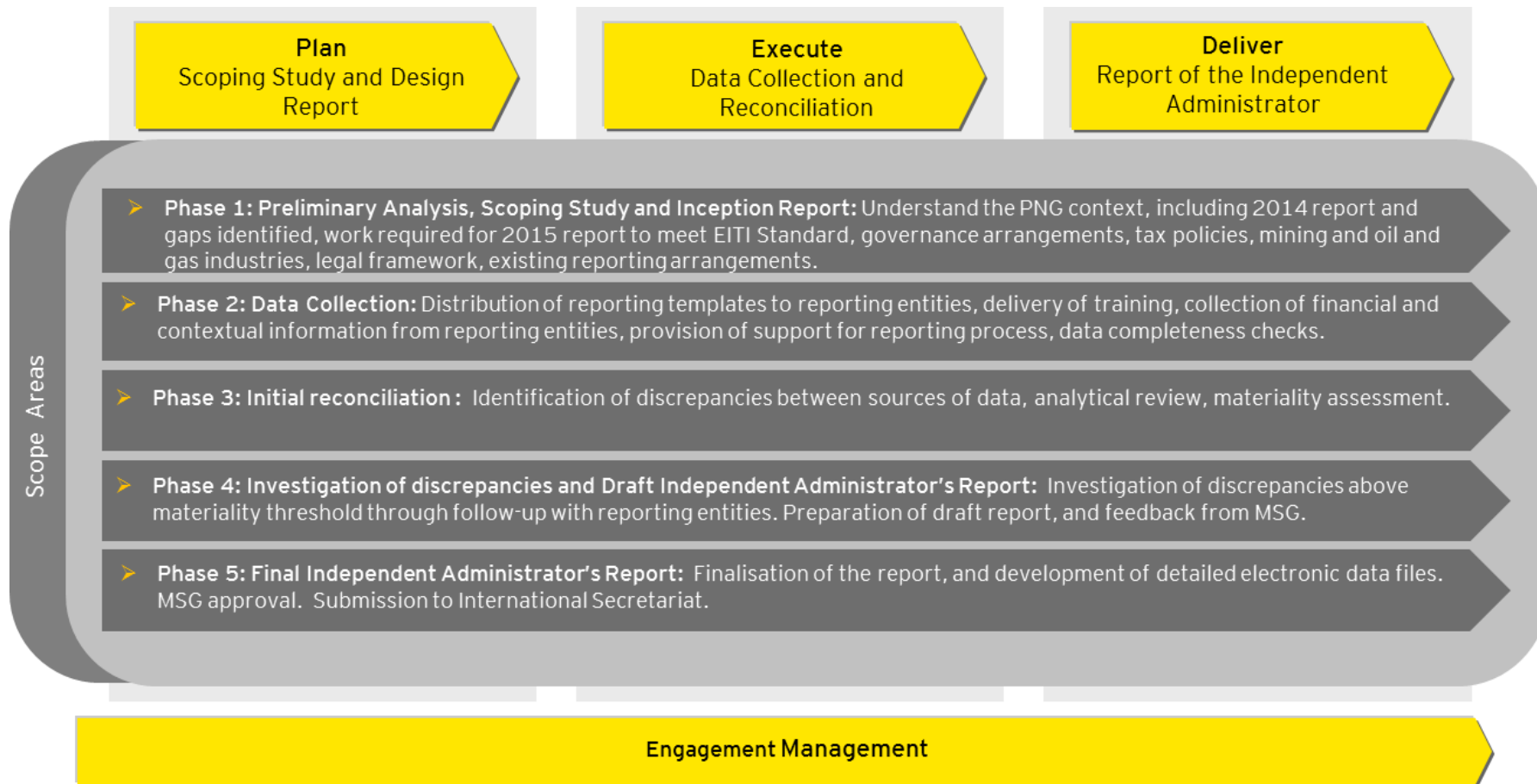
Each MSG member has a primary and two alternate representatives; a proxy vote can be given to others in case these representatives are unable to join a meeting. The organisational structure is shown in Figure 5 below, and the complete list of members and representatives is provided at Appendix A.

The PNG EITI National Secretariat assists the Chairman in providing coordination, facilitation and administrative support to the MSG. It is governed by terms of reference approved by the MSG.

1.2.2 The role of the independent administrator

The EITI Standard (4.9b) requires that payments and revenues be reconciled by an Independent Administrator (IA). Ernst & Young (EY) has been engaged by the PNG EITI National Secretariat to fulfil this role and prepare this report. The detailed responsibilities of the IA are outlined within the terms of reference issued by the PNG EITI National Secretariat and provided on the PNG EITI website at <http://www.pngeiti.org.pg/>. EY's process in preparing this report is shown in Figure 12 below.

Figure 10: EY's process for preparing this report



1.2.3 Progress in implementing EITI in PNG

On 6 April 2017, the National Executive Council (NEC) endorsed the recommendations from the first PNG EITI report. It is expected that this will drive improvements in the completeness and accuracy of data relating to the extractives sector in PNG.

Specifically, the following directives made by the NEC have the potential to facilitate improvements in the data collection process and address many of the gaps identified in the 2013 and 2014 reports:

- ▶ That the Minister responsible for the Mineral Resources Development Company (MRDC) ensures that MRDC engages fully with the PNG EITI MSG and reports through the EITI process on the equity distribution and all other funds it holds in trust and invests for the landowners and for future generations
- ▶ That the Minister responsible for Kumul Consolidated Holdings Ltd (KCH) ensures KCH participates in the EITI process and regularly reports through the EITI process the State's share/interest in the mining and petroleum sectors that it manages under the General Business Trust (GBT)
- ▶ That the Minister responsible for Kumul Minerals Holdings Ltd (KMH) and Kumul Petroleum Holdings (KPH) ensures these enterprises are fully engaged in the EITI process and report as required under the EITI Standard
- ▶ That the Minister responsible for the Mineral Resources Authority (MRA) and the Minister responsible for the State Solicitor ensure these entities make publicly available Memorandum of Agreements (MOAs) for EITI purposes and for the benefit of the general public
- ▶ That the Minister for Treasury legislates for the EITI reporting requirements within the Government reporting process (in lieu of current practice of using a waiver letter) and reports back with draft legislation for the NEC's consideration before the 2015 EITI Report.

Further directives that relate to implementing systems improvements should flow through to improvements in EITI reports from 2017 onwards. These include:

- ▶ Implementing an electronic registry system at the Department of Petroleum and Energy
- ▶ Amending budget and fiscal reports to collect information on subnational payments
- ▶ Improving audit processes for government agencies.

Refer to Chapter 11 for summary of progress in each of these areas.

2. Revenue streams and reporting entities

This report covers all material revenue streams from the extractive industries in the calendar year 2015. Both quantitative and qualitative definitions of materiality were applied:

- ▶ Quantitative materiality was defined as those revenue streams that are known to contribute 2% or more of government revenue from the sector
- ▶ Qualitative materiality was defined as those revenue/payment streams that are considered important or potentially important to the people of PNG, such as payments from trust accounts managed for the benefit of landowners, communities, or the State
- ▶ The resource sector companies required to report were those producing saleable product during the reporting period
- ▶ All revenue streams that were quantitatively material have been reconciled
- ▶ Revenue streams that do not meet either the quantitative or qualitative materiality thresholds have been unilaterally reported by either the paying or receiving entity

2.1 Materiality

The MSG considered both qualitative and quantitative definitions of materiality to determine which revenue streams would be deemed material for the purpose of this report.

When providing independent assurance under audit standards, materiality is typically defined as:

'The magnitude of an omission or misstatement that, individually or in aggregate, makes it probable that the judgment of a person relying on the information would have been changed or influenced by the omission or misstatement.'

The Global Reporting Initiative has a broader definition:

'Material topics are those that may reasonably be considered important for reflecting [...] economic, environmental and social impacts, or influencing the decisions of stakeholders'; 'materiality is the threshold at which Aspects become sufficiently important that they should be reported.'²⁶

PNG EITI's objective for this report is to assist in addressing fraud and corruption, to improve perceptions of PNG's attractiveness as an investment prospect, and to generally improve transparency and accountability. The MSG therefore adopted a definition of materiality that goes beyond the quantitative, including revenue streams that were:

- ▶ Likely to exceed a pre-defined quantitative level of materiality
- ▶ Are defined by law, or
- ▶ May be of significant interest or benefit to the PNG population.

The quantitative threshold applied to define materiality was all revenue streams that contribute 2% or more to the total known revenue received by the government from the mining and oil and gas sectors. Two percent is within the range usually applied in auditing financial accounts and is broadly consistent with materiality thresholds used for other EITI-compliant countries. Lowering the materiality threshold further would not have significantly increased coverage of the report.

²⁶ Global Reporting Initiative <https://www.globalreporting.org/>

Some additional revenue streams that fall below this threshold, but which are considered potentially material based on our qualitative definition of materiality have also been reconciled (see Table 7 below).

Additionally, other known revenue streams that are below this threshold have been included. These revenue streams are reported unilaterally by the receiving entity, or in the case of social expenditure, by the companies making the payments.

Definitions have also been confirmed for materiality of reporting entities as outlined below.

2.2 Reporting entities

The entities required to contribute to this EITI report include resource companies, state-owned enterprises (SOEs) and government entities. These are outlined in turn below.

2.2.1 Resource companies

Resource companies considered material were those with interests in extractive projects that were producing saleable commodities during the reporting period. This is the same definition the MSG applied in previous reports.

Table 4: Material resources companies 2015

Reporting entity	Project name
Barrick (Niugini) Ltd	Porgera mine
ExxonMobil PNG Ltd (and subsidiaries)	PNG LNG & Oil project JV partners
Hidden Valley JV	Hidden Valley mine
JX Nippon Oil and Gas Exploration Corporation (and subsidiaries)	Oil & gas and PNG LNG JV partners
Lihir Gold Ltd	Luise Caldera mine (Lihir)
MCC Ramu NiCo Ltd	Kurumbukari mine (Ramu)
Niuminco Edie Creek Ltd	Edie Creek mine
Oil Search (PNG) Ltd	Oil projects & PNG LNG JV partners
Ramu Nickel Ltd	Kurumbukari mine (Ramu) JV partner
Santos Ltd (and subsidiaries)	Oil & gas and PNG LNG JV partners
Simberi Gold Co. Ltd	Simberi mine
Tolukuma Gold Mines Ltd	Tolukuma mine

Each material company is discussed in more detail in Chapters 7 and 8 of this report, in relation to the relevant project. This includes structure, how it contributes to extractive industry revenues and any changes in ownership during the reporting period.

Although only producing companies are considered material for reporting purposes, a discussion of the revenue streams flowing from exploration companies is also included in a case study in Chapter 8 of this report.

2.2.2 State-owned enterprises

State-owned enterprises (SOEs) play a key role in managing and distributing PNG's wealth. Therefore, the transparent disclosure of their processes for managing funds and transferring funds to beneficiaries (landowners, subnational governments, etc.) is critical to a comprehensive EITI report. The SOEs considered material were those with interests in extractive projects that were producing saleable commodities during the reporting period. These are listed below.

There were significant changes to the structure of SOEs in the PNG extractive industries during the reporting period. These are discussed in Chapter 9. The reporting entities listed in this report are those that existed and had a relevant role during the reporting period. We have taken this approach even where the entity now providing the information is different, or has a different name.

Table 5: Material SOEs, 2015

Reporting entity	Project name	Notes
Independent Public Business Corporation (IPBC)	PNG LNG	To August 2015 - now Kumul Consolidated Holdings Ltd (KCH)
National Petroleum Company of PNG Ltd (NPCP Holdings Ltd)	PNG LNG	To August 2015 - now Kumul Petroleum Holdings Ltd (KPH)
Kumul Petroleum Holdings Ltd (KPH)	Oil projects and PNG LNG	From August 2015
Kumul Consolidated Holdings Ltd (KCH)		From August 2015
Petromin PNG Holdings Ltd	PNG LNG	Now Kumul Mineral Holdings (KMH) since January 2016 ²⁷
	Tolukuma Gold Mine	To October 2015 (mine sold)
Ok Tedi Mining Ltd (OTML)	Mt Fubilan mine	
Mineral Resources Development Company Ltd (MRDC) (and subsidiaries)	Multiple interests	

Each SOE, its structure and how it contributes to extractive industry revenues, is discussed in more detail in Chapter 9 of this report.

2.2.3 Government entities

Government entities are material reporting entities if they received payments from the reporting companies and SOEs during the reporting period. Government entities that do not receive payments, but keep records of payments, are also included in the list of material government entities, shown below.

Table 6: Material government entities, 2015

Government entity	Revenue streams received or recorded
Internal Revenue Commission (IRC)	Mining and petroleum tax (corporate income tax), group tax, infrastructure tax credits, additional profits tax, foreign contractor withholding tax
Mineral Resources Authority (MRA)	Production levy, royalties and tenement fees, rents and security payments.
Department of Treasury	Development levy (keep records of payments), dividends from SOEs
Department of Finance	Development levy (Trust Branch administers any payments out of trust accounts to provincial governments)
Department of Petroleum and Energy (DPE)	Royalties, development levy, licence fees
Department of National Planning and Monitoring (DNPM)	Infrastructure tax credits
Conservation and Environment Protection Authority (CEPA)	Decommissioning and mine closure bonds, licence fees
Bank of PNG	Holds accounts for royalty payments received by DPE; gold and silver export bonds (MRA)

²⁷ Refer to 9.4.1 for further detail

2.3 Revenue streams

The revenue streams relevant to the extractives sector, as identified to date, are shown in Table 7 below. Amounts generated through each of these revenue streams during the reporting period were requested from the relevant reporting entity. In the case of reconciled revenue streams, amounts were requested from the resource company (or SOE), as well as the relevant government receiving entity. In cases where a revenue stream has been identified as material, but has not been reconciled, the reasons are outlined below.

Table 7: Extractive industry revenue streams

Revenue stream	% of known revenue	Material	Reconciled	Paid to	Discussion	Reconciliation
Mining						
Mine closure bond	0	N	N	Conservation and Environment Protection Agency (CEPA)		10.4.1.7
Production levy	1%	Y ²⁸	Y	Mineral Resources Authority (MRA)	4.3.2.4	10.4.2.1
Alluvial levies; Mine security deposits; Exploration security deposits; Mining lease rentals; Exploration licence rentals; Data sale receipts; Exploration applications, extensions, extension late fees, transfer and dealing fees (related to exploration); Mining applications, extensions, extension late fees, transfer and dealing fees (related to mining)	<1%	N	N		4.4	10.4.2.3
Petroleum						
Decommissioning bonds	0	N	N	Conservation and Environment Protection Agency (CEPA)		10.3.1.8
Development levy	4%	Y	Y	Collected by Department of Petroleum and Energy (DPE), recorded by Treasury, and paid to relevant local or provincial government	4.3.2.4; 0; 5.7.2; 8.1	10.3.3.2
License fees	<1%	N	N	Department of Petroleum and Energy (DPE)		10.3.3.6
Additional profits tax	0	N	N	Internal Revenue Commission (IRC)	4.3.2.3	10.3.3.4
Equity distributions	42%	Y	Y	State-owned enterprises	4.7; 4.8; 0; 5.7.2	10.3.3.2
Share of sales	29	Y	N ³⁰	State-owned enterprises		10.3.3.5

²⁸ Identified as material by MSG due to qualitative definition 'of significant interest'

²⁹ Total not included in % calculation as this revenue stream overlaps with equity distributions data received from reporting entities.

³⁰ Unilaterally reported by SOEs - no other in-kind revenues identified

Revenue stream	% of known revenue	Material	Reconciled	Paid to	Discussion	Reconciliation	
Mining and petroleum							
Import taxes	N/A	N/A ³¹	N/A	PNG Customs Service		NA	
Goods and services tax	N/A	N/A ³²	N/A	PNG Customs Service (& IRC)	4.3.2.5	NA	
Royalties	6% ³³	Y	Y ³⁴	O&G: Oil Search pays by Cheque to DPE, ExxonMobil makes payments direct to trust account to be apportioned to relevant landowners, local-level governments and provincial governments Mining: Paid directly to State of PNG, relevant landowners, local-level governments and provincial governments; also reported to MRA	4.3.2.4; 5.7.2; 4.3.2.4; 0	10.4.3.3 10.4.2.2	
Dividends	3%	Y	Y	Treasury	4.7; 0	10.4.1.2	
Environment permit fees	<1%	N	N	Conservation and Environment Protection Agency (CEPA)		10.4.1.7	
Group tax (taxes withheld on employees' salaries)	23%	Y	Y ³⁵	Internal Revenue Commission (IRC)		10.4.1.4	
Mining and petroleum tax (corporate income tax)	8%	Y	Y		4.3.1	10.4.1.110.4.1.6	
Business payments tax	<1%	N	N			10.4.1.6	
Dividend withholding tax	0	N	N		4.3.2.1	10.4.1.6	
Interest withholding tax	0	N	N		4.3.2.1	10.4.1.6	
Management fee withholding tax	<1%	N	N		4.3.2.1	10.4.1.6	
Royalty withholding tax	<1%	N	N		4.3.2.1	10.4.1.6	
Foreign contractor withholding tax	3%	Y	N ³⁶		4.3.2.1	10.4.1.6	
Infrastructure tax credits	9% ³⁷	Y	Y		Spending reported to Department of National Planning and Monitoring (DNPM); offset reported to IRC	4.3.2.6; 6.3	10.4.1.3

³¹ PNG Customs were not able to supply any data that was specific to the extractive industries

³² As above

³³ As reported by Operator

³⁴ Reconciled with amounts reported by MRA/DPE, not reconciled to subnational level

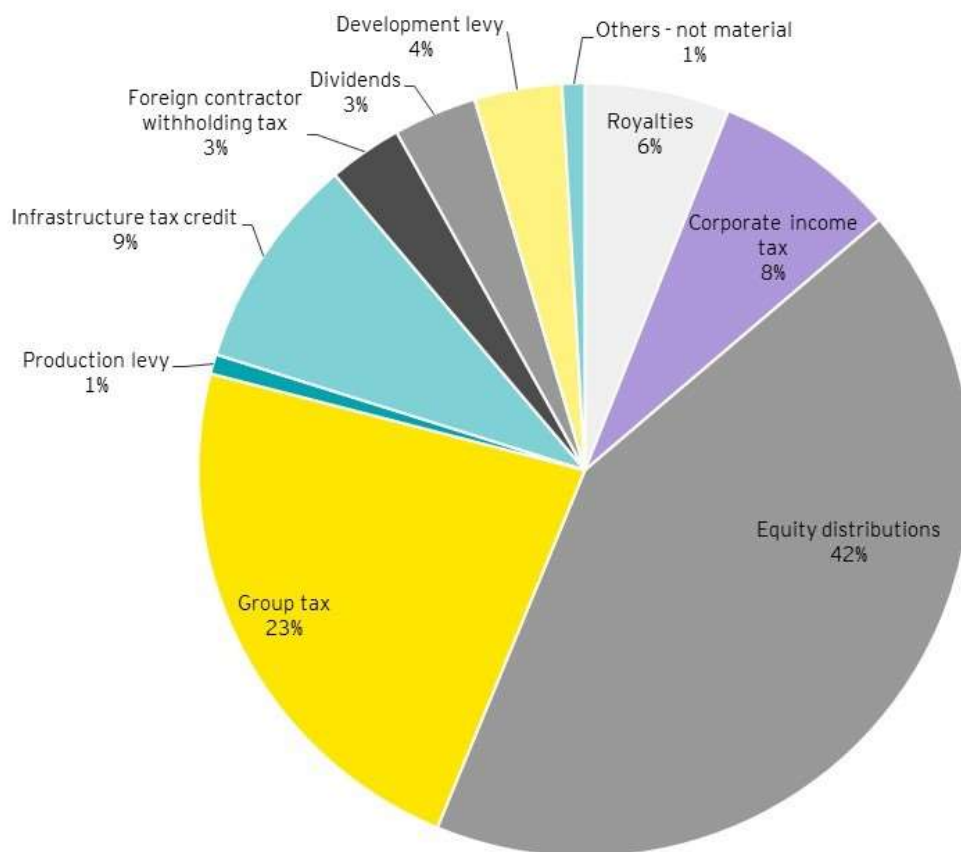
³⁵ The decision not to reconcile group tax and instead to state the amount unilaterally was made by the MSG on 17 April 2015, (<http://www.pngeiti.org.pg/wp-content/uploads/2016/03/2015.04.13-MSG-Meeting-2-Minutes.pdf> accessed 27 November 2017). Where data was available, this revenue 2017). The IA has reconciled this revenue stream where it has been provided by companies and has made a recommendation to reconcile in future years (See Chapter 11). See also discussion in section 10.3)

³⁶ Unilaterally declared by IRC - recommendation to reconcile in future years (See Chapter 11)

³⁷ Spending reported to DNPM

The relative magnitude of each revenue stream is shown in Figure 11 below.

Figure 11: Relative contribution of revenue streams, 2015



There are a number of additional payment types that are referred to by the EITI Standard. These are summarised below in Table 8.

Table 8: Additional payment types referred to by the EITI Standard

Payment type	Comments	Further discussion
Quasi-fiscal payments	No quasi-fiscal payments were reported for 2015.	6.4
In-kind revenues	Other than share of production (for SOEs), no other in-kind revenues were identified for the resources sector.	9.5.2; 9.6.2
Payments and transfers to subnational entities	These include Special Support Grants - PIP Project funds ³⁸ and transfers from MRDC to subnational governments	5.7; 7.9; 9.6
Payments and transfers between SOEs and other government agencies	Dividend are paid by SOEs to the government	9.2.3; 9.3.3; 9.4.3; 9.5.3; 10.4.1.2
Infrastructure provisions and barter arrangements	Treasury stated that the only infrastructure provisions or barter arrangements in place were those relating to the implementation of infrastructure tax credits. ³⁹	4.3.2.6; 6.3; 7.9; 10.4.1.3

³⁸ Unable to establish if these payments are material without access to project contracts/agreements.

³⁹ Treasury reporting template completed for this report. Received 8 September 2017

Payment type	Comments	Further discussion
Transportation revenues	Treasury were not aware of any material revenues from the transportation of oil, gas or minerals. ⁴⁰ DPE reported the value of fees associated with pipeline licences for 2015 as PGK510,162. This is not a material revenue stream.	
Mandatory social expenditure	These payments are unilaterally declared by companies	5.7; 6.1; 10.4.1.5
Discretionary social expenditure		6.2; 10.4.1.5

⁴⁰ Treasury reporting template completed for this report. Received 8 September 2017

3. Contribution of the extractive industries to the economy

3.1 About Papua New Guinea

Papua New Guinea (PNG) is a country in Oceania, occupying the eastern half of the island of New Guinea and numerous offshore islands. PNG's capital and largest city is Port Moresby.

PNG is one of the most diverse countries on earth, with over 800 indigenous languages and at least as many traditional societies, included in a population of over 8 million.⁴¹ It is also one of the most rural, with only 13% of its people living in urban centres.⁴²

The nation established independence from Australia in 1975. The country has a unicameral National Parliament, for which elections are held every five years. There has been one significant internal conflict, the Bougainville crisis, which began as a result of tensions related to the Bougainville Copper mine (Panguna Mine), and ran from 1988 until 1998.

PNG has now experienced 15 years of economic growth, progressing from 'low income' to 'lower middle income' according to World Bank classifications.⁴³ This progress is echoed in the United Nations' *Human Development Index*, with an HDI of 0.516 in 2015, a steady improvement from 0.422 in 2000. However, the country is still classified as 'low human development', ranking 154 out of 188 countries.⁴⁴ An estimated 39.3% of the PNG population lives below the international poverty line.⁴⁵

Challenges to improving the wellbeing of the PNG population remain, as the country is still developing infrastructure and establishing governance structures, and has a substantially non-monetised economy. However, the PNG Government has expressed a strong commitment to meeting the UN Sustainable Development Goals and working towards improvements in sustainable development.⁴⁶

Table 9 below provides an overview of PNG's performance against a range of economic and social development indicators.

⁴¹ World Bank in Papua New Guinea - Overview <http://www.worldbank.org/en/country/png/overview> , April 2017, accessed 7 September 2017

⁴² World DataBank, World Development Indicators , <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> , accessed 7 September 2017

⁴³ World Bank East Asia and Pacific Economic Update October 2016 <https://openknowledge.worldbank.org/bitstream/handle/10986/25088/9781464809910.pdf> , accessed 7 September 2017

⁴⁴ United Nations Development Programme, Human Development Report 2016, http://hdr.undp.org/sites/default/files/2016_human_development_report.pdf accessed 7 September 2017

⁴⁵ Basic Statistics 2017, Asian Development Bank, April 2017, <https://www.adb.org/sites/default/files/publication/298061/basic-statistics-2017.pdf> , accessed 7 September 2017

⁴⁶ PNG Department of National Planning and Monitoring, Millennium Development Goals Final Summary Report 2015, http://www.pg.undp.org/content/papua_new_guinea/en/home/library/millennium-development-goals-final-summary-report-2015.html accessed 26 September 2017

Table 9: PNG's World Development Indicators⁴⁷

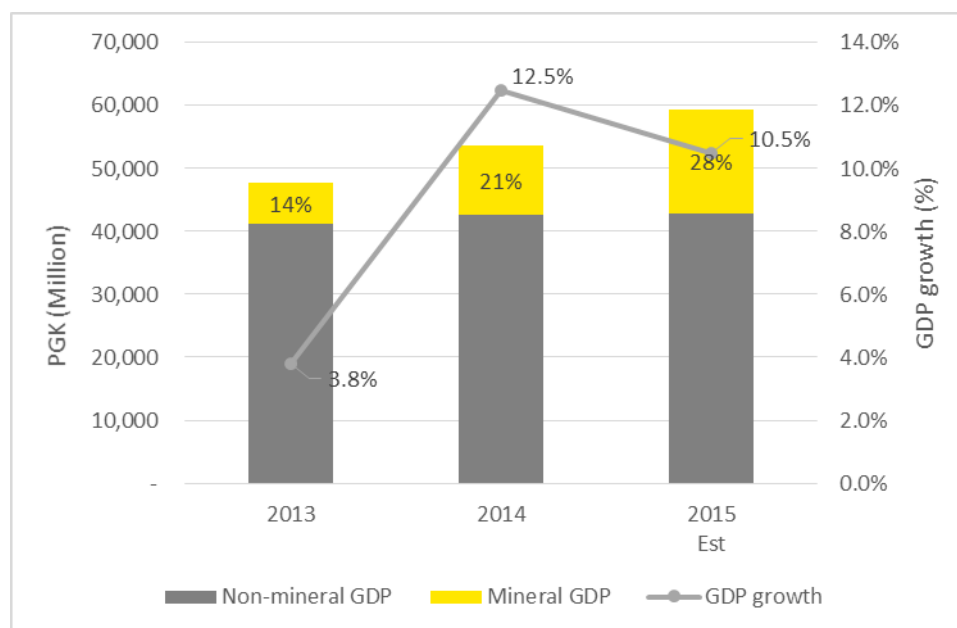
	Indicator	2013	2014	2015	Average East Asia Pacific Country Value (2015)
Population	Surface area (sq. km)	462,840	462,840	462,840	-
	Population, total	7,592,865	7,755,785	7,919,825	-
	Population density (people per sq. km of land area)	16.77	17.13	17.49	93.54
	Population growth (annual %)	2.16	2.12	2.09	0.68
	Urban population (% of total)	12.98	12.99	13.01	56.64
	Rural population (% of total)	87.02	87.02	87.00	43.36
Economy	GDP real growth (annual %)^	5.00	13.30	12.00	-
	GNI per capita, Atlas method (current US\$)	1,970	2,160	-	9,794
	Inflation, GDP deflator (annual %)*	4.96	5.20	6.02	1.64
	Ease of doing business index (1=most business-friendly regulations)	-	-	133	-
	Unemployment, total (% of total labour force) (modelled ILO estimate)	2.59	2.58	2.48	4.33
	Labour force, total	3,324,983	3,404,688	3,501,238	-
Health	Labour force, female (% of total labour force)	48.93	49.00	48.97	43.46
	Fertility rate, total (births per woman)	3.81	3.76	3.71	1.81
	Improved sanitation facilities (% of population with access)	18.90	18.90	18.90	77.21
	Improved sanitation facilities, rural (% of rural population with access)	13.30	13.30	13.30	64.33
	Improved sanitation facilities, urban (% of urban population with access)	56.40	56.40	56.40	87.10
	Improved water source (% of population with access)	40	40	40	94.14
	Improved water source, rural (% of rural population with access)	32.80	32.80	32.80	90.19
	Mortality rate, under-5 (per 1,000 live births)	60.90	59.10	57.30	17.11
Infrastructure	Life expectancy at birth, total (years)	62.45	62.61	62.78	75.26
	Fixed broadband subscriptions (per 100 people)	0.15	0.18	0.20	16.65
	Fixed telephone subscriptions (per 100 people)	1.91	1.94	1.97	16.83
	Individuals using the Internet (% of population)	5.10	6.50	7.90	49.79
	Mobile cellular subscriptions (per 100 people)	40.98	44.93	46.65	104.05
	Access to electricity (% of population)	19.67	20.26	-	96.56
	Access to electricity, rural (% of rural population)	11	12	-	94.93
Access to electricity, urban (% of urban population)	75.78	76.35	-	99.61	

⁴⁷ Values in table sourced from World DataBank except values for ^GDP and *inflation are sourced from the PNG 2017 National Budget Vol 1, Appx 3, Table 1, p. 102 (Actual data for 2007 to 2014: National Statistical Office. Estimates and projections: Dept. of Treasury) and Asian Development Outlook 2017 - Transcending the middle-income challenge. Asian Development Bank, 2017; most 2016 values not available at time of writing

3.2 PNG economic overview for 2015

PNG's Gross Domestic Product (GDP) in recent years is shown in Figure 12 below.

Figure 12: GDP and GDP Growth 2015



In 2015 the PNG economy grew by approximately 10.5%, due in part to the first full year of LNG production and exports. This growth was lower than initial forecasts however, due to lower oil and gas prices, and reduced agriculture and mining output as a result of severe drought associated with El Niño weather conditions experienced at the end of 2015.

3.3 Post-2015 developments and projections

In 2016, growth slowed to only 2% as the LNG project reached capacity and oil production declined. The Ok Tedi mine re-opened in the first quarter of 2016, after a seven-month shutdown, but this was offset by the closure of Ramu mine for several months, and reduced production at the Porgera mine.⁴⁸

The slowdown in economic growth resulted in a shortfall in public revenue, causing a larger deficit increase than anticipated for 2016.⁴⁹ Since 2015, the government has implemented significant expenditure cuts in an attempt to maintain macroeconomic stability.⁵⁰

The medium-term economic outlook for PNG remains positive, with foreign investments in the pipeline. The economy is expected to grow by 2.5% in 2017 and by 2.8% in 2018. Influencing factors include:

- ▶ A gradual pickup in the global economy is expected to boost commodity prices and stimulate activity in sectors outside resource extraction
- ▶ Increased outputs are expected in mining and agriculture

⁴⁸ Asian Development Outlook 2017 - Transcending the middle-income challenge. Asian Development Bank, 2017

⁴⁹ ibid

⁵⁰ <http://dfat.gov.au/geo/papua-new-guinea/Pages/papua-new-guinea-country-brief.aspx>

- ▶ Agriculture, forestry and fishery output is forecast to grow by 3.6%, with increases in both price and production, assuming favourable weather in 2017
- ▶ PNG is hosting the Asia-Pacific Economic Cooperation Leaders' Meeting in 2018, with associated spending
- ▶ Non-resource sectors will likely enjoy further support from spending related to elections in June and July 2017, and continued government investment in infrastructure.⁵¹
- ▶ Legislative changes introduced on 01st January 2017 on taxation of the extractive sector⁵²

Beyond 2018, the prospects of developing further LNG facilities (Papua LNG and P'nyang) and possible further mining developments, provide potential economic stimuli, combined with proceeds from PNG LNG enhancing revenue substantially. However, sustainable economic growth is contingent upon broader-based investment that will spread economic activity and opportunity across PNG.⁵³

3.4 Impact of the extractive industries

For the purposes of EITI reporting, the MSG agreed that the extractive industries include mining, oil and gas. Quarrying, forestry and fisheries have been excluded.⁵⁴

PNG has a wealth of subsoil assets. A 2005 World Bank survey of 152 countries ranked PNG's per capita subsoil assets as follows:⁵⁵



The extractive industries dominate exports, and have associated impacts such as construction. The relative contribution of the extractive industries to a selection of economic measures for the 2015 reporting period are shown in Figure 13 below.

⁵¹ <http://dfat.gov.au/geo/papua-new-guinea/Pages/papua-new-guinea-country-brief.aspx>

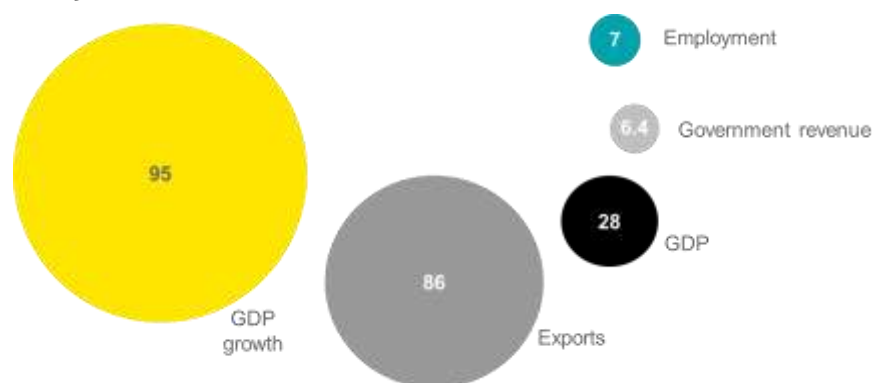
⁵² Direct communication from IRC received 6 December 2017

⁵³ Institute of National Affairs, PNG's Economy 2016- past, present and future prospects. http://www.inapng.com/pdf_files/PB%20-%20Mining%20and%20Petroleum%20Conference%20202016%20%20Word%202007.pdf

⁵⁴ Minutes of MSG meeting #2, 27 March 2015

⁵⁵ Total and per capita wealth of nations', World Bank 2005; wealth per capita, 2005 <http://data.worldbank.org/data-catalog/wealth-of-nations> , accessed 18 January 2016. More recent data not available.

Figure 13: Percentage contribution of the extractives sector to economic measures in 2015⁵⁶



3.5 Contribution to GDP

The contribution of the extractive industries to Gross Domestic Product (GDP) in recent years is shown in Figure 12 above.

The commencement of the PNG LNG project was the major contributor to GDP growth in 2014 and 2015. For 2015, the extractives sector comprised 28% of GDP and contributed to 95% of GDP growth. Table 10 below shows the contribution of different sectors to PNG's growth in GDP.

Table 10: Contributions to growth in real gross domestic product (% points) during 2013-15⁵⁷

Sector	2013	2014	2015
Agriculture, Forestry and Fishing	0.9	0.6	0.4
Oil and Gas Extraction	0.1	9.1	10.2
Mining and Quarrying	0.6	0.6	-0.2
Manufacturing	0	0	0
Electricity Gas & Air conditioning	0.1	0	0
Water Supply & Waste Management	0	0	0
Construction	-0.3	0	0
Wholesale and Retail Trade	0.4	0.1	0.2
Transport and Storage	0.2	-0.2	0
Accommodation and Food Services	0.1	0	0
Information and Communication	0	0.3	0.1
Financial and Insurance Activities	0.5	-0.8	-0.6
Real Estate Activities	0.4	0.2	0.1
Professional and Scientific	-0.1	-0.1	-0.1
Administrative and Support Services	-0.3	0	0
Public Administration and Defence	0.4	0.5	0.2
Education	0.4	0.2	0.1
Health and Social Work Activities	0.1	0.1	0.1
Other Service Activities	0	-0.1	0
TOTAL	3.80%	12.50%	10.50%
Total Non-Mining	3.6	3.3	0.7

⁵⁶ 2016 Budget Volume 1 Appx 3 Tables 1,2,5,7&8 on pp.107-114
http://www.treasury.gov.pg/html/national_budget/files/2016/Volume1-Econ&DevPolicies.pdf *figures include quarrying, which Treasury advises comprised about 2% of the 'mining and quarrying' total - Direct communication from Treasury, 2 December 2015

⁵⁷ 2017 National Budget, Vol 1, Appx 3, Table 2, p. 103 (Actual National Statistical data up to 2014. Estimates and projections-Department of Treasury)
http://www.treasury.gov.pg/html/national_budget/files/2017/2017%20Budget%20Volume%201%20Economic%20and%20Development%20Policies.pdf

Growth in oil and gas extraction, in particular the PNG LNG project, contributes the majority of the growth in GDP for 2015. Mining and quarrying contracted in 2015, due partly to the drought-induced shut-down of the Ok Tedi gold and copper mine.

3.6 Contribution to government revenue

Figures drawn from the 2017 Budget indicate that the mining and petroleum sectors contributed 7.12% of government revenue in 2015, as shown in Table 11:

Table 11: Contribution of the mining and oil and gas sectors to government revenue⁵⁸

	2013 (PGK million)	2014 (PGK million)	2015 (PGK million)
Total tax and non-tax revenue (excluding grants)	9,028.9	10,975.7	10,183.6
Mining and petroleum tax	666.0	864.0	195.4
Mining and petroleum dividends	0.0	507.2	456.4 ⁵⁹
Contribution of mining and petroleum in government revenue	7.38%	12.49%	6.40%

Revenue flows to the government from the extractives industry can be volatile as the financial performance of the individual operations can fluctuate due to factors including commodity prices, and impacts of severe weather events such as drought and flood.⁶⁰ There was a decrease in government revenue reported from mining and petroleum tax in 2015 when compared with 2014.

The largest sources of extractive industry revenue in 2015 were equity distributions, group tax and corporate income tax.

It was noted that the figures for mining and petroleum dividends included in the 2017 Budget for 2015 figures do not align with the figures reported by Treasury for the 2015 data reconciliation.

⁵⁸ 2017 National Budget, Vol 1, http://www.treasury.gov.pg/html/national_budget/files/2017/2017%20Budget%20Volume%201%20Economic%20and%20Development%20Policies.pdf Accessed 17 October 2017. Note - Under the GFS 2014 methodology, non-payable infrastructure tax credits, revenue on asset sales and GST transfers to WPA and Trust Accounts are excluded from revenue

⁵⁹ Note variance of PGK370 million from figure reported to IA (see 10.4.1.2)

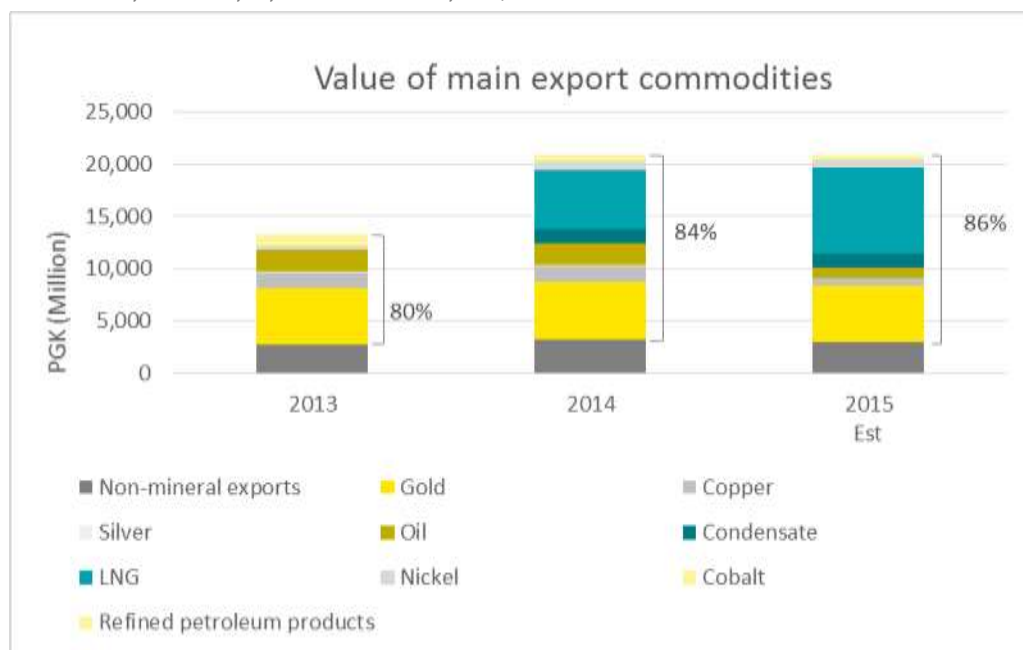
⁶⁰ World Bank East Asia and Pacific Economic Update October 2015 and 2016 <http://pubdocs.worldbank.org/en/414911444005973491/pdf/EAP-Economic-Update-2015-10.pdf> and <https://openknowledge.worldbank.org/bitstream/handle/10986/25088/9781464809910.pdf>, accessed 18 October 2016

3.7 Contribution to exports

The value of total mineral exports for 2015 was PGK17,857 million, comprising 86% of total export value.

A breakdown of the value of exports by commodity is provided in Figure 14 below.

Figure 14: Mineral exports as a proportion of total exports, 2003-2015⁶¹



Exports from the extractive industries make up the majority of total exports. In combination with the limited range of commodities being exported, this leaves the PNG economy vulnerable to commodity price fluctuations.⁶² The government has made attempts to manage this, such as the development of the Sovereign Wealth Fund, discussed further in Chapter 5.

3.8 Contribution to employment

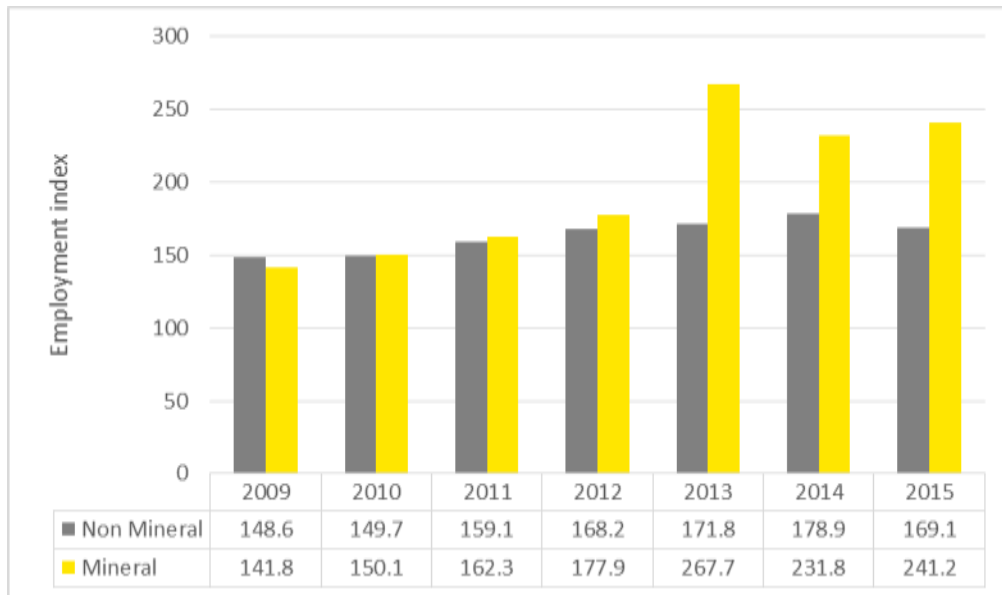
There is limited employment data for PNG. Treasury draws on an index compiled by the Bank of PNG through its Business Liaison Surveys of around 400 private sector business entities across different regions and industries. The Bank of PNG Employment index is reported relative to March 2002 which is equal to an index of 100.

Figure 15 below indicates that employment in the extractive sector peaked in 2013 and then dropped slightly in 2014 and 2015, while employment in the non-mining sectors remained relatively steady over the same period.

⁶¹ 2013 figures from 2015 Budget, vol. 1, Appx 3, Table 5 p.15, http://www.treasury.gov.pg/html/national_budget/files/2015/Vol1-Economic%20and%20Development%20Policies.pdf , p. 139, 2014 figures from 2016 Budget, Vol 1, Appx 3, Table 5, p. 111 (Actuals from BPNG. Projections from Dept. of Treasury.), http://www.treasury.gov.pg/html/national_budget/files/2016/Volume1-Econ&DevPolicies.pdf, 2015 figures from 2017 Budget, Vol 1, Appx 3, Table 5, p. 106 (Actuals from BPNG. Projections from Dept. of Treasury) http://www.treasury.gov.pg/html/national_budget/files/2017/2017%20Budget%20Volume%201%20Economic%20and%20Development%20Policies.pdf

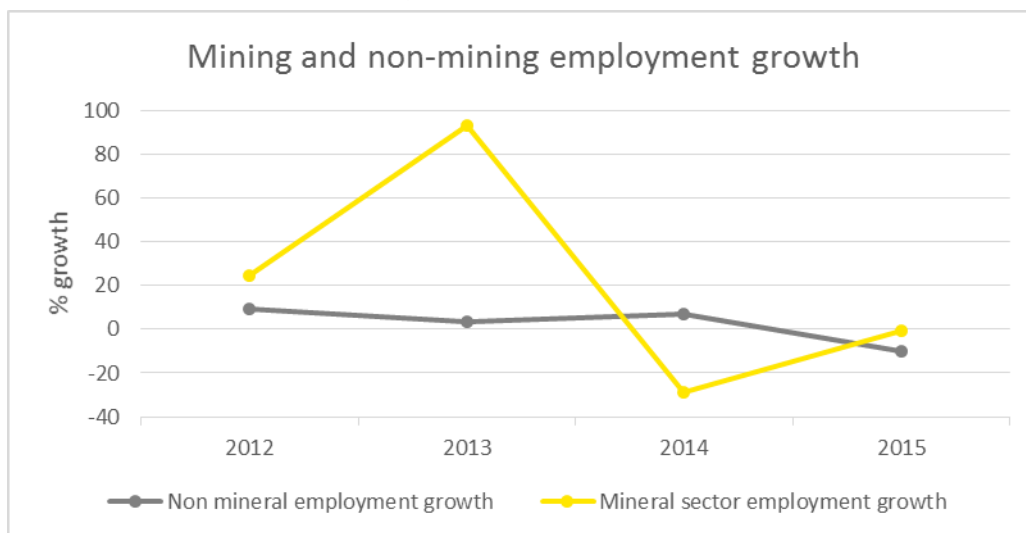
⁶² See section 7.5 and 8.5 for more detail on production and export value figures.

Figure 15: 2009-2015 Employment index⁶³



Estimates of actual numbers employed vary considerably. The 2011 census estimated formal employment in the mining and quarrying sector at 9,011, representing just 2.5% of formal employment, as illustrated in Figure 16 below.⁶⁴

Figure 16: Mining and non-mining employment growth⁶⁵



⁶³ 2017 National Budget Vol 1, Appx 3, Table 7, p. 108, sourced to BPNG http://www.treasury.gov.pg/html/national_budget/files/2017/2017%20Budget%20Volume%201%20Economic%20and%20Development%20Policies.pdf . The Business Liaison Surveys request the number of employees for the reference quarter. Where companies respond in consecutive quarters, the change in numbers is used to calculate a quarterly growth rate which then moves the index. The survey does not distinguish between national and non-national employees or between permanent and casual employees. The index has a base of 100 set for the March 2002 quarter

⁶⁴ Unpublished census data 2011, cited in 'Luke. T. Jones and Paul. A. McGavin, 'Grappling afresh with labour resource challenges in Papua New Guinea: a framework for moving forward', Institute of National Affairs, June 2015, p. 139; no more recent data available

⁶⁵ 2017 National Budget Vol 1, Appx 3, Table 7, p. 108, sourced to BPNG http://www.treasury.gov.pg/html/national_budget/files/2017/2017%20Budget%20Volume%201%20Economic%20and%20Development%20Policies.pdf

Another study from 2015 put direct employment in the sector at 14,000, and indirect at 45,800, including employment of locally owned businesses.⁶⁶

The 2011 census data indicated that, along with education as a close second, the sector provides by far the highest median wages. Furthermore, a study from the Institute of National Affairs adds:

‘Although mining and quarrying only provides limited direct employment, in practice it supports a significant amount of employment in other sectors of the economy. For example, during the construction phase of mineral and hydrocarbon resource projects, employment is classified in the construction sector even though its primary purpose is to support the mining and hydrocarbon sector. Moreover, many of the other domestic sectors primarily serve the mining industry or gain significant increases in trade as a result of an increase in activity in the mineral and hydrocarbon sectors.’⁶⁷

A report from the United Nations Development Program for PNG in 2014⁶⁸ notes that PNG’s total formal labour market provides livelihoods to less than 12% of the working-age population. A much larger informal labour market, centred on semi-subsistence agriculture, forestry, and fisheries, generates livelihoods for most of the remaining working-age population.

Figure 17: 2011 census employment data



⁶⁶ Richard T. Jackson, 'The Development and Current State of Landowner Businesses Associated with Resource Projects in Papua New Guinea', March 2015, Papua New Guinea Chamber of Mines and Petroleum 2015, https://espace.library.uq.edu.au/view/UQ:367396/UQ367396_OA.pdf

⁶⁷ Luke. T. Jones and Paul. A. McGavin, 'Grappling afresh with labour resource challenges in Papua New Guinea: a framework for moving forward', Institute of National Affairs, June 2015.

⁶⁸ PNG NHDR 2014

Nevertheless, the extractive industries have been important to the growth of formal sector employment. Large mines such as Ok Tedi employ up to 2000 staff,⁶⁹ and mine development contracts may require mining companies to employ local staff. The PNG LNG project provided a significant number of jobs in recent times during its construction (peaking at 21,200 in 2012) but this number declined as the project moved into production. As of December 2015 the PNG LNG project had a workforce of 2,400, 79% of these employees were PNG citizens.⁷⁰

Further major LNG construction projects may proceed in 2019, providing extensive, but relatively brief employment for two to three years. As with PNG LNG, they may also stimulate extensive small and micro-enterprises.⁷¹

3.9 Commentary on the contribution of the extractives sector to the economy

The extractive industries make a significant contribution to the economy of PNG, most notably to exports, but also to GDP, government revenue and employment. There are also other broader impacts such as stimulating infrastructure development. However, as illustrated by some of the figures above, these benefits can be volatile, and the industry can also have social and environmental costs.

Recent government policies such as the Sovereign Wealth Fund, *Vision 2050*, and the Responsible Sustainable Development Strategy (STARS) seek to capitalise on the economic boon of the extractive industries, while also diversifying the economy to avoid over-dependence on the sector.⁷² These policies have the potential to benefit PNG over the long term, if prudently implemented.⁷³

⁶⁹ Ok Tedi Annual Review 2016 p44 <http://www.oktedi.com/index.php/media-items/publications/annual-review/488-2016-annual-review/file> accessed 6 November 2017.

⁷⁰ PNG LNG Environmental and Social Report-Second Half 2015, PNG LNG, 2015 <https://pnglng.com/media/PNG-LNG-Media/Files/Environment/Environment%20and%20Social%20reports/2H15-ES-Report-FINAL-26-02-2016-FULL-ENG-WEB.pdf> , accessed 6 November 2017.

⁷¹ Institute of National Affairs, PNG's Economy 2016 - past, present and future prospects. http://www.inapng.com/pdf_files/PB%20-%20Mining%20and%20Petroleum%20Conference%20%202016%20%20Word%202007.pdf , accessed 9 October 2017

⁷² 'Vision 2050', 2009, PNG Government, <https://sustainabledevelopment.un.org/content/documents/1496png.pdf> accessed 10 October 2017.

⁷³ Institute of National Affairs, PNG's Economy 2016- past, present and future prospects. http://www.inapng.com/pdf_files/PB%20-%20Mining%20and%20Petroleum%20Conference%20%202016%20%20Word%202007.pdf accessed 10 October 2017.

4. Legal framework and fiscal regime

PNG presents unique challenges: its eight million people comprise hundreds of cultural and linguistic groups, with a predominantly rural population spread widely over varied geographies, many of which are remote and inaccessible. To respond to this, the government is decentralised, with five layers from national to provinces, districts, local level governments and wards. While the Government sets strong policy and has a relatively robust legislative regime and fiscal control, implementation through these layers is challenging due to weak capacity and a lack of accountability at local levels.⁷⁴

4.1 National governance structures

PNG has a constitutional monarchy and is a member of the Commonwealth of Nations. The Head of State is Her Majesty Queen Elizabeth II, represented by a Governor-General elected by Members of the National Parliament.

PNG has three levels of government: national, provincial and local. The National Parliament is a unicameral legislature elected for five-year terms. The Parliament is led by a Prime Minister and Cabinet, known as the National Executive Council (NEC). The Supreme Court, National Court, and local and village courts form an independent justice system.

Members of the National Parliament are elected from 89 single-member electorates and 22 regional electorates. The regional electorates correspond to PNG's 20 provinces, plus the Autonomous Region of Bougainville and the National Capital District. Members from regional electorates also serve as provincial governors. To date, all national governments have been coalitions. Each province has its own provincial assembly and administration.

4.2 Ownership of subsoil assets

According to the *Mining Act 1992* (MA) and the *Oil and Gas Act 1998* (OGA), subsoil assets belong to the State.

Section 5 of the MA states 'All minerals existing on, in or below the surface of any land in Papua New Guinea, including any minerals contained in any water lying on any land in Papua New Guinea, are the property of the State.'⁷⁵

Section 6 of the OGA states: 'Subject to this Act, but notwithstanding anything contained in any other law or in any grant, instrument of title or other document, all petroleum and helium at or below the surface of any land is, and shall be deemed at all times to have been, the property of the State.'⁷⁶

4.3 Taxation

The Internal Revenue Commission (IRC) is mandated by Parliament under the various taxation acts and regulations and is tasked with the administration and collection of taxation, including taking action against parties that choose to avoid or evade tax.⁷⁷ The IRC collects the majority of State revenue, comprising corporate income tax and tax on salary and wages, as well as indirect taxes such as GST. It also assists Treasury with the development of taxation policy. The IRC is managed

⁷⁴ Asian Development Outlook 2015: Financing Asia's Future Growth, Asian Development Bank 2015, <https://www.adb.org/sites/default/files/publication/154508/ado-2015.pdf> p. 256 accessed 27 September 2017

⁷⁵ Department of Mining, *Mining Act 1992 and Regulation*. Port Moresby: Department of Mining, 1992. http://www.mra.gov.pg/Portals/2/Publications/MINING_ACT%201992.pdf, Accessed 20 January 2016

⁷⁶ Department of Petroleum. *Independent State of Papua New Guinea. No. 49 of 1998 An Act Entitled Oil and Gas Act 1998*. Port Moresby: Department of Petroleum, 1998

⁷⁷ Tax avoidance' generally refers to aggressive tax planning - for instance transfer pricing or treaty shopping; 'tax evasion' refers to fraudulent activity.

by the Commissioner General of the IRC with support from the Commissioner Taxation and Commissioner Services.

The Commissioner Taxation oversees the tax wing, which comprises teams that collect taxes, manage debt, provide policy advice and conduct tax audits. The Commissioner Services oversees the Services Wing, which comprises Corporate Services, the Office of the Commissioners, Internal Audits and Integrity, Information Communication and Technology and Legal Services.

PNG Customs was formerly part of the IRC, but was made a separate entity in 2009. In addition to border and community protection and trade facilitation, it is responsible for collecting government revenue from imports and exports.

4.3.1 Income Tax

Revenues from the extractive industries are collected via income tax and additional profits tax as set out in the primary tax legislation, the *Income Tax Act 1959* (ITA). The ITA includes specific rules which apply to resource operations depending on the type of resource being extracted. These are contained within Division 10 'Mining, Petroleum and Designated Gas Projects' and include:

- ▶ Subdivision A: General provisions applicable to mining, petroleum and designated gas projects
- ▶ Subdivision B: Specific provisions applicable to mining
- ▶ Subdivision C: Specific provisions applicable to petroleum
- ▶ Subdivision D: Specific provisions applicable to designated gas projects
- ▶ Subdivision E: Additional profit tax

The OGA governs the exploration and production of petroleum (including oil and gas) in the onshore and offshore areas of PNG, and the MA governs the discovery, appraisal, development and exploitation of mineral deposits in PNG (see further comments below). The OGA also governs the calculation of royalties and development levies.

The rates of income taxation on extractive industries in PNG are set out in Table 12 below.

Table 12: Rates of income taxation in PNG (%)

	Resident ⁷⁸	Non-resident companies	Comments
Mining	30	40	-
Petroleum - older projects	50	50	Projects that existed and derived assessable income prior to 31 December 2000
Petroleum - new projects	45	45	Projects that did not derive any assessable income prior to 31 December 2000
Petroleum - incentive rate	30	30	Projects that arise out of a petroleum prospecting licence granted during the period 1 January 2003 to 31 December 2007 from which a development licence is granted before 31 December 2017
Gas	30	30	-

Corporate tax is levied on taxable income, that is, assessable income, less deductions allowed under the Tax Act. The taxation regime for extractive industries is designed such that a resource company is taxed on a project basis ('ring fencing') effectively taxing each project like a separate taxpayer. This means that revenue, expenses and losses from each project are effectively quarantined from each other, with any expense attributable to more than one project apportioned to the projects on a

⁷⁸ A resident company is defined in the ITA 59 as a company which is incorporated in PNG, or carries on business in PNG, and has its central management and control in PNG.

reasonable basis. However, the regime does allow some concessions to ring fencing in respect to exploration expenditure and expenditure carried forward from discontinued projects.

Exploration costs incurred in respect of exploration activities by the company or its related entities can be added to a pool from which deductions can be made against income from the project once production commences. The deduction allowed each year due to exploration costs are limited to the lesser of 25% of the total balance of the exploration pool or the amount that would reduce the income tax otherwise payable for that year by 10%.⁷⁹ During the production phase, ordinary operating and administrative expenses can be immediately deducted, but there are deduction limits in relation to certain expenditure such as interest and management fees. Exploration expenditure, as well as capital expenditures are written off over the life of the project and deductions allowed each year are limited such that it does not create a tax loss situation. The ITA (s156E) also allows double deduction of exploration expenses in the mining sector. The PNG Tax Review Committee, in their final report published in 2015 recommend the removal of this double deduction.⁸⁰

4.3.2 Other taxes on resource projects

Although company income tax is the primary method of collecting revenue from resource projects, there are additional forms of taxation and concessions that influence the amount of revenue that the State collects from resource projects:

4.3.2.1 Withholding taxes

Withholding taxes are concessional for resource taxpayers, with the dividend withholding tax rate being nil for dividends paid out of petroleum or gas income and 10% for dividends paid by companies carrying on mining operations. Likewise, interest withholding tax rate on interest paid by resource companies on funds borrowed directly from a non-resident lender is nil.

4.3.2.2 Fiscal stability

A resource project has the option of adding a 2% premium to the applicable rates of income taxation noted above in exchange for receiving fiscal stability for a period equal to the financing period or 20 years, whichever is shorter (*Resource Contracts Fiscal Stabilisation Act 2000*). In the case of a gas project, the stability period is the period of time necessary to produce a foundation volume or quantity of resource as defined in the relevant gas agreement. The purpose of fiscal stability is to provide certainty to foreign investors that they will be protected from changes to fiscal law that apply to their investments, thereby encouraging positive investment decisions in PNG.⁸¹

Fiscal stability currently applies to the PNG LNG Gas Project companies. No other current resource project has opted for fiscal stability.⁸²

4.3.2.3 Additional profits tax

Additional profits tax (APT) applies only to designated gas projects (APT for mining and petroleum projects was abolished from 6 June 2002) and is essentially a tax on positive cash flows arising from a gas project in excess of a hurdle rate of return. The purpose of APT was to provide a progressive tax instrument to tax economic rents of highly profitable resource projects.

⁷⁹ Income Tax Act 1959 s155N (PNG) www.paclii.org/pg/legis/consol_act/ita1959116.rtf

⁸⁰ Tax Review Committee, PNG Taxation Review Report to the Treasurer Part 2 of 2: Detailed Analysis, October 2015 http://taxreview.gov.pg/wp-content/uploads/2015/11/15.10.22_taxreview.final_report_vol.2.pdf, accessed 16 October 2017

⁸¹ Note that the Tax Review included the following recommendation (no. 47) in relation to fiscal stability: 'Restrict any fiscal stability agreements to key rates of tax and duty and to major deductions listed in the agreement. Agreements should be symmetrical (no one-way bets). They should not contain most favoured project rules. The premium requirement can be discontinued for new projects.'

⁸² Email from IRC, 4 July 2017

4.3.2.4 Royalties, development levy and production levy

Resource projects are subject to a royalty which is equal to 2% of the gross revenue from resource sales or wellhead value in the case of oil and gas projects. Since 2001, new petroleum and gas projects are also subject to a development levy, which again is equal to 2% of the wellhead value. Where a petroleum or designated gas project is liable for both royalty and development levy, and the total amount of royalty and development levy exceeds 2% of the wellhead value of petroleum or gas sales for that year, the excess may be claimed as a credit against income tax payable. Royalties are collected by the State and apportioned to relevant landowners, local-level governments and provincial governments. Development levies are paid to the relevant local or provincial government (see more detail in section 5.7).

The production levy applicable to mining projects is calculated at 0.25% (or up to 0.5% at the Mining Minister's discretion) of assessable income (primarily, but not exclusively Free on Board (FOB) production sales), and is used to fund the activities of the Mineral Resources Authority, the statutory authority charged with regulating the mining industry.

4.3.2.5 Goods and services tax (GST)

GST is collected in accordance with the *Goods and Services Act 2003*. Supplies to resource companies, for the carrying out of resource operations, other than the supply of cars, are zero rated for GST purposes. Export sales by resource companies are zero rated. Domestic sales by a resource company will be subject to GST, with the exception of the domestic supply of crude oil sourced from a field in PNG which is a GST zero rated supply.

4.3.2.6 Infrastructure tax credits (ITCs)

The ITC scheme is a public/private partnership model to promote the development of infrastructure in areas where mining and petroleum resource projects or agricultural companies are operating.

Companies can claim expenditure on prescribed infrastructure projects as a credit against tax payable. The credit amount is generally limited to the lesser of 0.75% of assessable income or tax payable each year. Unspent amounts can be carried forward and utilised within the next two years, while unused credits can be carried forward to succeeding years of income until fully utilised. A further 1.25% can be utilised for specified projects.

Guidelines and project approvals for ITCs are managed by the Department of National Planning and Monitoring (DNPM).

(See also commentary on ITCs in section 4.9)

4.4 Regulation of the mining industry

The principal laws that regulate mining activities in PNG are the *Mining Act 1992* (MA), which sets out how mining projects should be administered and regulated, and the *Mining (Safety) Act 1977*, which stipulates safety requirements on mine sites, provides for investigations and inquiries into mine accidents and establishes a regime for certification of prescribed mining roles.

The MA has been under review since 2009.⁸³ Progress has been made with working groups, comprising both state and industry representatives.⁸⁴ In 2016, the Prime Minister confirmed that a draft act had been completed but that this would not be passed into legislation until after the 2017 National Election, to allow adequate consultation.⁸⁵ In mid-2017, the PNG general election resulted

⁸³ Information provided by MRA 27 November 2017

⁸⁴ Byron Chan Ministerial Speech 2014, <http://www.pnginvestment.com/files/6814/1845/1320/MS3330CHAN.pdf>

⁸⁵ Peter O'Neill Prime Minister Speech 2016, <http://www.pm.gov.pg/speech-by-hon-peter-oneill-cmg-mp-prime-minister-of-papua-new-guinea-at-the-14th-papua-new-guinea-mining-and-petroleum-investment-conference-5-december-2016-sydney-australia/>

in a new Minister for Mining, who has said that a revised MA will be passed in 2017 and will also include a revision of the *Mineral Resources Authority Act 2005*.⁸⁶ The revised MA is anticipated to include updated regulations for offshore mining, mine closure and rehabilitation, resettlement and geothermal resources and standards for employing mine workers. The *Mining (Safety) Act* is also under review, and there are plans to develop alluvial mining policy. The intention of this is to strengthen the industry and implement the Gold Bullion Bank in PNG.⁸⁷

Matters relating to the environment within mining and exploration tenements are governed by the *Environment Act 2000*. The operation and development of mineral deposits in relation to the Ok Tedi mine is governed by the Mining (*Ok Tedi Agreement*) Act 1976 and the fourteen supplemental agreement Acts. The Panguna mine on Bougainville is governed by the Mining (*Bougainville Copper Agreement*) Act 1967, although mining legislation for the Autonomous Region of Bougainville has now been passed. The relationship between those respective pieces of legislation is unclear as the former has not been repealed, nor have the references to it in the MA been amended.

The Mining Advisory Council (MAC) is a government entity established under the MA, which advises the Head of State and Minister for Mining in relation to grants and extensions of mining tenements (i.e. mining leases, leases for mining purposes, mining easements and exploration licences).

The Mineral Resources Authority (MRA), established through the *Mineral Resources Authority Act 2005* (MRA Act), is a government agency that collaborates with other government departments to deal with a range of matters concerning the exploration and exploitation of minerals in PNG.⁸⁸ As an independent statutory authority, its functions are executed on behalf of the Government of PNG. The functions of the MRA are set out in Section 5 of the MRA Act and include:

- ▶ Promoting the orderly exploitation for the development of the country's mineral resources
- ▶ Overseeing the administration and enforcement of all relevant mining legislation as outlined above
- ▶ Negotiating mining development contracts under the *Mining Act 1992* as agent for the State
- ▶ Receiving and collecting, on its own account and on behalf of the State, any fee, levy, rent, security, deposit, compensation, royalty, cost, penalty, or other money or other account payable under the relevant mining legislation outlined above.

Although the MRA issues all tenements in relation to mining, once the application assessment process has been completed, the application is forwarded to the MAC, which will review the assessment and application and make a recommendation to the Minister for Mining on the suitability of the tenement application.

The Minister for Mining is responsible for approving all mining and exploration tenements, with the exception of Special Mining Leases, which are approved by the Governor-General of PNG, on advice from the National Executive Council and the recommendation of the MAC.

4.5 Regulation of the petroleum industry

The petroleum industry in PNG is governed by the Oil and Gas Act 1998 (OGA) and the Oil and Gas Regulation 2002 under the administration and management of the Department of Petroleum and

⁸⁶ Loop PNG news article *Revised mining act will be passed: Minister* <http://www.looppng.com/business/%E2%80%8BRevised-mining-act-will-be-passed-minister-65327>

⁸⁷ PNG Industry News article, <http://www.pngindustrynews.net/pngindustrynews/news/1144858/png-develop-alluvial-mining-policy>

⁸⁸ The former Department of Mining, now the Department of Mineral Policy and Geohazards Management, is now solely responsible for policy development.

Energy (DPE), headed by the Minister for Petroleum and Energy. The OGA specifies regulatory instruments for oil and gas development activities such as:

- ▶ Licensing, exploration, development, processing, storage, transportation, and sale of products
- ▶ Directing monetary benefits to State oil companies and resource area landholders, and also non-monetary benefits such as infrastructure development, training, employment, business development and community participation
- ▶ Compliance mechanisms relating to health, safety, security, environmental protection, and project monitoring and reporting.

The Minister for Petroleum and Energy performs a number of functions under the OGA including:

- ▶ The granting of various prospecting, retention, development, pipeline and process facility licences and imposing supplementary conditions upon the holders of those licences (such as the requirement to lodge security deposits) or varying existing licence conditions.
- ▶ The disbursement of royalties in accordance with a development agreement to be agreed between project area landowners, affected local-level governments and affected provincial governments or, where there is no agreement, the Minister determines the proportionate disbursement of royalties.

4.5.1 Regulation of unconventional hydrocarbons

Unconventional hydrocarbons are defined as any naturally occurring mixture of one or more hydrocarbons (whether in gaseous, liquid or solid state) and any other substance, including those extracted from coal, shale or other rock, but does not include any hydrocarbons extracted from a conventional petroleum pool.⁸⁹ In the OGA, the definition of 'petroleum' excludes these unconventional hydrocarbons as it 'does not include coal, shale, or any substance that may be extracted from coal, shale or other rock' (p. 7).

New legislation specifically for these hydrocarbons was passed in November 2015, *The Unconventional Hydrocarbons Act 2015* (UHA). It acts alongside the OGA, although it is separate legislation. The twofold purpose of the UHA is to 'govern the exploration for and production of unconventional hydrocarbons in Papua New Guinea, including the offshore area' and 'the grant to traditional landowners and Provincial Governments and Local-level Governments of benefits arising from projects for the production of unconventional hydrocarbons' (p. 1). Terms and definitions of the UHA are consistent with OGA, including licence areas, fees, royalties, development levies, rights of landowners and State participation.

4.6 Resource development agreements

Developers of resource projects generally enter into an agreement with the State of PNG in addition to obtaining a resource development licence or mining tenement for the extraction of the relevant resource under either the OGA or MA (see further comments below in relation to regulation). For major mining projects, Section 18 of the MA requires a Mining Development Contract.

In addition to giving the State an equity interest in the resource project, these agreements may be negotiated to modify the general operation of PNG's revenue laws with specific application to that project (e.g. to grant concessions such as exempting a designated gas project from APT). Since contracts are not disclosed (see 4.10 below), the extent to which tax rates are negotiable is unclear, and the tax profile of specific projects is opaque. Section 17 of the MA outlines the State's power to enter into agreements, not inconsistent with the MA.

⁸⁹ As per the *Unconventional Hydrocarbons Act 2015*, http://www.paclii.org/pg/legis/num_act/uha2015316/, accessed 10 November 2017

Section 3 of the MA sets out a broad consultation process before a special mining lease is granted. The Minister convenes a development forum of affected parties to agree the flow of benefits from the project, which are captured in a Memorandum of Agreement (MOA) and subsequently approved by the National Executive Council (see chapter 7).

4.7 State's equity participation right

As noted above, the State has the right, but not the obligation, to acquire up to 22.5% of a participating interest in a designated gas or petroleum project, and up to 30% of a mining project, at par value, or 'sunk cost'. This means the State can acquire a share in a project by paying its share of the project's historic cost (including exploration cost), and an ongoing share of future costs.

In return, the State can receive a share of the project profits, paid as dividends,⁹⁰ in accordance with its right as a shareholder. As the State does not always have the resources to buy into the project or pay cash calls on resource projects as they incur expenses during the development phase, the resource development agreement may allow for the government to forego their shares of resource income (dividends) to meet the State's accumulated liability.

4.8 Other stakeholder equity participation rights

Currently, where the State takes an equity participation interest in a project, it has an established practice of granting free equity to landowners from the area in which the project is located. The landowners' share in petroleum projects is prescribed in section 167 of the OGA. For mining projects, an equity of up to 5% is free carried by the State on behalf of the landowners and provincial governments (at 2.5% each) and is controlled by a State nominee company managed by the MRDC.

In addition to the equity benefit granted by the State, project area landowners and affected local-level governments may acquire further participating interests in the resource projects by negotiation with licence holders on freely negotiated commercial terms.

4.9 Changes to the taxation system

In 2013, the PNG Government committed to comprehensively review PNG's revenue regime to ensure that it remains relevant, efficient and effective. The objectives of the review are to:⁹¹

- ▶ Align PNG's revenue system with its development aspirations of being a competitive middle-income nation in the Asian century
- ▶ Improve the competitiveness and efficiency of PNG's tax system so as to encourage investment, employment and economic development
- ▶ Enhance the fairness and simplicity of PNG's taxation system
- ▶ Recommend practical options to change PNG's tax mix between the levels of taxation on land (including resources), capital and labour
- ▶ Improve taxpayer compliance, including considering options to enhance services to taxpayers and reduce the cost of compliance through the use of modern and user-friendly technology
- ▶ Review PNG's non-tax revenues with the aim of ensuring that fees are appropriate and fair.

⁹⁰ Note that 'dividend' here has a different meaning from shareholder dividends. State entities, like other consortium partners, are paid their share of profits based on equity interests, in line with related agreements.

⁹¹ Tax Review Committee Report to the Treasurer, October 2015, http://taxreview.gov.pg/wp-content/uploads/2015/11/15.10.22_taxreview.final_report_vol.1.pdf

As part of the review, the Tax Review Committee (made up of distinguished Papua New Guineans with significant experience in tax policy and administration, trade and business) drafted a series of issue papers and requested submissions from stakeholder groups with respect to various aspects of PNGs fiscal policy. Two are of particular relevance here:

- ▶ **Issues Paper 1** explored PNG's mining and petroleum fiscal regime and posed a number of questions in relation to specific fiscal instruments that are or could be utilised. The questions covered various topics including the process of awarding licences, the usefulness of current tax concessions, the introduction of a rent tax and international tax aspects.
- ▶ **Issues Paper 3** discussed the broad direction of reform, including the comparative benefits of State equity participation and a resources rent tax. Whilst it did note some merit in a resources rent tax, it also noted the stakeholder desire for stability in the mining and petroleum taxation regime and the strong sentiment for State equity participation.

The Tax Review Committee lodged its report to government in October 2015. The report contained 91 recommendations, seven of which related to the extractives industry. The recommendations included reducing levels of State equity participation, extending the additional profits tax to the mining and petroleum sector, and changing the terms and availability of fiscal stability agreements. A number of recommendations that were not specific to the extractives sector would nonetheless be relevant, including the introduction of a capital gains tax regime and a tightening up of tax concessions.

Following consultation, a number of changes are being implemented as a result of the tax review in the 2017 National Budget. However, as these are not operative until 01 January 2017, they do not impact the revenue streams in the 2015 reporting period.⁹² See <http://taxreview.gov.pg> for further information.

Tax Review recommendations: Tax concessions

One of the issues raised by the review is tax incentives, particularly in the form of tax holidays. It counsels against the use of tax holidays for the extractives sector, on the basis that such incentives are inequitable; create opportunities for tax abuse and corruption; complicate tax administration and compliance; and do not benefit new enterprises that are not yet profitable.

The Mining Development Contract agreed between the State and the operators of the Ramu nickel and cobalt mine included concession of a 10-year tax holiday, starting from 1 January 2016. The project has been exempted from all taxes except for group tax (on salaries), but is still liable for the production levy and royalty.⁹³

Tax Review recommendations: Infrastructure Tax Credits

The review recommends suspension of the Infrastructure Tax Credit Scheme for new projects, pending audits for the value of money forgone. The report comments:

'Over almost 20 years since the introduction of the ITC, there has been no substantive review of its operation. Generally, there is a significant lack of reporting in relation to the ITC expenditures and monitoring of approved projects. The absence of a standard format for reporting ITC expenditures has resulted in a lack of consistency in the provision of the information by developers. This creates difficulty for the collation of tax expenditure data. The appraisal process has suffered from a lack of technical capacity and funding within the Department of National Planning and Monitoring (DNPM). These processes relate to policy screening, cost appraisal and approval of the projects by the Project Appraisal Committee. Monitoring and evaluation of these projects has been compromised for decades.'⁹⁴

⁹² Email from IRC, 4 July 2017

⁹³ Tax Review Committee Report to the Treasurer, October 2015, http://taxreview.gov.pg/wp-content/uploads/2014/05/31.03.14_issues.paper_1_mining.petroleum.tax_.pdf p.49, accessed 9 November 2017

⁹⁴ PNG Taxation Review October 2015, Tax Review Committee Report to the Treasurer, Part 2 of 2: Detailed Analysis. http://taxreview.gov.pg/wp-content/uploads/2015/11/15.10.22_taxreview.final_report_vol.2.pdf accessed 10 October 2017

4.10 Government policy on disclosure of contracts

The details of contracts and licences are protected by confidentiality provisions in Section 163 of the MA, Section 51 MRA Act and Section 159 of the OGA. Contracts are held and maintained by the Solicitor General's office. Without legislative amendment, at this stage agreements could only be made public with the approval of both the company and the DPE or MRA (as appropriate). To date no contracts have been made publically available. This is an issue which civil society organisations in particular seek to change in the interests of greater transparency.

The principle of freedom of information is enshrined in the constitution, under the 'Goals and Directive' principles, under 'Basic Rights (d) freedom of conscience, of expression, of information and of assembly and association' and, specifically under Sections 51 and 52 on enforceability of those rights. Specific clauses clarifying public access to the content of agreements signed by or with the State on resource projects would be valuable. Part 1 of the MA however, provides for Constitutional limitations as the mining legislation is for the purpose of giving effect to the national interest.

The MSG discussed issues relating to disclosure of resource agreements during their meeting on 27 March 2015. The MSG felt that mining companies may feel comfortable disclosing agreements, but that oil and gas companies, being more exposed to global market dynamics are concerned that details in the agreements would reveal their strategy, and would thus be more commercially sensitive.⁹⁵ At the time of writing this report, it is understood the companies will be comfortable disclosing some parts of the agreements (partial contract disclosure), however the MSG has yet to discuss with oil and gas companies and agree on the details that may be disclosed. This is anticipated be discussed and addressed in the next report.

4.11 Disclosure of beneficial ownership

A beneficial owner in respect of a company means the natural person(s) who directly or indirectly ultimately owns or controls the corporate entity.⁹⁶

The PNG Government does not require companies to disclose the beneficial owners of companies producing oil and gas or minerals, and does not have a publically available register of the beneficial owners of the corporate entities in the sector.

This EITI report includes information on the beneficial ownership arrangements of each of the operating mines and producing oil and gas licences, as far as could be established through direct enquiry, reference to corporate websites and annual reports, and the PNG Mining Cadastre Portal database, hosted by the MRA website.⁹⁷ Where a company is publicly listed, the name of the stock exchange where they are listed has been provided.

Information on beneficial ownership is included in the discussion of mining, oil and gas operators and SOEs in chapters 7, 8 and 9. Note that the information provided relates to the 2015 calendar year, and that the ownership of a number of the projects and assets has since changed. These changes have been noted wherever possible.

The 2016 EITI Standard (2.5c) requires that EITI reports from 2020 onward include information relating to the beneficial ownership of corporate entities that bid for, operate or invest in extractive assets. The Standard includes a requirement (2.5bii) to develop a roadmap defining all the actions that need to be taken to address this requirement.

⁹⁵ MSG Meeting #2, 27 March 2015

⁹⁶ The EITI Standard, 2016 - Requirement 2.5 Beneficial Ownership

⁹⁷ PNG Mining Cadastre Portal - <http://portal.mra.gov.pg/Map/>

The MSG held a workshop in May 2016 to discuss this requirement,⁹⁸ and commissioned a roadmap. The draft roadmap was published in December 2016, with a [final version](#) published in March 2017, which included a roadmap costing and work plan from April 2017 to December 2019.⁹⁹ The MSG was involved in determining all milestones and deadlines in the roadmap, and will be responsible for evaluating implementation of the roadmap as part of their annual progress report (as per EITI Requirement 7.4a vi). It is expected that the document will evolve over time through iterations and improvements.

The information below represents the current work conducted by the consultant in implementing the activities of the BO Roadmap, while setting out the current PNG Context with regards to the Extractive Industries.

Update on Beneficial Ownership (BO) Roadmap implementation¹⁰⁰

PNG EITI MSG is working towards disclosing Beneficial Ownership details in 2020 as required by the EITI Standard. The roadmap for the implementation of Beneficial Ownership disclosure began in July 2017 and is currently in the early stages of planning activities that will aid efficient beneficial ownership disclosure. The MSG has already begun a review of the legal and regulatory framework that may hinder the progress by directly communicating with legal officers from the MSG organisations and EITI specialists.

A consultant was contracted by the PNG National Secretariat in July 2017 as the Roadmap Implementers for the disclosure of Beneficial Owners with regards to Extractive Industries. The Roadmap implementation project covers 23 milestones encompassing topics of defining Beneficial Ownership (BO) and Politically Exposed Persons (PEP) while establishing thresholds of ownerships within the context of BO. Additionally, the consultant has articulated the need for amendments or regulations to existing laws rather than the introduction of a new legislation.

As of 4 December 2017, 8 Milestones have been completed and the consultant is in the process of finding different avenues to enhance public awareness using media as a tool and a source. PNG EITI National Secretariat will conduct roadshow in 2018, to showcase the EITI and its benefits whilst creating public awareness on the changes to be implemented regarding BO Disclosure. Public debate will be crucial to adjusting BO Disclosure to suit the local context during this time.

The Government has been making progress since 2016 in its efforts to achieving the National Priorities in Vision 2050 and its Development Strategy 2010 - 2013. Reforms have somewhat been slow as government entities have their own priorities. However, these reforms also coincide with changes to legislations that are essential to implementing the EITI objectives.

Another challenge anticipated is data collection. By comparison with other countries, PNG has poor data collection and storage capabilities. For example, the Mineral Resource Authority has a cadastre in place for tenement licensing progress, whilst DPE has been collating financial data manually in an outdated system.

The work through the beneficial ownership project is to review the current legislative arrangements as beneficial ownership information is concerned for better management of the extractive Industry. However, the terms 'Beneficial Ownership disclosure' and 'Politically Exposed Person' are also included and defined in the country's Anti-money Laundering Act 2015.

PNG is different from other EITI countries in that the law makes provision for people to be attached to their Land, hence the term landowners. When executing BO Ownership disclosure within PNG context, particularly for Landowner groups, validating landowner information and their respective groups will be crucial in BO disclosure accuracy.

Once beneficial ownership disclosure is fully implemented in 2020, it will demonstrate Government's commitment to transparency, achieve its goals in its Vision 2050 and its Development Strategy 2010 - 2030. It will provide an enabling environment for the government to maximise its revenue collection by preventing money laundering and transfer pricing. The BO reporting will provide another platform for collaboration between government, industry and civil society. Beneficial Ownership disclosure will also improve sovereign and corporate ratings and promote accountability for local and foreign investors for better management of corporate risk.

⁹⁸ MSG Meeting #2/2016, 8 July 2016

⁹⁹ PNG EITI, KPMG, Papua New Guinea Roadmap for Beneficial Ownership Disclosure March 2017, <http://www.pngeiti.org.pg/wp-content/uploads/2017/06/PNGEITI-Beneficial-Ownership-RoadMap-1.pdf>

¹⁰⁰ Information received from Treasury, 4 December 2017

A [Scoping Study on Beneficial Ownership](#) was also published in March 2017.¹⁰¹

4.12 Relevant legislation and agreements

Most key pieces of legislation relevant to the extractive industries in PNG are available from PaCLII <http://www.paclii.org/countries/pg.html>. Mining legislation is also available on the MRA website <http://www.mra.gov.pg/Regulations.aspx>.

The PNG LNG Umbrella Benefit Sharing Agreement (UBSA) and the PNG LNG Coordinated Development and Operating Agreement (CDOA) are not publically disclosed.

Table 13: Relevant legislation with hyperlinks

Legislation
Environment Act 2000
Goods and Services Act 2003
Income Tax Act 1959
Mineral Resources Authority Act 2005
Mining Act 1992
Mining Safety Act 1977
Oil and Gas Act 1998
Oil and Gas Regulation 2002
Mining (Ok Tedi Agreement) Act 1986
Mining (Ok Tedi Tenth Supplemental Agreement) Act 2013
Resource Contracts Fiscal Stabilisation Act 2000
Government Gazettes
Unconventional Hydrocarbons Act 2015

¹⁰¹ PNG EITI, KPMG, Report on Outcome of the Scoping Study on Beneficial Ownership March 2017, <http://www.pngeiti.org.pg/wp-content/uploads/2017/06/PNGEITI-BO-Scoping-Study-Report.pdf>

5. Management and distribution of revenues

The 2013 and 2014 PNG EITI reports identified that in some cases, the absence of a robust system for managing government revenue payments in PNG leaves the system vulnerable to fraud, corruption, and human error.¹⁰² The problem of transparency is amplified when payments to subnational governments are taken into consideration, and the Asian Development Bank has called for greater transparency in subnational government resource revenue flows.¹⁰³

Budgeting for government revenues from the extractive sector is complex due to the revenue being subject to fluctuations in quantities produced and global commodity prices. Medium-term projections anticipate that corporate income tax (mining and petroleum tax) will come mainly from Ok Tedi, Porgera and the oil fields. The Ramu Nico mine has a 10-year exemption from corporate income tax. The Lihir mine continues to undertake high capital expenditures which reduce its taxable income. Low LNG prices, together with an accelerated depreciation allowance, means there may not be corporate income tax from the PNG LNG project. In addition, key mines are claiming Infrastructure Tax Credits (ITCs).¹⁰⁴

5.1 Budget process

The national budget process is led by the Department of Treasury. The documents, processes and governance structures that guide the PNG budget are outlined below. In the absence of clear publicly available information on PNG's budget process, the following information was provided directly by the Treasury of PNG in 2015.¹⁰⁵

The budget is guided by relevant legislation and strategies, as outlined below.



In recent years there has been an effort to introduce rules-based constraints so that the budget process is directed towards achieving sound fiscal policy. This is reflected in the Medium Term Fiscal Strategy 2013-2017 (MTFS), the Medium Term Debt Strategy, the *Papua New Guinea Fiscal Responsibility Act*, the *Public Finances (Management) Act 1999* and the establishment of the Sovereign Wealth Fund. The MTFS sets fiscal rules regarding the size of the deficit and debt, but it has been amended in the context of the annual budget. The *Fiscal Responsibility Act 2006*

¹⁰² 2013 and 2018 PNG EITI Reports <http://www.pngeiti.org.pg/pngeiti-reports/>

¹⁰³ *Asian Development Outlook 2015: Financing Asia's Future Growth*, Asian Development Bank 2015, <https://www.adb.org/sites/default/files/publication/154508/ado-2015.pdf> p. 256 accessed 27 September 2017

¹⁰⁴ Treasury EITI Reporting Template, provided 14 November 2016

¹⁰⁵ information provided directly by Treasury, email 3 December 2015

legislates a debt limit of 35% of GDP for the years 2013, 2014 and 2015 (increased from 30% via an amendment in 2013) which returned to a limit of 30% of GDP in 2016.

In the 2015 budget, Combined Budget Operational Rules were introduced. This is a set of organic rules setting out budget criteria and processes for government departments, statutory authorities and provinces. This set of rules will be annually revised by the Departments of Treasury and National Planning and Monitoring and used for assessing budget submissions.¹⁰⁶ The 2016 Budget also introduced the Budget Management Framework to bring the rules and the Non-Financial Instructions to the attention of agencies.

PNG places emphasis on development planning, as reflected in the Vision 2050 report, *PNG Development Strategic Plan 2010–2030* and the *Medium Term Development Plan 2016–2017* available on the Department of National Planning and Monitoring website.¹⁰⁷ Another influence on spending priorities has been the Alotau Accord platform for action, agreed by the coalition government following the 2012 elections.

5.1.1 Budget governance structures

Several committees assist in steering the budget process and supporting fiscal decision-making:

	Committee	Composition	Role in budget
Bureaucratic	Budget Screening Committee ¹⁰⁸	deputy secretaries of the central agencies ¹⁰⁹	works with agencies to review their budget submission
	Central Agencies Coordinating Committee ¹¹⁰	chaired by the chief secretary to the government ¹¹¹	coordinates policy and development planning in PNG
Political	Ministerial Economic Committee (also referred to as the Senior Ministerial Budget Committee) ¹¹²	chaired by the Treasurer and comprises of ministers of Finance and National Planning as well as the Prime Minister and NEC	drives budget strategy setting and advises the National Executive Council on the budget
	National Executive Council	Key government decision making body	approves final budget

5.1.2 Budget governance structures

Several committees assist in steering the budget process and supporting fiscal decision-making:

The budget process commences around March of each year, with a consultation period. Treasury calls for policy submissions from the public and undertakes forecasting of key economic indicators and revenues.

¹⁰⁶ http://www.treasury.gov.pg/html/national_budget/files/2015/Vol1-Economic%20and%20Development%20Policies.pdf

¹⁰⁷ <http://www.planning.gov.pg/images/dnpm/pdf/MTDP2.pdf>

¹⁰⁸ The 2017 budget process has replaced the Budget Screening Committee with a Budget Strategic Committee http://www.treasury.gov.pg/html/national_budget/files/2017/2017%20Budget%20Volume%201%20Economic%20and%20Development%20Policies.pdf

¹⁰⁹ The central agencies are: Departments of Treasury, Finance, National Planning & Monitoring, Prime Minister & NEC and the Department of Personnel Management. These are the key central government departments or key economic agencies that have major inputs into the budget formulation process in terms of budget strategies and frameworks, and policy formulation and allocation of resources. Information received from Treasury 4 December 2017

¹¹⁰ Information received from Treasury 4 December 2017

¹¹¹ <http://press-files.anu.edu.au/downloads/press/p78541/mobile/ch03s03.html>

¹¹² Information received from Treasury 4 December 2017

In May or June a Budget Circular is issued to all spending agencies of government, including provincial governments, which provides them with instructions for preparing their budget submissions, including expenditure ceilings for each agency. The process for setting ceilings includes:

- ▶ Treasury determines an aggregate expenditure ceiling, guided by revenue projections, macroeconomic conditions and fiscal rules.
- ▶ The operational ceilings are prepared based on the appropriations for the prior year - adjusted for some parameter changes such as agreed salary increase and inflation. These ceilings are provided to agencies via the Integrated Financial Management System.
- ▶ The capital ceiling is based on ongoing projects and the available fiscal space.

Since 2015, agencies are required to make a single submission including both capital and operational costs, and the linkages between these, rather than separate budget submissions as in prior periods.

At the end of July, the Mid-year Economic and Fiscal Outlook (MYEFO) report is released, which provides an update on the fiscal performance of the past six months, economic forecasts for the next six months and the medium-term budget and economic forecast.

At the end of August, the Budget Strategy Paper is released. This sets out high-level fiscal parameters and broad policy strategy for the coming budget.

During late August and September, the Budget Screening Committee holds meetings with agencies to discuss and negotiate the submissions received. Agency submissions tend to be large and ambitious and it is difficult to sort proposed funding for new activities from funding for existing programs and projects. A key focus of these meetings is to try to bring budget requests within ceilings.

The Budget Screening Committee is where most decisions are made regarding a new policy or initiative. It is in this forum that the Department of National Planning and Monitoring (DNPM) and Treasury seek consensus at executive level regarding the prioritisation of new development and operational spending. It is only at the margins, and very late in the process, that Cabinet-level engagement is sought around the most contentious resource allocation decisions.

A proposed final budget is then submitted to NEC for endorsement. In early November, the budget is presented to Parliament and approved before the start of the coming fiscal year.

Comprehensive budget documents are published with the approved budget - which includes detailed estimates for each agency as well as a Public Investment Program with information regarding both ongoing and new projects that received appropriations.

A Final Budget Outcome report is released within three months of the end of the financial year, which includes annual expenditure.

Figure 18: Timeline of key steps in PNG budget process



5.2 Recent reforms to the budget process

In 2012, the government introduced a number of reforms to the budget process. Major areas of focus to date have been:

- ▶ Integration of capital and operational spending. Previously, the budget process was split such that the Department of National Planning and Monitoring assessed and advised Cabinet on development projects proposed in the budget, while Treasury assessed the policy and operational side of the budget.¹¹³
- ▶ Setting ceilings for both operational and capital components.
- ▶ Greater cohesion between ministerial priorities and bureaucratic activity plans. Agencies are now requested to have ministerial sign-off of on their budget submission.¹¹⁴
- ▶ Separate consideration of new and ongoing expenditure.
- ▶ Budgeting by sector to avoid duplication, align sector priorities, and help distribute funding across the government's priority areas; particularly highlighting funding to health and higher education.¹¹⁵
- ▶ Shifting emphasis from inputs to outcomes by: integrating more information into resource allocation decisions, particularly on program goals and performance; and assessing the validity of historical budget decisions.¹¹⁶
- ▶ Increased transparency 'through the quarterly release of information about appropriations, warrant releases and expenditure to date of every Government agency'. This is done by publishing information in the major newspapers and online through the Department of Treasury website (www.treasury.gov.pg).¹¹⁷

¹¹³ http://www.treasury.gov.pg/html/national_budget/files/2015/Vol1-Economic%20and%20Development%20Policies.pdf;
http://www.treasury.gov.pg/html/national_budget/files/2016/Volume1-Econ&DevPolicies.pdf

¹¹⁴

http://www.treasury.gov.pg/html/national_budget/files/2017/2017%20Budget%20Volume%201%20Economic%20and%20Development%20Policies.pdf p. 58

¹¹⁵ http://www.treasury.gov.pg/html/national_budget/files/2015/Vol1-Economic%20and%20Development%20Policies.pdf p.

¹¹⁶

¹¹⁷ *ibid*

ibid

- ▶ Ensuring the sustainability of projects by requiring four-year forward estimates, including future operational costs of capital expenditures.¹¹⁸

The budget reforms have been supported by guidance documents such as the Budget Management Framework, introduced for the 2016 budget, and a network of technical officers to disseminate information and provide a forum for open communication between agencies.¹¹⁹

Classifications of the State budget and public accounts have been updated to the *Government Financial Statistics Manual 2014*.

5.3 Commentary on the budget process

The Fiscal Affairs Department of the International Monetary Fund carried out an assessment of PNG's public financial management in 2015, against an established performance management framework. It found that PNG scores relatively well on credibility of fiscal strategy and budget; policy based planning and budgeting; and comprehensiveness and transparency. However, it found considerable scope for improvement in accountability; the management of public assets, liabilities and associated fiscal risks; and the quality, availability, comprehensiveness and timeliness of fiscal accounts.¹²⁰

5.4 PNG Sovereign Wealth Fund

The PNG Sovereign Wealth Fund (SWF) is an important mechanism to manage external shocks to the economy, to support the budget to fund priority areas such as education, health and infrastructure, and to invest for the benefit of future generations.

The *Organic Law on the Sovereign Wealth Fund* was passed by the Parliament in July 2015 to come into operation in 2016.¹²¹ According to the 2015 Budget, from 2016 onwards all mining and petroleum taxes were to have been deposited into the Sovereign Wealth Fund instead of flowing directly to the government's consolidated revenue fund (CRF).¹²² However, a report from the International Monetary Fund (IMF) stated that the SWF was not yet in operation as at the end of 2016.¹²³

The SWF comprises two funds: the Stabilisation Fund and the Savings Fund. Tax revenues received from mining and petroleum projects, including the PNG LNG project, will be directed to the Stabilisation Fund, and be available to be drawn down into the budget, in accordance with a five-year moving average, to fund expenditure needs. When revenue flows are large, the excess will be deposited into the Savings Fund.

The Stabilisation Fund and the Savings Fund will each receive a proportion of the mining and petroleum dividends paid by state-owned enterprises. The Savings Fund will also receive some of the proceeds of state-owned assets that the government agrees to sell.

The government intends to appoint an experienced and well-qualified board to oversee the investment of these funds offshore to diversify risk and, over time, build up financial assets. The government will provide an investment mandate to the board, expressing the government's expectations for the management of the funds.¹²⁴ It was intended to set up this board, and a secretariat, in the first quarter of 2017 however, this has not occurred the time of writing this

¹¹⁸ *ibid*

¹¹⁹ http://www.treasury.gov.pg/html/national_budget/files/2016/Volume1-Econ&DevPolicies.pdf, p. 66

¹²⁰ International Monetary Fund, Fiscal Affairs Department, 'Papua New Guinea Public Expenditure And Financial Accountability Assessment', August 2015, <https://pefa.org/sites/default/files/PNG-Aug15-PFMPR-Testing%20version-Public%20with%20PEFA%20Check.PDF> accessed 5 October 2017

¹²¹ http://www.treasury.gov.pg/html/public_debt/swf.htm

¹²² http://www.treasury.gov.pg/html/national_budget/files/2015/Vol1-Economic%20and%20Development%20Policies.pdf
¹²³ <https://www.imf.org/en/News/Articles/2017/01/30/PR1724-Papua-New-Guinea-IMF-Executive-Board-Concludes-2016-Article-IV-Consultation>

¹²⁴ Direct communication from Treasury, 25 November 2016

report., According to the announcement made by Treasury in the 2018 Budget tabled in Parliament recently¹²⁵, arrangements are being finalised to establish the board. The Department of Treasury stated that in the interim, all mineral and petroleum dividends are directed to the National Budget until the SWF is in place in 2018.

According to Treasury¹²⁶, the projected mineral and petroleum revenues and medium term inflows between the budget and the SWF were yet to be operationalised. Based on current estimates by Treasury, 50% of mining and petroleum tax will be channelled to the SWF Stabilisation Fund, while the other 50% will flow directly to the CRF to finance government operations. The establishment of the board and a secretariat to operationalise the SWF had been further pushed back to 2018, with the World Bank agreeing to assist the Bank of PNG and the Department of Treasury to establish the SWF Secretariat.¹²⁷

5.5 Budget priorities

The 2015 budget aimed at reducing the deficit from 6.9% of GDP in 2014 to 4.5% through moderate cuts in expenditure in areas such as construction, but increased spending on focus areas such as education, health and law and order. However, falling commodity prices put a strain on the economy and reduced tax revenues to PGK5.89 billion, leading to a deficit of 5% of GDP.¹²⁸ This led to greater cuts in the 2016 budget to public services such as health, and plans to increase revenue.

The government's current areas of focus can be seen in the [2017 budget papers](#) and associated documents such as the annual Budget Strategy Paper, Mid-year Economic and Fiscal Outlook report, and Final Budget Outcome report, all of which can be found on the [Treasury website](#). The Government's fiscal strategy for 2017 follows from that of 2016 to eventually balance the budget. It aims at reducing budget deficits and ensuring public debt-to-GDP is kept at manageable levels through: ensuring expenditures allocated to government priorities are maintained at current levels; and the reallocation of spending on goods and services from non-essential to productive areas. The budget focuses on deepening and broadening the tax base by improving compliance and enforcement and promoting an efficient and sustainable revenue base. This will also promote budget reform and the transparency of the budget management process. Key components include:

- ▶ Pursuing structural reforms of SOEs and streamlining the public sector
- ▶ Potentially significant amendments to the taxation system, resourcing the IRC to improve compliance, changes to corporate income tax, foreign contractor withholding tax and dividend withholding tax rates, imposing APT across all mining and petroleum projects and adjusting the taxable value of employer-provided housing.

5.6 How extractive industry revenues are recorded

Table 14 below provides a list of revenues and payments from the extractive sector, and where they are recorded. Note that the only revenues/payments from the extractive sector recorded in the national budget are income taxes and dividends. The 2017 National Budget also includes summary information regarding Infrastructure tax credits as noted below.

¹²⁵ Post courier, p22, dated 1st December, 2017

¹²⁶ Direct communication from Treasury, 4 December 2017

¹²⁷ <http://postcourier.com.pg/world-bank-assist-png-swf/>.

¹²⁸ http://www.treasury.gov.pg/html/national_budget/files/2013/budget_documents/Related%20Budget%20Documents/2015%20FBO%20-%20Final.pdf

Table 14: Public records of extractive industry revenues

Revenue Stream	Where recorded	Available online?
Mining		
Mine closure bond	Financial reports of Conservation and Environment Protection Agency (CEPA)	No
Production levy	Financial reports of the MRA	No
Alluvial levies; Mine security deposits; Exploration security deposits; Mining lease rentals; Exploration licence rentals; Data sale receipts; Exploration applications, extensions, extension late fees, transfer and dealing fees (related to exploration); Mining applications, extensions, extension late fees, transfer and dealing fees (related to mining)	Accounts/Financial reports of MRA	No
Royalties	Paid by the project developer directly to the recipients, which are defined in each project MOA. Receipts of payments are furnished to the MRA.	No
PIP project funds	DNPM Public Investment Program Annual Report 2014	Yes
Petroleum		
Decommissioning bonds	Financial reports of Conservation and Environment Protection Agency (CEPA)	No
Development levy	Paid to DPE Trust Account, and financial reports are furnished to the Trust Fund Management Division of the Department of Finance as per the Public Financial Management Act 1995 reporting requirements on Trust Funds	No
Royalties	Paid to the DPE Trust Account, which is then transferred to parties based on the OGA, Oil MOAs and UBSA/LBBSA negotiations	No
Additional profits tax	IRC annual report	Yes
Equity distributions	Relevant annual reports (eg KPH, KMH, MRDC)	No
Shares of sales	Relevant annual reports	Yes
Mining and Petroleum		
Import taxes	Customs annual report	Yes ¹²⁹
Goods and services tax	IRC annual report	Yes ¹³⁰
Licence/tenement fees	Paid to MRA and DPE for mining and petroleum respectively	No
Mandatory social expenditure	Some company annual reports	
Discretionary social expenditure	Some company annual reports	
Dividends	National budget (listed under non-tax revenue)	Yes ¹³¹
Environment permit fees	Financial reports of Conservation and Environment Protection Agency (CEPA)	No

¹²⁹ 2010 Annual Report, Customs,

http://www.customs.gov.pg/O6_legislation_and_publications/4_Publications/01_PNG_Customs_Annual_Report_2010.pdf

¹³⁰ 2013 Annual Report, Internal Revenue Commission, <http://irc.gov.pg/wp-content/uploads/2017/01/2013-Annual-Report.pdf>

¹³¹ 2017 National Budget, Vol 1,

http://www.treasury.gov.pg/html/national_budget/files/2017/2017%20Budget%20Volume%201%20Economic%20and%20Development%20Policies.pdf Accessed 17 October 2017

Revenue Stream	Where recorded	Available online?
Royalties & dividends paid to provincial governments	National Economic Fiscal Commission's Report	Yes ¹³²
Group taxes (taxes withheld on employees' salaries)	IRC annual report	Yes
Corporate income tax (mining and petroleum tax)	National budget	Yes
Infrastructure tax credits	IRC accounts and DNPM	Yes ¹³³
Business payments tax	IRC annual report	Yes ¹³⁴
Dividend withholding tax	IRC annual report	Yes
Interest withholding tax	IRC annual report	Yes
Management fee withholding tax	IRC annual report	Yes
Royalty withholding tax	IRC annual report	Yes
Foreign contractor withholding tax	IRC annual report (as part of 'withholding taxes')	Yes

Note: Some reports may be gazetted, and are therefore available to the public in hard copy or via PaCLII.

5.7 Subnational payments and transfers

Information relating to transfers and payments to subnational (provincial and local level) governments in PNG is difficult to obtain. Some relevant information is to be found in the National Economic and Fiscal Commission (NEFC) *Budget Fiscal Report*,¹³⁵ but does not always align to the EITI reporting requirements. The IA has attempted to include as much information as possible in this report.

The PNG EITI 2017 Work Plan includes a scoping study to investigate the possibility of implementing the EITI Standard to subnational governments and landowner associations. This study was commissioned in October 2017 and is expected to take up to six months to complete. A more detailed understanding of how these payments are made and what impacts they have on the local communities will add great value to PNG's EITI reporting. The Terms of Reference for this scoping study can be found on the [PNG EITI website](#).

The objectives of the commissioned subnational payment scoping study are outlined below.¹³⁶

¹³² National Economic and Fiscal Commission 2017 Annual Budget Fiscal Report, http://www.nefc.gov.pg/documents/publications/fiscalReports/2017Fiscal_Report.pdf accessed 4 October 2017

¹³³ Summary of annual values included in Appendix 1 - Revenue Tables of 2017 Budget, 2017 National Budget, Vol 1, http://www.treasury.gov.pg/html/national_budget/files/2017/2017%20Budget%20Volume%201%20Economic%20and%20Development%20Policies.pdf Accessed 17 October 2017

¹³⁴ Note that the latest annual report available on the IRC website is for 2013 <http://irc.gov.pg/wp-content/uploads/2017/01/2013-Annual-Report.pdf>, accessed 13 December 2017

¹³⁵ National Economic and Fiscal Commission 2017 Annual Budget Fiscal Report, http://www.nefc.gov.pg/documents/publications/fiscalReports/2017Fiscal_Report.pdf accessed 4 October 2017

¹³⁶ Direct communication with Treasury, 4 December 2017

Objectives and key components of the subnational payment scoping study

The objectives of the subnational payment scoping study are to:

- ▶ Understand and document stakeholder views on enhanced subnational reporting through PNG EITI.
- ▶ Identify and map the subnational payments and transfers in PNG's extractives sector.
- ▶ Develop a reporting framework that could be used for PNG EITI subnational reporting.
- ▶ Populate the reporting framework with case study examples.
- ▶ Identify strengths in the subnational reporting system, challenges for improving subnational reporting, and a high-level roadmap for implementing subnational reporting through PNG EITI.

Key components to be addressed in the final report include:

1. Global practice in reporting sub-national payments with a discussion on subnational implementation in other countries.
2. PNG context including legislative framework and EITI structure.
3. Identification of subnational payments in PNG. These will include:
 - ▶ Royalty payments
 - ▶ Equity and dividends
 - ▶ Compensation payments
 - ▶ Development Levy
 - ▶ Special Support Grants
 - ▶ Infrastructure Development Grants
 - ▶ Business Development Grants
 - ▶ Public Investment Program
4. Case studies will be included for Lihir, Ok Tedi, PNG LNG and KulaGold (Woodlark Island) including modelling of subnational reporting framework with real data
5. Key issues to be addressed in the study are:
 - ▶ Discussion on the materiality of subnational payments
 - ▶ Regulations and laws for subnational payments and transfers
 - ▶ Identification of subnational entities that should be included in subnational implementation
 - ▶ Discussion on the functions of existing subnational reporting entities, including how to strengthen their capacity
6. Proposed payment architecture for subnational payments in accordance with the EITI standard
7. Template for subnational reporting
8. Key recommendations including potential challenges and solutions
9. Key tasks and costs of subnational implementation

Some benefits to regions impacted by extractives are set out in law via royalties, equity stakes, dividends and compensation arrangements. Others are included in memoranda of understanding (MOA) on a case-by-case basis. However, these agreements are in most cases not public, and accountability mechanisms vary significantly.

Royalties, development levies and equity shares of State (held by SOEs) are not recorded in the budget and Treasury does not administer subnational transfers of these revenue streams to provincial/local level governments and landowners.¹³⁷

Royalties and levies, particularly those received for oil and gas, are held in trust. The category, number and balance of trust accounts in use could not be reliably identified, even by the Auditor General.¹³⁸ There is nominal evidence of trust account spending incorporated into the State Budget

¹³⁷ information provided directly by Treasury, email 22 December 2016

¹³⁸ <http://www.ago.gov.pg/>; accessed 20 September 2017

Expenditure, however the lack of governance on trust accounts leaves significant scope for abuse.¹³⁹

As part of the MOA for each mining and petroleum project, the national government allocates 0.5% of net sales value from mine products and 2%¹⁴⁰ from petroleum products to provinces that host these projects, by means of Special Support Grants (SSG). These are to be used on approved social and economic infrastructure development projects, with a minimum of 20% spent in the 'mine affected areas'. The SSG is shared between the provincial governments and the relevant Special Purpose Authority, according to the MOA. The provinces with mining and petroleum projects that received SSGs during 2015 included:

- ▶ Western (Fly River Provincial Government)
- ▶ Gulf
- ▶ Central
- ▶ South Highlands
- ▶ Enga
- ▶ Morobe
- ▶ New Ireland

Note: the 2015 Budget projected a decrease in grant support payments for Morobe SSG (Hidden Valley), and for the grant to be removed completely by 2016. However, in the 2016 Budget the grant reduces from PGK4 million (2015) to PGK500,000 annually until 2019.

The allocation of SSGs is published within the National Budgets under the Public Investment Program (PIP) section for each province mentioned above.¹⁴¹ The PIP is a vehicle through which the PNG government implements development policies aimed at improving the livelihood and wellbeing of PNG citizens in all provinces.¹⁴² Through the *Fiscal Responsibility Act 2006* the Department of National Planning and Monitoring (DNPM) is empowered to report on PIP Implementation Reports to the National Executive Council (NEC) and Parliament on implementation status, development expenditures, and achievements of programs. Grants are administered through relevant economic sector agencies.¹⁴³ See data in section 7.9.

Outlined below are subnational payment streams by sector. Some of these are direct payments from extractive sector companies, while others are mediated by government or are transfers from government.

¹³⁹ 2015 Final Budget Outcome

http://www.treasury.gov.pg/html/national_budget/files/2013/budget_documents/Related%20Budget%20Documents/2015%20FBO%20-%20Final.pdf ; 2016 Final Budget Outcome

http://www.treasury.gov.pg/html/national_budget/files/2013/budget_documents/Related%20Budget%20Documents/2016%20FBO%20-%20FINAL.pdf

¹⁴⁰ 'The PNG Chamber of Mines and Petroleum advised that SSG rate have now been standardised to 0.25%, but for existing projects it is up to 2% (direct communication 4 February 2016)'

¹⁴¹ National Budget, Volume 2; 2016 Budget estimates for statutory authorities' debt services and trust accounts.

Department of Treasury, [http://www.treasury.gov.pg/html/national_budget/files/2016/Volume2d-](http://www.treasury.gov.pg/html/national_budget/files/2016/Volume2d-StatAuth&Prov&Debt&Trusts.pdf)

[StatAuth&Prov&Debt&Trusts.pdf](http://www.treasury.gov.pg/html/national_budget/files/2015/Vol2d-Estimates%20for%20Stat%20Auth,%20Prov%20Govts,%20Debt,%20Trust%20Account.pdf); National Budget, Volume 2: 2015 Budget estimates for statutory authorities' debt services and trust accounts. Department of Treasury, http://www.treasury.gov.pg/html/national_budget/files/2015/Vol2d-Estimates%20for%20Stat%20Auth,%20Prov%20Govts,%20Debt,%20Trust%20Account.pdf, accessed 19 September 2017

¹⁴² 2014 Annual Public Investment Program Implementation Report, Department of National Planning and Monitoring, <http://www.planning.gov.pg/images/dnmp/pdf/pip/PublicInvestmentProgramAnnualReport2014.pdf> accessed 26 October 2016

¹⁴³ Q1 2015 Public Investment Program Implementation Report,

<http://www.planning.gov.pg/images/dnmp/pdf/pip/PublicInvestmentProgram1stQuarterReport2015.pdf>

5.7.1 Subnational payments and transfers: mining

The National Economic and Fiscal Commission (NEFC) Provincial Government Budget Reports outline the revenues received by provincial governments. The NEFC estimates that provinces received PGK84.2 million from royalty and dividend payments in 2015 compared with PGK96.7 million in 2014, and an estimated PGK133.6 million in 2013.¹⁴⁴

In accordance with the *Mineral Resources Authority Act 2005*, the MRA has the function of receiving any fee, levy, rent, security, compensation, royalty or other money payable under the *Mining Act 1992* ('MA') and other legislation. The most significant regional allocations are for:

1. **Royalty:** A royalty benefit of 2% of the gross revenue from resource sales is provided by tenement holder to the State. This is then apportioned to landowners, affected provincial governments and local level governments.
2. **Equity:** The State has the right, but not the obligation, to acquire up to 30% of a mining project, at par value, or 'sunk cost' (MA s. 16A). Landowners also have equity stakes in mining projects such as Porgera and Ok Tedi.
3. **Dividends:** Through the MOA, landowners and provincial governments may receive dividends from projects. For example, the Fly River Provincial Government receives dividends from Ok Tedi through trust from MRDC.
4. **Compensation Payments:** Landowners such as those on the Fly River receive a percentage of dividends from Ok Tedi as compensation payments.
5. **Special Support Grant:** The State allocates funding for mining projects to hosting provincial governments such as New Ireland and Enga. This is as part of the Public Investment Program (PIP) overseen by the Department of National Planning and Monitoring (DNPM) and administered by the MRA in the case of mining-related projects.¹⁴⁵ By agreement a portion of this may be channelled from the provincial government to the affected local government.

Accountability mechanisms vary significantly depending on the entity receiving the allocation. Audits of provincial, local government and landowners groups should occur on an annual basis but capacity constraints within both the local and provincial governments and the Auditor General prevent this from occurring. Other mechanisms such as board review or government oversight also vary considerably depending on the entity receiving the distribution.

5.7.2 Subnational payments and transfers: oil and gas

The *Oil and Gas Act 1998* sets out the process for benefits sharing, including payments earmarked for specific regions. Part III Division 14 legislates fees and royalties, and Part IV legislates state equity entitlement and project benefits. As per s. 174, the total of these benefits to provincial governments, local-level governments, and landowners shall not exceed 20% of the total net benefit to the State from that petroleum project as determined by a cost-benefit analysis. The benefits are received and held in trust by a corporate trustee wholly owned by MRDC, with a minimum of 30% of net income from these benefits are held upon trust for future generations (s. 176). These benefits and payments include:

¹⁴⁴ NEFC 2017 Budget Fiscal report, http://www.nefc.gov.pg/documents/publications/fiscalReports/2017Fiscal_Report.pdf; http://nefc.gov.pg/documents/publications/fiscalReports/2015Fiscal_Report.pdf; http://nefc.gov.pg/documents/publications/fiscalReports/2016Fiscal_Report.pdf, accessed 5 December 2017

¹⁴⁵ *MRA Act*, s. 5

1. **Royalty:** A royalty benefit of 2% of 'wellhead value' is provided from the tenement holder to the State (s. 159 of the OGA). Royalty benefits are payable monthly by the State (Minister) to affected landowners, local-level governments and provincial governments in proportions agreed by them in a development agreement, or determined by the Minister in default of this agreement (s. 168).
2. **Development levy:** A development levy of 2% of the wellhead value, calculated in the same manner as royalties, is payable by a development licensee directly to a trust fund, which is then available to the provincial governments and the local level governments (s. 160).
3. **Equity:** The State has the right to acquire all or part of a participating interest not exceeding 22.5% in each petroleum project (s. 165). The State grants to the project area landowners and affected local-level governments an equity benefit in that petroleum project (s. 167). These benefits shall be held in trust and shared in proportions agreed upon in a development agreement, or in default of the agreement, as determined by the Minister (s. 167). Governments and landowners are also at liberty to freely negotiate a participating interest in addition to the interest granted them (s. 175).
4. **Project grants:** The State may agree with affected local-level governments and provincial governments of a petroleum project to provide grants in the form of monetary payments or provision of infrastructure, services, or other benefits (s. 173).
5. **Other benefits:** Through a development agreement the State may provide project area landowners or people of the region grants, consolidated revenue or otherwise. These agreements made between the State and landowners do not affect any agreements which may be reached between project area landowners and petroleum project developers themselves (s. 171).

The PNG LNG project is a current example of benefits sharing and these agreements. The Umbrella Benefits Sharing Agreement (UBSA) provides a total of 2.78% free equity participating interest in PNG LNG to project area landowners and local level governments for greenfield areas. The UBSA also provides to project area landowners and provincial governments the opportunity to buy into indirect PNG LNG equity up to a collective maximum of 4.22% between 1 January and 30 June 2016.¹⁴⁶ An amount of PGK1.2 billion has been allocated by the State equally over two five-year periods, commencing in 2010, for infrastructure development and maintenance in the affected project areas and provinces. The State has also provided a business development grant of PGK120 million to assist landowner companies in business development activities under the PNG LNG project.

5.7.3 Subnational payments 2015

Table 15 shows royalty payments to provincial and local-level governments, including:

- ▶ Royalties as given in the NEFC Budget Fiscal Report.¹⁴⁷ This gives a consolidated royalty amount for each province, encompassing royalties from oil, gas and mining operations
- ▶ Details on payments to specific government entities as provided by MRA in respect of mining projects

¹⁴⁶ PNG LNG Project Umbrella Benefits Sharing Agreement (UBSA), 2009, <http://ccsi.columbia.edu/files/2015/01/PNG-Landowners-LNG-Project-Companies-2008-agreement.pdf>; ExxonMobil, 2015, <http://pnglng.com/commitment/hot-topics/benefits-sharing.html>

¹⁴⁷ http://www.nefc.gov.pg/documents/publications/fiscalReports/2017Fiscal_Report.pdf

The NEFC and MRA figures do not reconcile in some cases; these variances have not been investigated by the IA. The royalties reported paid by operators and received by MRA/DPE are reconciled in sections 10.4.2.2 and 10.4.3.3. MRDC also reported royalty amounts in relation to their subsidiary entities and associated trusts, which are set out in section 9.6.3.

Table 15: Subnational royalty payments, 2015

Province	Royalties per NEFC report ¹⁴⁸ (PGK)	Mining, oil and gas operations	Receiving entity*	Mining royalties reported by MRA (PGK)
Western (Fly River Provincial Government)	9,300,000 ¹⁴⁹	Ok Tedi		5,266,242
		Oil Search operated oil field		
		PNG LNG	Nomad LLG	
Gulf		Oil Search operated oil field		
		PNG LNG	West Kikori LLG	
Central		0 Tolukuma		0
		Oil Search operated oil field		
		PNG LNG	West Hiri LLG	
Southern Highlands	17,767,783 ¹⁴⁹	Oil Search operated oil fields		
		PNG LNG	Lake Kutubu LLG Erave LLG	
Hela	0	PNG LNG	South Koroba LLG North Koroba LLG Hayapunga LLG Hulia LLG	
Enga	17,151,787	Porgera		17,123,081
Eastern Highlands	0	Mt Crater		0
		Oil Search operated oil field		
Morobe	1,825,212	Hidden Valley	Morobe PG	1,825,212
			Buang LLG	101,401
			Mumeng LLG	304,202
			Waria LLG	202,301
			Watut LLG	507,003
			Wau/Bulolo Urban LLG	405,603
			Wau/Rural LLG	507,003
		<i>Total</i>	3,853,225	
		Edie Creek		0
Mandang	0	Kurumbukari, Ramu		0

¹⁴⁸ http://www.nefc.gov.pg/documents/publications/fiscalReports/2017Fiscal_Report.pdf

¹⁴⁹ The NEFC reported royalty value includes royalties paid by Oil and Gas companies

Province	Royalties per NEFC report ¹⁴⁸ (PGK)	Mining, oil and gas operations	Receiving entity*	Mining royalties reported by MRA (PGK)
New Ireland	25,236,717	Luise Caldera, Lihir	New Ireland PG	25,236,717
			Nimamar Rural LLG	15,142,030
			<i>Total</i>	<i>40,378,748</i>
		Simberi	Sentral Niu Ailan LLG	632,513

*local level government (LLG) or relevant provincial government (PG) where not otherwise specified

Table 16 shows dividend payments to provincial and local-level governments as stated in the NEFC report. The report gives the consolidated dividend amount for each province for oil, gas and mining operations. MRDC also reported equity distribution and share of sales amounts in relation to their subsidiary entities and associated trusts, which are set out in section 9.6.3.

Table 16: Subnational dividend payments

Province	Mining, oil and gas operations	Receiving entity*	Dividends NEFC Report ¹⁵⁰ (PGK)
Western (Fly River Provincial Government)	Ok Tedi		0
	Oil Search operated oil field		
	PNG LNG	Nomad LLG	
Gulf	Oil Search operated oil field		1,762,000
	PNG LNG	West Kikori LLG	
Central	Tolukuma		0
	Oil Search operated oil field		
	PNG LNG	West Hiri LLG	
Southern Highlands	Oil Search operated oil fields		9,320,000
	PNG LNG	Lake Kutubu LLG Erave LLG	
Hela	PNG LNG	South Koroba LLG North Koroba LLG Hayapunga LLG Hulia LLG	0
Enga	Porgera		1,833,442
Eastern Highlands	Mount Crater		0
	Oil Search operated oil field		
Morobe	Hidden Valley		0
	Edie Creek		
Mandang	Kurumbukari, Ramu		0
New Ireland	Luise Caldera, Lihir		0
	Simberi		0

*Relevant provincial government where not otherwise specified

¹⁵⁰ http://www.nefc.gov.pg/documents/publications/fiscalReports/2017Fiscal_Report.pdf, Note that The NEFC reported dividend value includes dividends paid by Oil and Gas companies

5.8 Auditing of the public accounts

The Auditor-General of PNG is responsible for auditing public accounts, and reporting to Parliament at least once in every fiscal year. The Auditor-General is a Constitutional Officer appointed by the Head of State; their functions, mandate and powers are set out in Section 214 of the [Constitution of Papua New Guinea](#) and in the [Audit Act 1989](#).

The Auditor-General's responsibilities extend to:

- ▶ Departments of the National Public Service and arms, agencies and instrumentalities of the national government
- ▶ Provincial governments, and arms, agencies and instrumentalities of provincial governments
- ▶ Bodies established by statute or act of the National Executive.¹⁵¹

The Auditor-General presents the annual financial audit reports to Parliament in four parts:

Part 1	Public accounts of Papua New Guinea (latest report on 2012)
Part 2	National government departments and agencies (latest report on 2013/14)
Part 3	Provincial governments and local-level governments (latest report on 2015)
Part 4	Public bodies and their subsidiaries, government owned companies, national government shareholdings in other companies (last report on 2016)

The reports highlight serious and pervasive deficiencies in accounting practices at all levels of government. The most recent report on the national accounts notes that the 2013 financial statements were not received by the Auditor-General until June 2015. The report 'draws attention to significant financial risk, control and related management issues within operating and accounting processes and financial systems of major Government entities.' It concludes that there is a lack of fundamental processes relating to financial statement reporting, to the extent that there was insufficient evidence on which to base an audit opinion. It also finds significant non-compliance with legislation and accounting principles. The report makes 26 recommendations 'which are directed towards addressing the major concerns in financial systems, controls and processes.'¹⁵²

The reports on departments, subnational governments and other public bodies similarly find 'weaknesses of such magnitude that material error could have been processed or misappropriation and fraud could have occurred.'¹⁵³ The most recent reports from 2015 note 'my audit findings that have been repeatedly highlighted show a slow progress in making improvements to governance structures and public accountability mechanisms in relation to expending Public Finances.' In most cases, an audit opinion could not be made, given the 'material errors, uncertainties and lack of adequate records.'

For further detail on auditing of reporting entities, see section 10.5.

¹⁵¹ <http://www.ago.gov.pg/about-the-ago>

¹⁵² Auditor General's Office, 2015, Report of the Auditor-General 2012 on the Public Accounts of Papua New Guinea, http://www.ago.gov.pg/images/downloads/Part_I_NGAD_12_DAG_QUALITY_REVIEW%2029%2011-15.pdf, accessed 10 November 2017

¹⁵³ Auditor General's Office, 2015, Report of the Auditor-General 2014-2013: Part II National Government Departments & Agencies, <http://www.ago.gov.pg/images/downloads/Part-2-NGAD-Merge-Report-JTen-AVui-4-11-15.pdf>, accessed 10 November 2017

6. Social expenditure

Many extractive companies contribute to the communities in which they operate beyond the direct economic benefits and employment provided. These contributions may be at the discretion of the company, or mandated through legislation or contracts with the government.

The EITI Standard requires disclosure of material *mandatory* social expenditures, and encourages disclosure of discretionary social expenditures. The MSG agreed that these revenue streams would be unilaterally reported, with disclosure of discretionary social expenditures optional but encouraged.

The EITI Standard does not define 'social', but the guidance note on social expenditure refers to 'donations, grants or other types of cash transfers, the transfer of assets such as the construction of roads or schools, or the provision of services like training and health care.'¹⁵⁴

Previously, PNG EITI reports have found that there were differences in the way that companies operating in PNG defined and reported social expenditure. In particular, some reporters included compensation payments and lease payments to landholders as social expenditures, while others categorised these as commercial transactions rather than social payments, and therefore beyond the scope of this report.

For the 2014 PNG EITI Report, the IA asked the MSG to define 'social' expenditure; the MSG referred the IA back to the EITI Standard, and to the categories suggested in the original scoping study for the PNG EITI,¹⁵⁵ which included compensation:

1. Compensation to landowners:
 - ▶ General Compensation
 - ▶ Environmental compensation
 - ▶ Community Asset and Relocation Compensation
 - ▶ Lease Fees
2. Education
 - ▶ Scholarship
 - ▶ University sponsorship
 - ▶ Other training costs
3. Infrastructure Development
 - ▶ Other infrastructure development programs (as per MOA)
4. Community Development Programs
5. Business Development Programs
6. Health Programs
7. Township Development

The reporting templates distributed to reporting entities for the 2015 report contained an updated description of social payments to clarify that compensation payments are included in order to increase consistency in reporting.

¹⁵⁴ 'Guidance note 17 on social expenditures', EITI,

https://eiti.org/sites/default/files/documents/guidance_note_17_social_expenditure_en_2016.pdf

¹⁵⁵ PNG EITI Scoping Study for First EITI Report <https://www.pngeiti.org.pg/download/pngeiti-scoping-study-by-deloitte-touche-tohmatsu/>

For mandatory social expenditures, reporting entities were asked to also include the name of the contract or agreement where the payment to the recipient is mandated.

6.1 Mandatory social expenditure

Mandatory social expenditure is defined by the EITI 2016 Standard as social expenditure that is required either by legislation or by the contract with the government that governs the extractive investment. Requirements to compensate landholders are set out in the *Mining Act* 1992 (s.154) and the *Oil and Gas Act* 1998 (s.118), but neither makes specific reference to other social payments.

As an example, Ok Tedi's disclosure of mandatory social payments included compensation payments, land lease payments and infrastructure payments. Mandatory social expenditure is generally agreed between the State, or landowners and operators on a case-by-case basis. These agreements between the relevant parties are typically confidential, and reporting entities may therefore be unwilling, or unable, to disclose information regarding specific payment amounts and receiving entities.

Several entities including ExxonMobil, Tolukuma Gold Mines, Niuminco Edie Creek Ltd and Oil Search reported zero mandatory social expenditures during 2015. This may reflect how these companies define 'social' payments, as discussed above.

Hidden Valley Joint Venture disclosed PGK1,208,232 for 'benefit share agreements' under discretionary social expenditure. As compensation for landholders is considered a mandatory expenditure, this amount was included as mandatory in Table 17 below.

Without access to MOAs or benefit sharing agreements, it is difficult for the IA to accurately assess what is a mandatory or discretionary social expenditure.

6.2 Discretionary social expenditure

Discretionary social expenditure may include, for example, sponsorships and voluntary contributions to health and education programs. Despite disclosure of these payments being optional, many operators chose to disclose these payments and/or activities through their corporate responsibility or sustainability reporting, as well as through the EITI report. Some reporters disclosed aggregate amounts, arguing that disclosure of specific organisations and amounts could expose those organisations to unwelcome pressure or extortion. Where these details were not disclosed, it is possible that some mandatory payments were incorrectly reported as discretionary payments, as discussed in 6.1 above.

6.3 Use of infrastructure tax credits

As outlined in Chapter 4, infrastructure tax credits (ITCs) are a mechanism for companies to use the cost of the infrastructure expenditure as a tax credits for approved investments in infrastructure. This typically relates to infrastructure that serves the needs of the community, such as roads (construction, upgrading and maintenance), power supplies, government services (administration, policing, courts, education and health) and community facilities. Expenditure on prescribed infrastructure must first be approved by the Department of National Planning & Monitoring. The reporting templates for 2015 were updated to include a request to note any social payments that were made using ITCs in order to avoid double counting of these revenue streams. No instances of double counting were identified by the IA.

6.4 Quasi-fiscal expenditure

The EITI Standard requires disclosure of instances where SOEs involved in the extractive industries undertake public social expenditures outside of the national budgetary process. These are referred to as quasi-fiscal expenditures.

For the 2015 reporting period no SOEs disclosed quasi-fiscal expenditures. However, some social payments disclosed by SOEs in previous EITI reports, such as providing subsidised power and health services to provincial governments, could be considered quasi-fiscal payments.¹⁵⁶

Treasury has advised¹⁵⁷ that the government has adopted the new International Monetary Fund 2014 Government Finance Statistics Manual¹⁵⁸ reporting of government finance in the 2016 Budget. This reporting requirement covers transactions of extra-budgetary units and the SOEs in the medium to long term. Treasury is updating the governance finance statistics to cover these transactions, to enable better visibility and control of quasi-fiscal expenditures by SOEs.

6.5 Mandatory and discretionary social expenditure

Table 17: Summary of social expenditure by company and sector during the reporting period

	Mandatory social expenditure (PGK)	Discretionary social expenditure (PGK)
Mine operator (mine)		
Lihir Gold Ltd (Luise Caldera mine, Lihir)	59,498,457	38,529,659
Barrick (Niugini) Ltd (Porgera mine)^	36,661,812	1,419,317
Hidden Valley Joint Venture (Hidden Valley mine)^	1,955,761*	202,990
MCC Ramu NiCo Ltd (Kurumbukari mine, Ramu)	1,834,952	177,720
Simberi Gold Company Ltd (Simberi mine)	1,036,204	194,680
Tolukuma Gold Mines (Tolukuma mine)^	0	187,466
Niuminco Edie Creek Ltd (Edie Creek mine)	0	20,000
Oil and gas		
Oil Search (operator oil projects)^	0	25,395,600
ExxonMobil PNG (operator PNG LNG)	0	5,859,905
JX Nippon (and subsidiaries)	0	0
Santos Ltd (and subsidiaries)	0	0
State-owned enterprises		
Ok Tedi Mining Ltd (Mt Fubilan mine)^	47,874,000	172,000
Mineral Resources Development Company Ltd (MRDC)	0	697,429
Petromin PNG Holdings Ltd - now KMH	0	0
National Petroleum Company of Papua New Guinea (NPCP) - now KPH	0	0

* The amount of PGK1,208,232 was reported by Hidden Valley Joint Venture under discretionary social expenditure. However, since it was described as being for 'Benefit share agreement', it has been reallocated as mandatory social expenditure according to the EITI Standard (6.1a).

^ These companies have included a more detailed breakdown of social expenditures, which can be found in Appendix B

¹⁵⁶ PNG EITI 2014 Report, <http://www.pngeiti.org.pg/wp-content/uploads/2017/06/2014-PNG-EITI-REPORT.pdf>

¹⁵⁷ Treasury EITI Reporting Template, 2015-16

¹⁵⁸ <https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf>, accessed 13 November 2017

6.6 Social expenditure during exploration and development phase

Extractive companies not yet producing saleable product are not considered material for PNG EITI reporting purposes. However, many social payments are negotiated and made during these phases of project development. The following case study identifies an example of the scale of social payments made by Nautilus Minerals (Niugini) Ltd during the exploration phase in 2015.

Social expenditure during exploration phase - Case study

For over 30 years, research into seafloor mineral deposits have taken place in PNG waters by parties including Nautilus and Australia's CSIRO. The Solwara group of deposits was discovered in the Bismarck Sea between the provinces of New Ireland and East New Britain. Nautilus was granted its first mining lease in 2011 for one of these deposits, Solwara 1. This is a significant copper and gold deposit, sitting on the sea floor at a depth of approximately 1600m. Drilling has identified that the average grades of both copper and gold in Solwara 1 are higher than average land-based mines.

Through these exploration and planning phases, Nautilus has undertaken stakeholder engagement and discretionary social expenditure in both East New Britain and New Ireland. Their disclosure stated that Nautilus has regular meetings with communities and governments, and that a Community Needs Assessment was undertaken in villages located nearest to Solwara 1. Agreements have also been made with provincial governments and the PNG Port Authority for the development of infrastructure such as barging and storage facilities on shore.

As a part of Nautilus' corporate social responsibility, the Nautilus CARES program has been established to deliver a number of initiatives in 2016. During the reporting period, social expenditures, primarily in New Ireland, included:

- ▶ a water and sanitation project in 22 elementary and primary schools
- ▶ establishing a health baseline through a study and clinic with 2,326 consultations
- ▶ bridge instalments in place of wet crossings
- ▶ sponsorship of school science awards
- ▶ partnerships against malaria with NGOs and governments.

Social payments made during this period are summarised in the table below.

Table 18: Discretionary social expenditure of Nautilus Minerals (Niugini) Holdings Ltd, 2015¹⁵⁹

Receiving entity	2015 (PGK)
Cardno (PNG) Ltd	1,258,112
AT Projects	506,903
Abt JTA Corporate	0
Markham Culverts Ltd	0
Total	1,765,015

¹⁵⁹ Data template completed by Nautilus Minerals (Niugini) Holdings Ltd for the purpose of this case study, received 30 August 2017

7. Mining

7.1 Mining and exploration companies active in PNG

The following entities were owners (or JV partners) of active exploration licences, mining leases or special mining leases in PNG during 2015.¹⁶⁰

- ▶ Alexander Mining Ltd
- ▶ **Anomaly Ltd**
- ▶ Apollo Mineral Resources Ltd
- ▶ Aries Mining Ltd
- ▶ Aus PNG Mining Ltd
- ▶ Aviong Litewong
- ▶ Muloing Belekin
- ▶ Aviong Ritewong
- ▶ **Barrick (Niugini) Ltd**
- ▶ **Mineral Resources Enga Ltd**
- ▶ Bismarck Mining Corporation (PNG) Ltd
- ▶ Boomine Investment and Development Company Ltd
- ▶ Bougainville Copper Pty Ltd
- ▶ Bunip Orok
- ▶ Guwi Yanzing
- ▶ Canterbury Resources (PNG) Ltd
- ▶ Cheroh Mining PNG Ltd
- ▶ Copper Quest PNG Ltd
- ▶ CRA Minerals (PNG) Ltd
- ▶ ESDA Petromining Ltd
- ▶ Finny Ltd
- ▶ Frieda River Ltd
- ▶ Highlands Frieda Ltd
- ▶ Frontier Copper (PNG) Ltd
- ▶ Frontier Gold (PNG) Ltd
- ▶ Frontrunner Exploration PNG Ltd
- ▶ Gallipoli Exploration (PNG) Ltd
- ▶ Harmony Gold (PNG) Exploration Ltd
- ▶ Hells Gate Exploration Ltd
- ▶ **Highlands Pacific Resources Ltd**
- ▶ K92 Mining Ltd
- ▶ Katana Iron Ltd
- ▶ Kawari Wiem Ltd
- ▶ Khor ENG Hock & Sons (PNG) Ltd
- ▶ Komomoa Energy Resources PNG Ltd
- ▶ Kuh Chun Ltd (51%),
- ▶ Dae Han Resources Development Ltd
- ▶ Kula Sionjin
- ▶ Koihma Lian
- ▶ Willie Gabo
- ▶ Bun Man
- ▶ Bataki Tiving
- ▶ Tom Marika
- ▶ Yowas Juari
- ▶ **Lihir Gold Ltd**
- ▶ Luxembourg Investments Ltd
- ▶ Mayur Exploration PNG Ltd
- ▶ Mayur Iron PNG Ltd
- ▶ MB Transport Ltd
- ▶ **Mineral Resources Ramu Ltd**
- ▶ **Mineral Resources Madang Ltd**
- ▶ **MCC Ramu NiCo Ltd**
- ▶ **Morobe Consolidated Goldfields Ltd**
- ▶ Nautilus Minerals Niugini Ltd
- ▶ Eda Kopa (Solwara) Ltd
- ▶ New Britain Lime & Cement Ltd
- ▶ New Leaf Development Ltd
- ▶ **Newcrest PNG 1 Ltd**
- ▶ Newcrest PNG 2 Ltd
- ▶ Wafi Mining Ltd
- ▶ Newcrest PNG 3 Ltd
- ▶ Newcrest PNG Exploration Ltd
- ▶ Niugini Gold Mining Ltd
- ▶ Niugini Nickel Ltd
- ▶ Niuminco (ND) Ltd
- ▶ **Niuminco Edie Creek Ltd**
- ▶ Nord Australex Nominees (PNG) Ltd
- ▶ Oenake Nickel Ltd
- ▶ **Ok Tedi Mining Ltd**
- ▶ Oro Nickel Ltd
- ▶ Pacific Niugini Minerals (PNG) Ltd
- ▶ Papuan Minerals Ltd
- ▶ Paulos Kalo
- ▶ Watson Ila
- ▶ PNG Forest Products Mining (Bulolo) Ltd
- ▶ Pacific Niugini Minerals (Bulolo) Ltd
- ▶ Pristine No. 18 Ltd
- ▶ **Ramu Nickel Ltd**
- ▶ Regional Resources (PNG) Ltd
- ▶ Rio Tinto Exploration (PNG) Ltd
- ▶ Sagittarius Mining Ltd
- ▶ **Simberi Gold Company Ltd**
- ▶ Simbu Limestone Development Corporation Ltd
- ▶ Solway Group Mining (PNG) Ltd
- ▶ Titan Metals Ltd
- ▶ TVI Pacific Inc
- ▶ Titan Mines Ltd
- ▶ **Tolukuma Gold Mines Ltd**
- ▶ Viva No. 20 Ltd
- ▶ Waterford Ltd
- ▶ Woodlark Mining Ltd
- ▶ Yandera Mining Company Ltd
- ▶ Yowas Juri

The mining companies considered material for this report are those that were owners or JV partners of mines that were producing saleable products during the reporting period. These companies are shown in bold above, and discussed in more detail in the following sections of this chapter.

7.2 Mines operating in 2015

This section of the report presents an overview of material mining projects active in PNG during 2015. Any changes that occurred to the ownership structures during the 2015 reporting period are noted. Export and production values included are those reported by the MRA.

¹⁶⁰ Data provided by MRA in data template completed for this report 20 September 2017

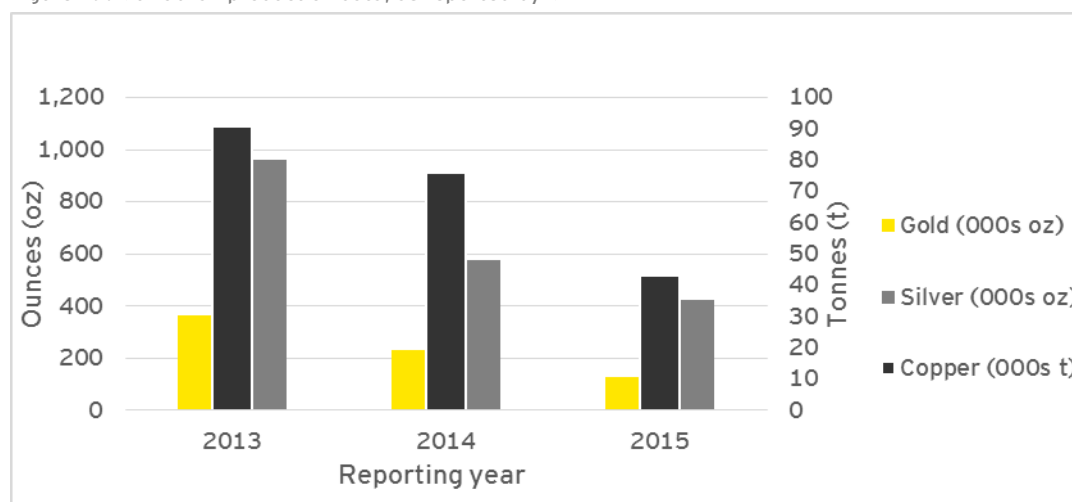
In the ownership structure figures, the yellow boxes identify the operator of the mine. This is the reporting entity that provides the majority of EITI reporting information. The other joint venture owners were also asked to provide contextual information and to notify the amount of corporate income tax paid for the data reconciliation for 2015.

7.2.1 Mt Fubilan, Ok Tedi

Minerals	Gold, silver and copper
Province	Western
Mine opened	1984
Mine life	to 2026
Tenement	SML1 (O)
2015 export value	PGK1,215,072,828



Figure 19: Mt Fubilan production data, as reported by MRA



In August 2015, Ok Tedi Mining Ltd suspended operations due to severe dry weather conditions. The shutdown lasted for seven months until operations resumed in March 2016.¹⁶¹

¹⁶¹ Ok Tedi Mining Limited Annual Review 2016, p.2, <http://www.oktedi.com/media-items/publications/annual-review/488-2016-annual-review/file>. Accessed 27 September 2017

The figure below outlines the ownership structure of OTML. A more detailed breakdown is included in Chapter 9 of this report.

Figure 20: Ownership structure of Ok Tedi mine



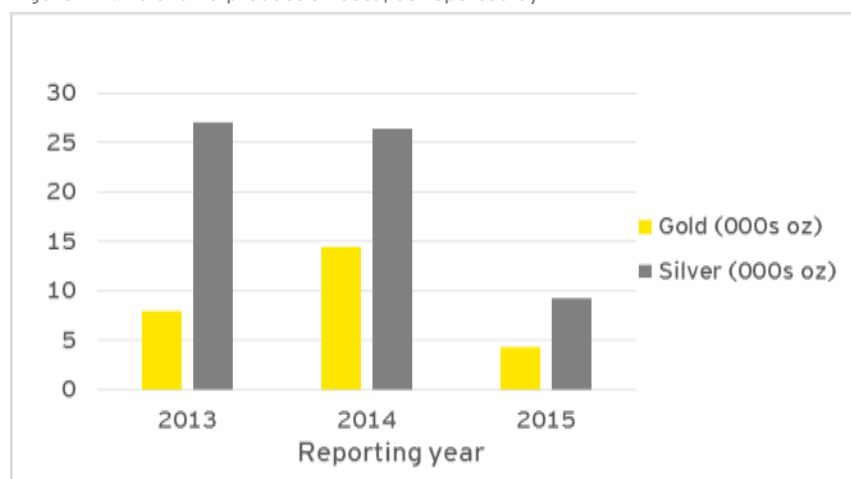
The State of PNG’s holding is set to be reduced to 67% following the decision of the National Executive Council (NEC) in 2016 that the Fly River Provincial Government and specific purpose community entities will move to hold 33% direct equity. This decision is expected to be formalised in 2017 through the execution of relevant share transfers. A more detailed description of ownership of the mine is included in Chapter 9.

7.2.2 Tolukuma

Minerals	Gold and silver
Province	Central
Mine opened	1995 (commenced production) ¹⁶²
Mine life (years)	No data available
Tenement	ML104
2015 export value	PGK11,559,444



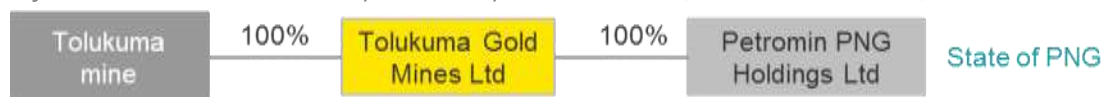
Figure 21 : Tolukuma production data, as reported by MRA



As shown in the figure below, the mine was owned by the PNG State Owned Entity Petromin PNG Holdings Ltd (now Kumul Mineral Holdings) up until October 2015. Petromin was unable to run the mine profitably, and suspended operations pending sale of the business in 2015.

¹⁶² 'Tolukuma Gold Mines Limited', <http://www.petrominpng.com.pg/assets.html>, accessed 22 December 2016

Figure 22: Tolukuma mine ownership structure up to October 2015 (beneficial owner in blue)



In October 2015 the State of PNG commenced the sale of Tolukuma Gold Mines Ltd to Asidokona Mining Resources Pty Ltd. The ownership structure following this sale is summarised in Figure XX below.¹⁶³

Figure 23: Ownership structure of Tolukuma Gold Mine from October 2015



Kumul Mineral Holdings (Previously Petromin PNG Holdings, 'the Seller') have advised the following regarding the sale of the Tolukuma mine.¹⁶⁴

The mine was sold for a cash purchase price of PGK26 million (PGK20 million plus PGK6 million for trade creditors).

The Subscription Deed to be executed by the parties (not yet signed at the time of writing this report) details that shares equivalent to 10% of the issued share capital of the Buyer (by way of new issue) to be issued as paid up capital for no consideration as follows:

- ▶ 5% to the Central Provincial Government (CPG) or their nominees as directed by the Seller
- ▶ 5% to an entity nominated by the Seller to be held on behalf of the relevant landowners within ML 104 as determined by the Seller

The Mining Royalty Deed states that 1% of the Net Smelting Royalty will be payable to the Seller, commencing from first production.

PGK6 million will be paid to Central Provincial Government to contribute to road construction once the mine is reopened and in full production.

The payment of the cash purchase price for the share sale is outlined in the share sale agreement (SSA) as follows:

- ▶ The initial payment of PGK600,000 was paid within five business days of the parties executing and dating the SSA
- ▶ PGK16 million is to be paid on the date of successful completion of the listing of the company on a stock exchange
- ▶ PGK2 million is to be paid on the first anniversary of successful completion of the listing of the company, with a further PGK2 million to be paid one month later

¹⁶³ Ownership information provided by KMH in data template

¹⁶⁴ Email from Kumul Mineral Holdings, 29 June 2017

- ▶ PGK6 million will be used pay Tolukuma Gold Mines Ltd’s outstanding trade creditors. The SSA states that this payment will be made in monthly instalments of PGK100,000 until the listing date, and if listing is delayed the balance is to be paid out by 1 April 2017.

Except for the PGK600,000 initial payment, Kumul Mineral Holdings advised that no other payments have yet been made by Asidokona Mining Resources Pty Ltd. The sale of the mine is therefore yet to be finalised at the time of writing this report.¹⁶⁵

7.2.3 Luise Caldera, Lihir

Minerals	Gold and silver
Province	New Ireland
Mine opened	1997
Mine life (years)	30+
Tenement	ML125, 126
2015 export value	PGK2,513,236,997



Figure 24: Luise Caldera production data, as reported by MRA

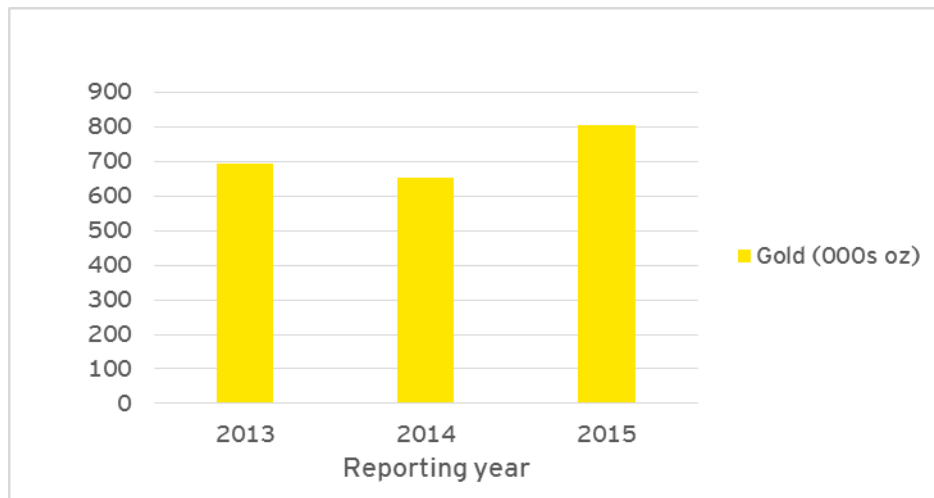


Figure 25: Lihir ownership structure (beneficial owners in blue)



¹⁶⁵ Email correspondence from Kumul Mineral Holdings, 6 October 2017

7.2.4 Porgera

Minerals	Gold and silver
Province	Enga
Mine opened	1989
Mine life (years)	11 ¹⁶⁶
Tenement	SML1 (P), ML101
2015 export value	PGK1,719,646,376



Figure 26: Porgera production data, as reported by MRA

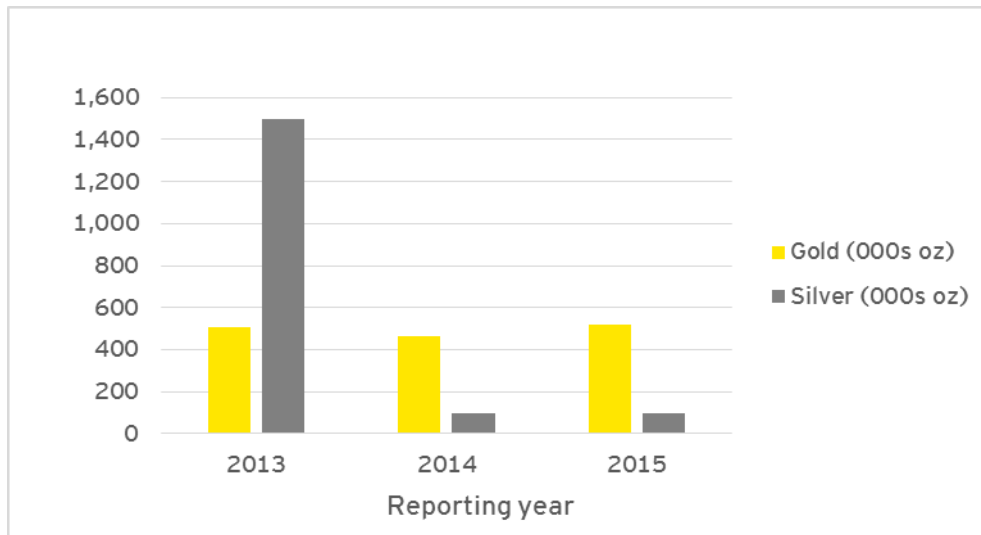
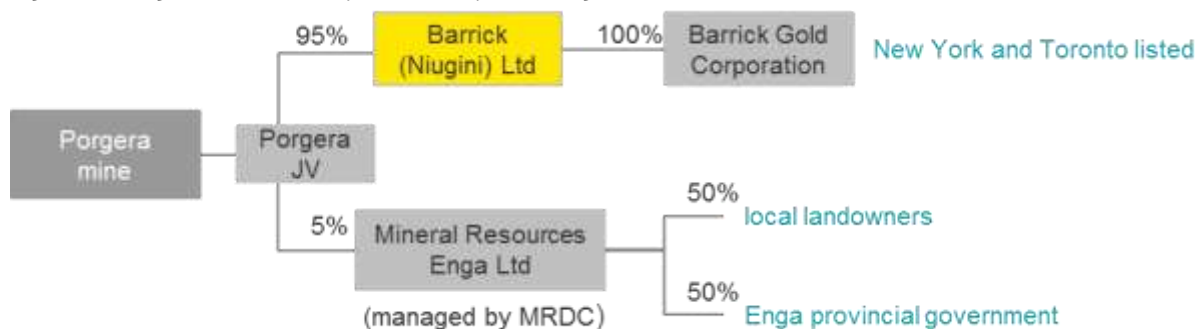


Figure 27: Porgera mine ownership structure up to 31 August 2015 (beneficial owners in blue)

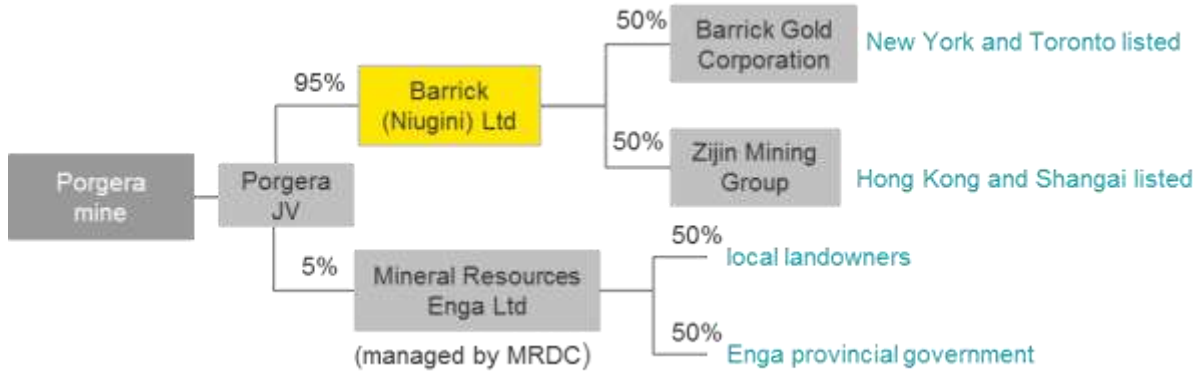


In August 2015 Barrick completed the sale of 50% of its interest in the Porgera mine to Zijin Mining Group for a total cash consideration of \$298 million.¹⁶⁷ The ownership structure following the sale is summarised in Figure 28 below.

¹⁶⁶ Information received from Barrick Niugini, Ltd 7 December 2017

¹⁶⁷ Barrick press release 31 August 2015, 'Barrick completes formation of strategic joint venture at Porgera' <http://www.barrick.com/investors/news/news-details/2015/Barrick-Completes-Formation-of-Strategic-Joint-Venture-at-Porgera/default.aspx>. Accessed 27 September 2017

Figure 28: Porgera mine ownership structure from 31 August 2015 (beneficial owners in blue)



7.2.5 Hidden Valley

Minerals	Gold and silver
Province	Morobe
Mine opened	2009 (commenced production)
Mine life (years)	15
Tenement	ML151
2015 export value	PGK490,540,502

Figure 29: Hidden Valley production data, as reported by MRA

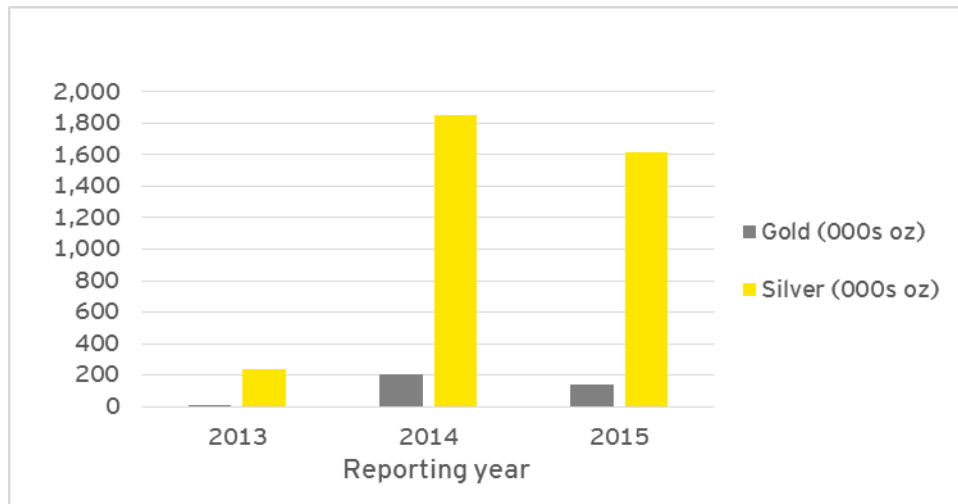
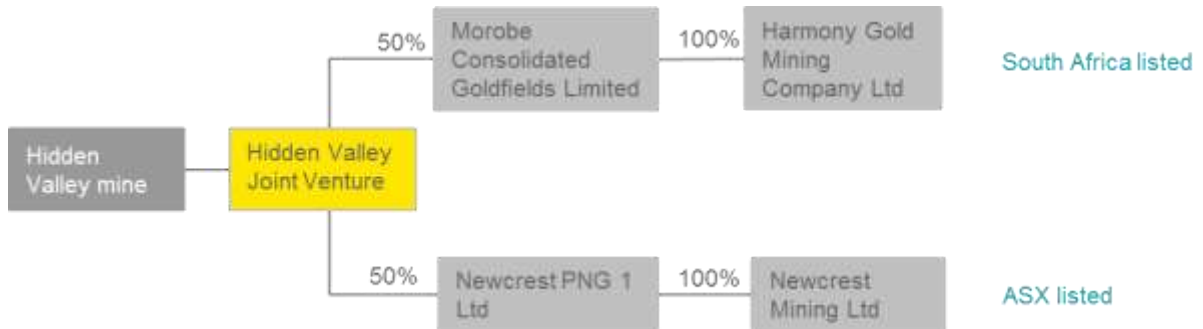


Figure 30: Hidden Valley mine ownership structure to October 2016 (beneficial owners in blue)



In September 2016, Newcrest announced that it had signed an agreement to sell Newcrest PNG 1 Ltd to a wholly owned subsidiary of Harmony Gold.¹⁶⁸

7.2.6 Kurumbukari, Ramu

Minerals	Nickel and cobalt
Province	Madang
Mine opened	2012 (commenced production)
Mine life	20+ ¹⁶⁹
Tenement	SML8
2015 export value	PGK551,772,898

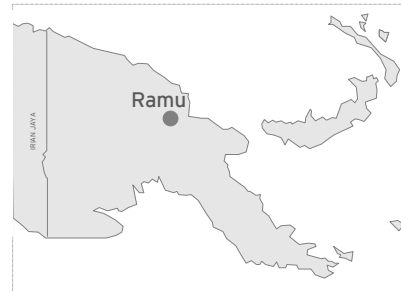


Figure 31: Kurumbukari production data, as reported by MRA

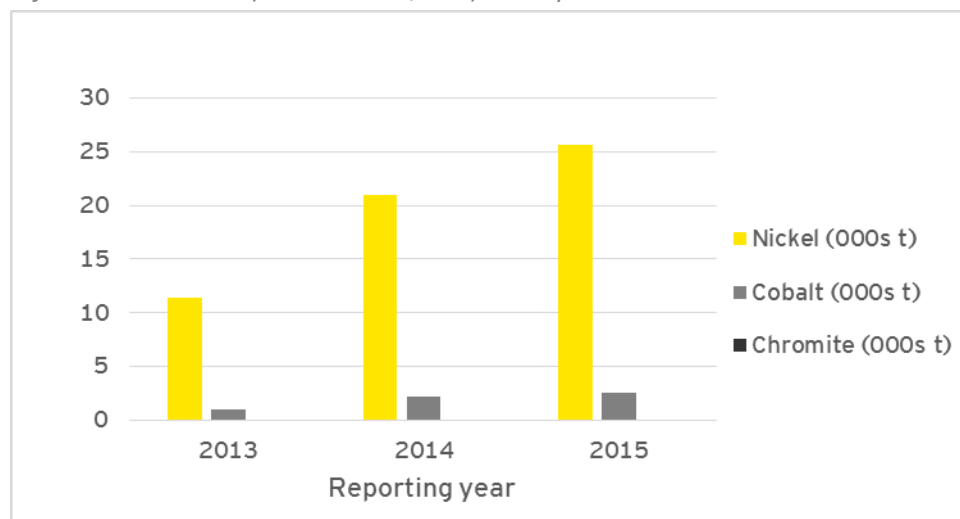


Figure 32: Ramu Nickel Project ownership structure (beneficial owners in blue)¹⁷⁰



¹⁶⁸ Newcrest press release, 19 September 2016 'Sale of Hidden Valley interest'

http://www.newcrest.com.au/media/market_releases/2016/Market_Release_-_Sale_of_Hidden_Valley_interest_1.pdf
Accessed 2 October 2017

¹⁶⁹ 'Mining in PNG,' PNG Chamber of Mines and Petroleum, <http://pngchamberminpet.com.pg/mining-in-png/>, accessed 16 November 2016

¹⁷⁰ Highlands Pacific ownership details from Annual Report 2016, p57, accessed 27 September 2017. MCC Ramu Nico ownership details from data provided by MCC Ramu Nico Ltd in data template completed for this report 5 August 2017

7.2.7 Simberi

Minerals	Gold and silver
Province	New Ireland
Mine opened	2008 (commenced production)
Mine life (years)	20
Tenement	ML136
2015 export value	PGK324,798,518



Figure 33: Simberi production data, as reported by MRA

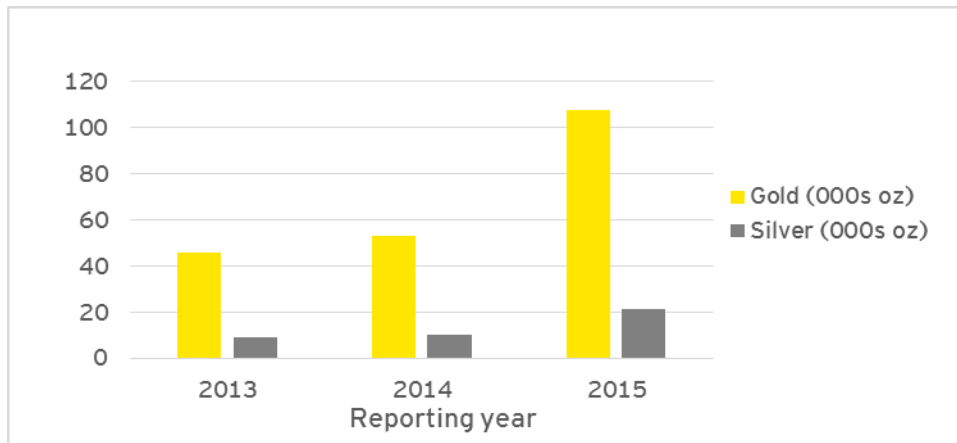


Figure 34: Simberi mine ownership structure



7.2.8 Edie Creek

Minerals	Gold and silver
Province	Morobe
Mine opened	2014 [^]
Mine life (years)	20 (estimated)
Tenement	ML144, 384, 402, 444, 462
2015 export value	PGK2,585,004



[^]Mining at Edie Creek has taken place since the late 1930s but the current operation re-opened in 2014

Figure 35: Edie Creek production data, as reported by MRA

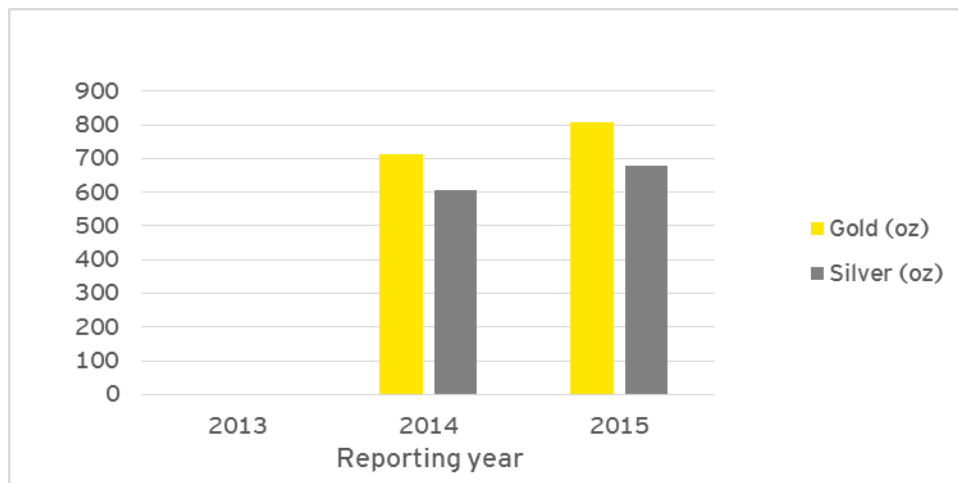
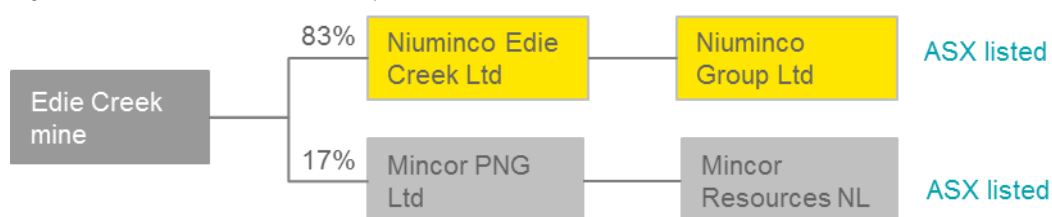


Figure 36: Edie Creek mine ownership structure (beneficial owners in blue)



In August 2017, Niuminco Group Ltd completed an agreement to purchase the 17% interest in the Edie Creek mining leases held by joint venture partner Mincor Resources NL. This purchase will take the ownership of Edie Creek mine to 100% for Niuminco Group Ltd and terminate the joint venture.¹⁷¹

7.2.9 Mt Crater

Minerals	Gold
Province	Eastern Highlands
Mine opened	2015
Mine life (years)	20 (estimated)
Tenement	ML 510
2015 export value	PGK277,167



¹⁷¹ 'Completion of purchase of 17% of Edie Creek', Niuminco Group Ltd. ASX announcement 7 August 2017, <http://www.mincor.com.au/images/mincor---iozootaequ.pdf>, accessed 26 September 2017

Figure 37: Mt Crater production data, as reported by MRA

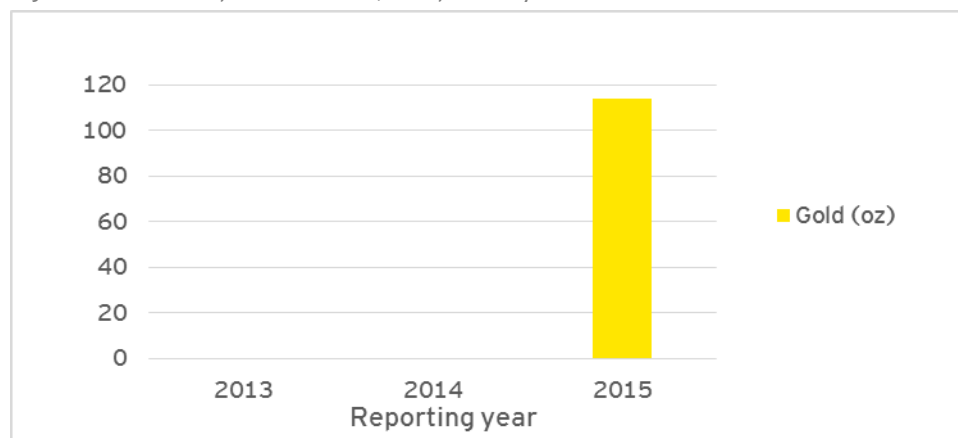
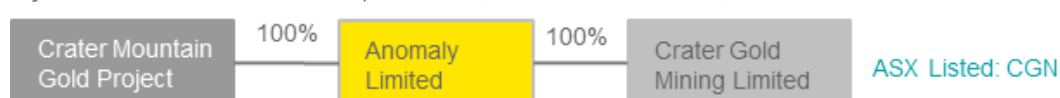


Figure 38: Mt Crater mine ownership structure (beneficial owner in blue)



Mining of this potential multi-million ounce gold deposit commenced operations in 2015, but it has been deemed immaterial for this reporting period.¹⁷²

7.2.10 Alluvial mining sector

The Mining Act 1992¹⁷³ allows people to mine for alluvial minerals on their own land by non-mechanical means without the need for a mining licence, provided that the land is not the subject of tenement (other than exploration licence) and that the mining is carried out safely. This sector is therefore largely unmonitored, and there is limited information about its size. The MRA estimates that there are up to 80,000 small-scale miners in this category and as at November 2016, over 4,000 of these had completed training at the MRA's small-scale mining centre in Wau.¹⁷⁴

Small-scale mining conducted with powered machinery requires an Alluvial Mining Lease or Mining Lease (for alluvial purposes) from the MRA. The former are granted for up to 5 hectares of land that is a river bed and extends no further than 20 metres from any river bed. The latter may cover up to 60km². There is a requirement for a minimum 51% ownership by PNG nationals.¹⁷⁵ In 2015 there were 34 active Alluvial Mining Leases.¹⁷⁶

Alluvial miners sell their gold to traders, who then on-sell it to one of 16 licensed exporters, regulated by the Bank of PNG. The MRA checks the export forms and raises levies on the export.

7.3 New mining projects

There are a number of projects that had mining leases during 2015 but were still in development stage. Since they were not yet producing saleable products, these projects and their owners have not been included as material reporting entities. The list of active mining leases and special mining leases for 2015 provided by the MRA is included in Appendix C.

¹⁷² <http://www.cratergold.com.au/irm/content/crater-mountain.aspx?RID=211>, accessed 13 November 2017

¹⁷³ Mining Act 1992 s.9 (PNG), http://mra.gov.pg/Portals/2/Publications/MINING_ACT%201992.pdf, accessed 26 September 2017

¹⁷⁴ MRA, interview 28 November 2016

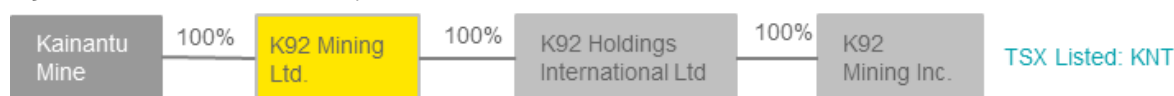
¹⁷⁵ Mining Act 1992 s.38 (PNG), http://mra.gov.pg/Portals/2/Publications/MINING_ACT%201992.pdf, accessed 26/09/2017

¹⁷⁶ MRA, response to data request for 2015 and 2016 PNG EITI Report, received 20 September 17. A large number of leases (768-774) and (775-798) were awarded to the same tenement holders.

7.3.1 Bilimoia - Kainantu

The Kainantu mining lease was granted on 14 June 2002. However, there was no production reported for 2015.

Figure 39: Kainantu mine ownership structure (beneficial owner in blue)



7.3.2 Woodlark

The Woodlark mining lease was granted on 4 July 2014 however, there was no production reported for 2015.

7.3.3 Solwara

One mining lease for the Solwara project (ML 154) was granted in 2011.¹⁷⁷ However, this mine is still in development phase. This deep-sea mining venture of Nautilus Minerals will primarily mine copper and gold from massive seafloor deposits 1,600 metres below the surface of the Bismarck Sea at the Solwara 1 project site. The State holds 15% equity in the project, which is currently scheduled to start production in 2019.¹⁷⁸

On December 11, 2014, completion occurred in accordance with the PNG Equity Agreement such that the sum of \$113.0 million was released from escrow to Nautilus and the unincorporated joint venture between Nautilus and the State's Nominee (Eda Kopa (Solwara) Limited) in respect of the Solwara 1 project was formed (the 'Solwara 1 JV'). The Solwara 1 JV is governed by the Joint Venture Agreement among the parties to the PNG Equity Agreement.

On June 11, 2015 the Company announced that it has agreed to extend by six months the exercise date of the options granted to the State Nominee under the PNG Equity Agreement to increase its stake by up to a further 15%. On December 11, 2015 the State Nominee, the Company's joint venture partner in the Solwara 1 Project in Papua New Guinea elected not to exercise its option to take up a further 15% interest in the Project.¹⁷⁹

7.4 Advanced exploration mining projects

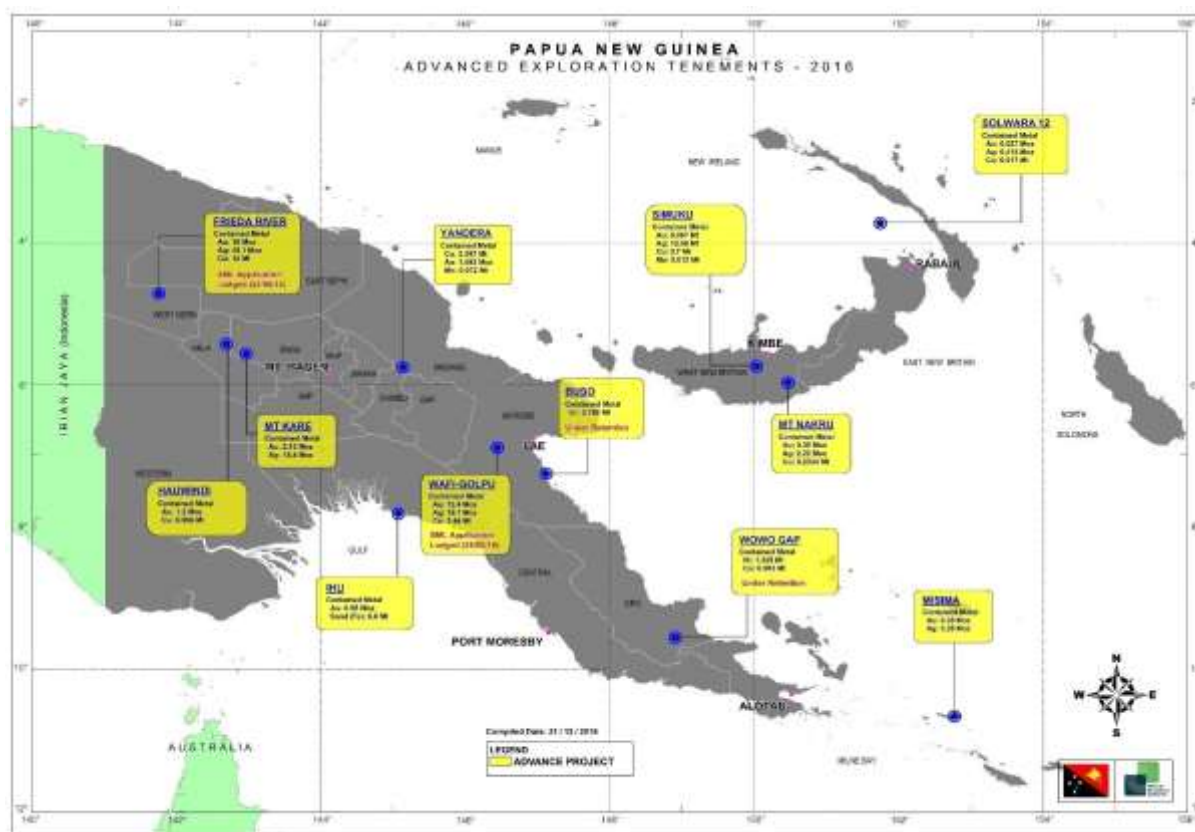
The MRA identified the following tenements as being in an advanced phase of exploration during 2015.

¹⁷⁷ Nautilus Minerals Inc. Revised Annual Information Form For the Fiscal Year Ended December 31, 2010, <http://www.nautilusminerals.com/IRM/PDF/1390/RevisedAnnualInformationformEnglish> accessed 17 October 2017

¹⁷⁸ Nautilus Minerals Inc. Annual Report 2014, p. 15, <http://www.nautilusminerals.com/irm/content/annualreport/2014/5.pdf> accessed 19 January 2016

¹⁷⁹ http://www.nautilusminerals.com/irm/PDF/1748_0/2015AnnualReport p.48

Figure 40: Advanced exploration tenements, 2016



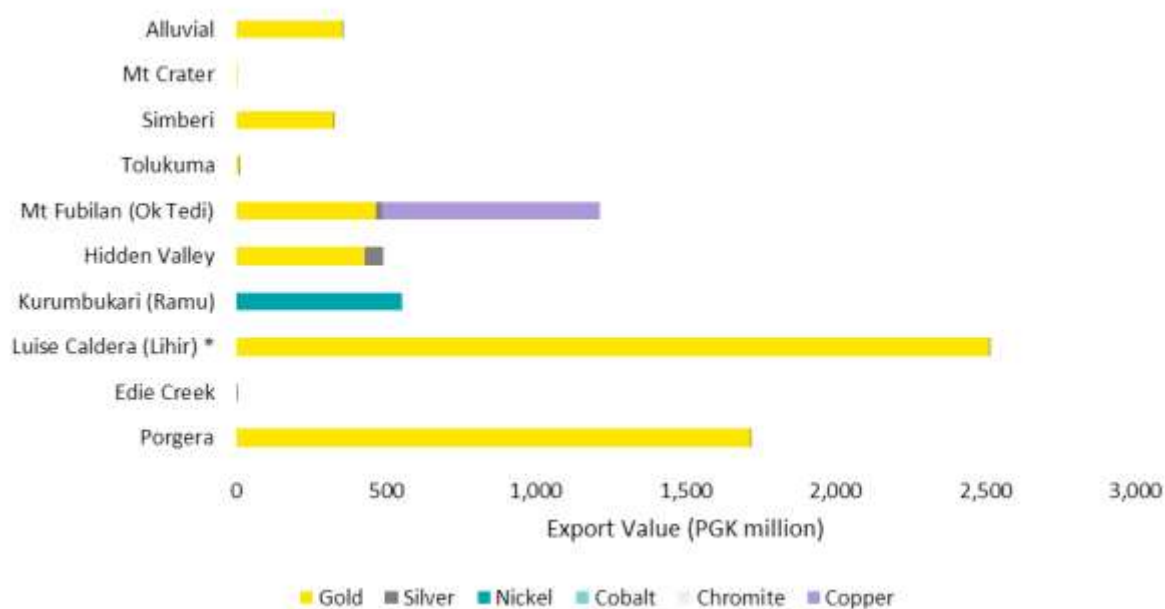
Tenement	Tenement area	Owners
EL 58	Frieda River	Frieda River Ltd (80%), Highlands Frieda Ltd (20%)
ML 154	Bismarck Sea	Nautilus Minerals Niugini Ltd (85%), Eda Kopa (Solwara) Ltd (15%)
EL 1335 - Active and under assessment	Yandera	Yandera Mining Company Ltd (100%)
EL 2429 - under assessment 2015	Mt Kare	GMG Global Mining Group Ltd (100%)
EL 1982 extended during 2015	Buso	Katana Iron Ltd (100%)
EL 1747 under assessment 2015	Misima Island	Gallipoli Exploration (PNG) Ltd (100%)
EL 2379	Simuku and Ismin	Copper Quest PNG Ltd (100%)
EL 1165	Safia Embessa & Obea	Niugini Nickel Ltd (100%)
EL 2337	Embessa and Wanigela	Niugini Nickel Ltd (100%)

7.5 Mining production data

Mining companies provide production data to the MRA on a monthly basis as a requirement of their reporting obligations under the Mining Act. The MRA performs reasonableness checks on the monthly data, but does not have the resources or capacity to audit the data, although it has the authority to do so under the MRA Act.

Figure 41 below shows the MRA reported export values for each mine in 2015.

Figure 41: Export values reported by MRA for each mine¹⁸⁰



The MRA's records of production data for 2015, below, are shown alongside data reported by companies to the Independent Administrator.

Table 19: Company reported and MRA production values for 2015

Mine/project name	Commodity	Reported Commodity Value	Units	Company Reported Figure	MRA Reported figure	Variance	Variance (%)
Porgera mine Barrick (Niugini) Ltd	Gold	Quantity produced	oz	526,390	521,352	5,038	1.0
		Quantity exported	oz	510,341	500,751	9,590	1.9
		FOB value	PGK	1,629,243,149	1,715,389,359	-86,146,210	-5.0
	Silver	Quantity produced	oz	94,401	96,023	-1,623	-1.7
		Quantity exported	oz	94,238	92,612	1,626	1.8
		FOB value	PGK	4,044,166	4,257,017	-212,851	-5.0
Edie Creek mine Niuminco Group Ltd	Gold	Quantity produced	oz	Not provided	809	-809	-100.0
		Quantity exported	oz	Not provided	809	-809	-100.0
		FOB value	PGK	Not provided	2,555,275	-2,555,275	-100.0
	Silver	Quantity produced	oz	Not provided	678	-678	-100.0
		Quantity exported	oz	Not provided	678	-678	-100.0
		FOB value	PGK	Not provided	29,729	-29,729	-100.0

¹⁸⁰ Except for Lihir (*) where the value of silver exports was not reported by MRA

Mine/project name	Commodity	Reported Commodity Value	Units	Company Reported Figure	MRA Reported figure	Variance	Variance (%)
Luise Caldera mine Lihir Gold Ltd	Gold	Quantity produced	oz	805,087	805,086	1	0.0
		Quantity exported	oz	782,898	782,897	1	0.0
		FOB value	PGK	2,513,677,601	2,513,236,997	440,604	0.0
	Silver	Quantity produced	oz	19,409	Not provided	19,409	100.0
		Quantity exported	oz	19,409	Not provided	19,409	100.0
		FOB value	PGK	636,933	Not provided	636,933	100.0
Kurumbukari mine (Ramu Nickel Project) MCC Ramu NiCo Ltd	Nickel	Quantity produced	tonnes	21,744	25,582	-3,838	-15.0
		Quantity exported	tonnes	17,727	20,580	-2,853	-13.9
		FOB value	PGK	716,500,864	551,772,898	164,727,966	29.9
	Cobalt	Quantity produced	tonnes	2,124	2,505	-381	-15.2
		Quantity exported	tonnes	1,720	1,990	-270	-13.5
		FOB value	PGK	Not provided	Not provided	N/A	N/A
	Chromite	Quantity produced	tonnes	Not provided	Not provided	N/A	N/A
		Quantity exported	tonnes	Not provided	Not provided	N/A	N/A
		FOB value	PGK	Not provided	Not provided	N/A	N/A
Hidden Valley mine Morobe Consolidated Goldfields Ltd and Harmony Gold Mining Company Ltd	Gold	Quantity produced	oz	148,165	141,677	6,489	4.6
		Quantity exported	oz	146,183	141,397	4,786	3.4
		FOB value ¹⁸¹	PGK	512,014,324	429,678,539	82,335,785	19.2
	Silver	Quantity produced	oz	1,708,689	1,619,094	89,595	5.5
		Quantity exported	oz	1,604,084	1,551,972	52,112	3.4
		FOB value	PGK	0*	60,861,963	-60,861,963	-100.0
Mt Fubilan mine Ok Tedi Mining Ltd	Gold	Quantity produced	oz	141,693	129,962	11,731	9.0
		Quantity exported	oz	176,002	137,958	38,044	27.6
		FOB value	PGK	460,804,000	467,576,832	-6,772,832	-1.4
	Silver	Quantity produced	oz	459,785	425,046	34,739	8.2
		Quantity exported	oz	454,931	443,742	11,189	2.5
		FOB value	PGK	18,863,000	19,360,615	-497,615	-2.6
	Copper	Quantity produced	tonnes	45,185	42,894	2,291	5.3
		Quantity exported	tonnes	46,592	44,271	2,321	5.2
		FOB value	PGK	618,132,000	728,135,381	-110,003,381	-15.1

¹⁸¹ FOB value for gold and silver has been reported in aggregate by operator of Hidden Valley mine

Mine/project name	Commodity	Reported Commodity Value	Units	Company Reported Figure	MRA Reported figure	Variance	Variance (%)
Tolukuma Gold Mines Ltd	Gold	Quantity produced	tonnes	4,316	4,316	0	0.0
		Quantity exported	tonnes	4,130	4,131	-1	0.0
		FOB value	PGK	11,237,163	11,237,162	1	0.0
	Silver	Quantity produced	tonnes	9,276	9,276	0	0.0
		Quantity exported	tonnes	7,748	7,748	0	0.0
		FOB value	PGK	322,283	322,282	1	0.0
Simberi mine Simberi Gold Company Ltd	Gold	Quantity produced	oz	107,553	107,553	0	0.0
		Quantity exported	oz	103,598	102,999	599	0.6
		FOB value	PGK	323,886,990	323,886,987	3	0.0
	Silver	Quantity produced	oz	20,830	21,387	-557	-2.6
		Quantity exported	oz	20,830	21,387	-557	-2.6
		FOB value	PGK	911,532	911,531	1	0.0
Mt Crater Mine Anomaly Ltd	Gold	Quantity produced	oz	Not provided	114	-114	-100.0
		Quantity exported	oz	Not provided	91	-91	-100.0
		FOB value	PGK	Not provided	277,167	-277,167	-100.0

* Calculated by taking the company figure minus the MRA figure, divided by the MRA figure.

A number of discrepancies were identified between the production quantities reported by the MRA and the production quantities reported by companies directly to the IA. The discrepancies range from 1.7 to 15.2%.

The table below shows the comparison between the export value reported in the Budget and the actual export value reported by company and the MRA.

Table 20: Comparison of export quantities and values reported by companies, MRA and in Budget figures

Commodity ¹⁸²	Export amount reported by company	Export amount reported by MRA	Export value reported by company (PGK million)	Export value reported by MRA (PGK million)	Export value reported in Budget (PGK million)
Gold (oz)	1,723,153	1,783,224	5,451	5,818	5,391
Copper (tonnes)	46,592	44,271	618	728	685
Silver (oz)	2,201,240	2,156,139	25	87	61
Nickel (tonnes)	17,727	20,580	717	552	705
Cobalt (tonnes)	1,720	1,990	Not provided	Not provided	169

7.6 Regulation of the mining sector

Mining regulation in PNG is overseen by the Mineral Resources Authority (MRA), a government agency that was established by an act of parliament in 2005. The MRA receives 75% of its funding from production levies, and the balance from alluvial gold export levies and tenement fees and rents as prescribed.

¹⁸² Note that the MRA values for gold and silver also include alluvial exports

Detail of the *Mining Act* 1992 ('MA') and other relevant regulation can be seen in Chapter 4.

7.7 Register of tenements¹⁸³

The official register of tenements is maintained by the registrar, the MRA, as required by the MA (s.113). This is kept in hand-written ledgers at the MRA office. The MRA has also established an online mineral tenement management system (Mining Cadastre Portal) which is updated in real time as administrative actions are closed. The portal can be accessed via an interactive online map.¹⁸⁴ The portal was designed for tenement management rather than for the EITI, but includes all the information required by the EITI Standard except for the commodity produced at each mine site, which can be found in Table 19 above. The MRA advised that they did not plan to add this information to the cadastre.

7.8 Allocation of tenements

In accordance with the MA, mining tenements in PNG are administered by the appointed registrar, the Tenement Administration Branch of the MRA's Regulatory Operations Division. It is responsible for the management of tenement applications. Special Mining Leases (for large-scale operations) are issued by the Head of State, acting on advice from the NEC, whilst other tenements are issued by the Minister for Mining on recommendation from the Mining Advisory Council under the MA. Tenement application requirements are outlined in relevant sections of the MA:

- ▶ Exploration Licence (s.24)
- ▶ Special Mining Lease (s.35)
- ▶ Mining Lease (s.42)
- ▶ Alluvial Mining Lease (s.52)
- ▶ Lease for Mining Purpose (s.70)
- ▶ Mining Easement (s.85)

The MRA website includes information on the different types of tenements and the application process, including a step-by-step flow chart outlining the process, fees and minimum expenditures. This information can be accessed on the MRA website [here](#).¹⁸⁵ Tenements are not awarded through a bidding process.¹⁸⁶

The Regulatory Operations Division of the MRA is responsible for the assessment of tenement applications in accordance with the MA. Relevant technical and financial criteria are provided in Part V of the Act. In summary, these include:

- ▶ Completion of application forms, including:
 - ▶ Form 8 - Application form
 - ▶ Form 17 - Boundary description form
 - ▶ Form 20 - Exploration work program form
- ▶ Evidence of registration with the Investment Promotion Authority,¹⁸⁷ as either a new company registered in PNG, or as an overseas company, registered under the laws of another country
- ▶ Statements and evidence of financial and technical capacities
- ▶ Payment of an application fee

¹⁸³ Where the EITI standard refers to 'licences', this section refers to 'tenements', which include mining leases, leases for mining purposes, mining easements and exploration licences.

¹⁸⁴ MRA, PNG Mining Cadastre Portal, <http://portal.mra.gov.pg/Map/> accessed 2 October 2017

¹⁸⁵ 'Licence,' Mining Resources Authority, <http://www.mra.gov.pg/Licence.aspx>, accessed 7 February 2016

¹⁸⁶ *Mining Act* 1992

¹⁸⁷ Investment Promotion Authority, <http://www.ipa.gov.pg/>

- ▶ Minimum annual expenditure requirements related to acquisition and interpretation of exploration data, including related laboratory and feasibility work
- ▶ Requirement to comply with approved program of work.

The MRA shared with the IA the submission forms and assessment processes for tenement applications, which indicate that clear, detailed and consistent criteria are applied.

The PNG Taxation Review 2015 evaluated the awarding of mineral exploration licenses as part of its mining and petroleum taxation review. The Review made no recommendations for mining tenements, stating 'The Chamber of Mines and Petroleum supports maintaining the current system of awarding exploration licenses. It argues that it has worked well for the country and should not be changed'.¹⁸⁸

A mining tenement will not be granted until PNG Conservation and Environment Protection Authority (CEPA) grants environmental approval. CEPA is the government agency responsible for administering the *Environment Act 2000*.

CEPA facilitates three levels of the environment permits approval process as outlined below:¹⁸⁹

- ▶ Level 1: Level 1 approval is given after consultations with existing environment guidelines and code of practice.
- ▶ Level 2A: Once a permit application is accepted by the CEPA, CEPA has 30 days to assess the application for compliance involving public notices and consultations before the environment permit is approved by the Executive Management Committee (EMC) and issued. There are no referrals.
- ▶ Level 2B: Similar to approval process for Level 2A. However, there are referrals to be considered and the application assessment takes 90 days.
- ▶ Level 3: An environment impact report (EIR) and environment impact statement (EIS) must be forwarded to the CEPA to assess over a six-month period that covers the referrals, public advertisement and consultations before the EIS is approved by EMC and forwarded for Minister of Environment approves, and a permit is issued.

Information provided by CEPA identifying the environmental permits that were issued, amended or renewed in 2015 is included in Appendix D.

Development agreements allow for deviations from the legal and regulatory agreement, with this information being included in official gazettes (statutory instruments).

Prior to a new mining lease being issued, a development forum is held with representatives from the national and regional government, landholders and the mining company, to determine the benefits package. The memorandum of agreement arising from this process is negotiated by the MRA Development Coordination Division and drafted by the State Solicitor. However, s.18 of the MA also allows for a separate Mining Development Contract, which is negotiated by the State rather than the MRA. For example, the agreement between RamuNico mine and the State apparently includes significant tax concessions.¹⁹⁰ In light of hearings and objections, the Mining Advisory Board makes recommendations over tenements to the Minister (MA s.11-14).

The process for transferring tenements is described in the MA s.118-19. The process requires a written application for approval of the transfer to be sent to the Registrar, who then submits the

¹⁸⁸ Papua New Guinea Taxation Review, Tax Review Committee Report to the Treasurer Part 2 of 2: Detailed Analysis. October 2015, p. 101

¹⁸⁹ CEPA, response to data request for 2015 and 2016 PNG EITI Report, received 2 October 2017

¹⁹⁰ Communication from Treasury, 10 October 2016

application to the Board for its consideration. The minister then approves or refuses the transfer based on the recommendation of the Board. In practice, ultimate ownership of tenements can be transferred through a change in the ownership of the company, or companies, holding the tenement.

Information provided by the MRA identifies that there were no mining leases, special mining leases or alluvial mining leases awarded during 2015. The 27 exploration licences awarded during 2015 are listed in Table 21 below.¹⁹¹

Table 21: Exploration licences awarded during 2015

Code	Region of tenement	Tenement holders
EL 2353	Ainbul	Sagittarius Mining Ltd (100%)
EL 2356	Muller Range	Frontier Copper (PNG) Ltd (100%)
EL 2357	Dumpu	MB Transport Ltd (100%)
EL 2359	Vanimo and Wutung Govt Stns	Oenake Nickel Ltd (100%)
EL 2360	Ioma Patrol	Luxembourg Investments Ltd (100%)
EL 2361	Bundi Patrol	Luxembourg Investments Ltd (100%)
EL 2365	Ama & Idam	Niuminco (ND) Ltd (100%)
EL 2366	Subutuya	Solway Group Mining (PNG) Ltd (100%)
EL 2367	Sebutuya	Solway Group Mining (PNG) Ltd (100%)
EL 2371	Wau	New Leaf Development Ltd (100%)
EL 2375	Ala River	Frontrunner Exploration PNG Ltd (100%)
EL 2378	Lorengau	Finny Ltd (100%)
EL 2379	Simuku and Ismin	Copper Quest PNG Ltd (100%)
EL 2380	Amazon Bay	Boomine Investment and Development Company Ltd (100%)
EL 2386	Kuabini	Harmony Gold (PNG) Exploration Ltd (100%)
EL 2390	Lorengau	Finny Ltd (100%)
EL 2391	Doma Village	Papuan Minerals Ltd (100%)
EL 2393	Ioma	Cheroh Mining PNG Ltd (100%)
EL 2394	Mussau Island	Cheroh Mining PNG Ltd (100%)
EL 2395	Lou Island	Cheroh Mining PNG Ltd (100%)
EL 2397	Kubuna	Cheroh Mining PNG Ltd (100%)
EL 2398	Siassi Island	Cheroh Mining PNG Ltd (100%)
EL 2399	Panaeati Island	Cheroh Mining PNG Ltd (100%)
EL 2400	Namatanai	Cheroh Mining PNG Ltd (100%)
EL 2362	Bolobip & Fagobip Villages	Niuminco (ND) Ltd (100%)
EL 2368	Asaro Station	Giopa Holdings Ltd (100%)
EL 2392	Port Moresby	Dansar Mining Ltd (100%)

¹⁹¹ MRA, response to data request for 2015 and 2016 PNG EITI Report, received 20 September 2017

7.9 Public Investment Program

The Public Investment Program (PIP) is discussed in section 5.7 above. Data related to those PIP funds administered by MRA is presented below. This data was provided unilaterally by MRA.

Table 22: PIP funds administered by MRA, 2015¹⁹²

PIP project	funds received from DNPM (PGK)	funds disbursed (PGK)
20843 Ok Tedi MOA	210,000	232,951
20844 Hidden Valley MOA	2,500,000	137,182
20845 Ramu Nickel MOA	4,600,000	2,214,963
20847 Lihir Outstanding MOA	5,000,000	6,789,024
20848 Mining Agreement - Porgera	6,000,000	30,330
20849 Sinivit MOA	5,000,000	33,222
20850 Simberi MOA	1,500,000	182,157
21433 Women in Mining	0	174,515
20254 Tolukuma MOA	5,800,000	10,561
21741 Advanced Mining Projects	1,420,000	541,948
22797 Human Resource Training for the Mining Sector	0	0

Information on other revenue streams specific to mining can be found in sections 2.3, 0 and in chapter 10.

¹⁹² MRA data template

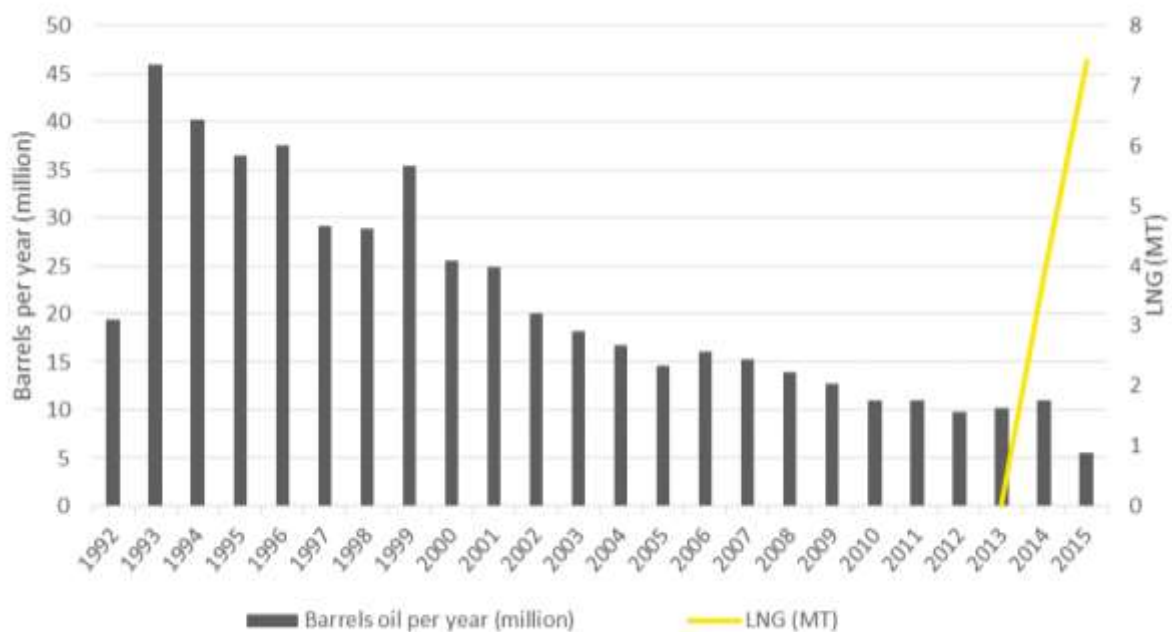
8. Oil and gas

Oil Search estimates PNG's proven crude oil and condensate reserves to be 57.5 million barrels.¹⁹³ Oil exploration in PNG commenced in the 1920s. The first commercial production began in 1992, and there are currently five principal oil fields.

Oil production in PNG has been in slow but steady decline since the mid-1990s, when there was a peak in production of approximately 46 million barrels in 1993.¹⁹⁴

Gas production, by contrast, is increasing due to the PNG LNG project. The project has exceeded its original design capacity of 6.9 million tonnes of LNG per annum,¹⁹⁵ and despite current suppressed prices, is expected to have a significant long-term positive impact on the economy and government revenues. Aside from the PNG LNG project, there is also a domestic gas project for the sale of natural gas from the Hides field to Porgera.

Figure 42: PNG Oil and LNG Production, 1992-2015¹⁹⁶



The physical distribution of oil and gas resources in PNG is shown in Figure 43 below.

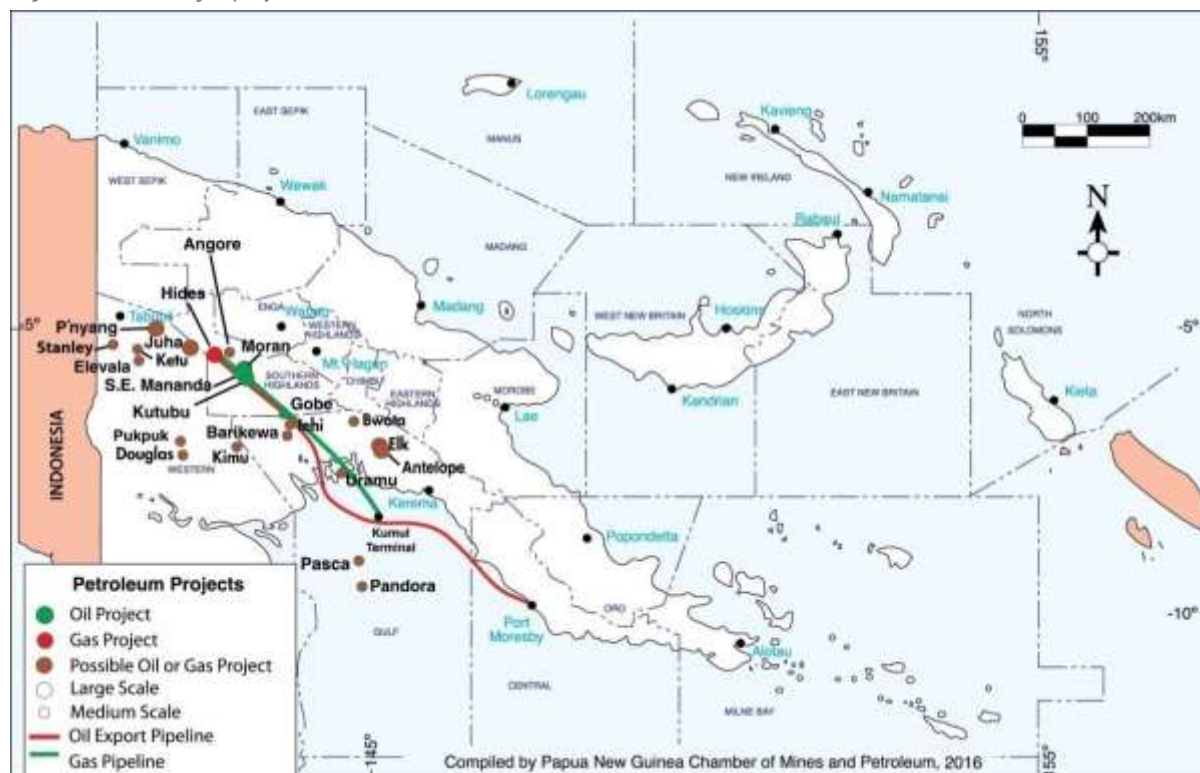
¹⁹³ Oil Search 2015(6) Reserves and Resources Statement 23 February 2016.
<http://www.asx.com.au/asxpdf/20160223/pdf/435823vc5t93pc.pdf> accessed 04 October 2017

¹⁹⁴ Oil Search Annual Report 2014, p.17
[http://www.oilsearch.com/media/docs/7807_OSH_AR14_FINAL%20\(Final%20for%20ASX%20Release\)-84df74aa-04d5-4794-8bce-bf9e3dd09bfc-0.pdf](http://www.oilsearch.com/media/docs/7807_OSH_AR14_FINAL%20(Final%20for%20ASX%20Release)-84df74aa-04d5-4794-8bce-bf9e3dd09bfc-0.pdf), accessed 21 October 2016.

¹⁹⁵ <http://pnglng.com/project/index.html>

¹⁹⁶ Adapted from United States Energy Information Administration, cited in <http://www.indexmundi.com/energy/?country=pg&product=oil&graph=production> with additional data from ExxonMobil PNG provided in data template for the ireport, received 8 September 2017

Figure 43: Oil and gas projects in PNG¹⁹⁷



8.1 Oil and gas companies active in PNG

Both national and multinational oil and gas companies, as well as state-owned entities, are actively engaged in exploration and production in PNG. During 2015, the companies involved in active production were owners of petroleum development licences (PDLs) associated with:

- ▶ PNG LNG project (operated by ExxonMobil PNG Ltd)
- ▶ Producing oil fields (operated by Oil Search (PNG) Ltd)
- ▶ Hides gas project (operated by Oil Search (PNG) Ltd)

Participants in the petroleum sector with interests in these PDLs are considered to be material reporting entities and are identified below:

- | | |
|--------------------------------------------|----------------------------------------------------------------------------------------------|
| ▶ ExxonMobil PNG Ltd (and subsidiaries) | ▶ Petromin Holdings Ltd (and subsidiary) |
| ▶ Oil Search (PNG) Ltd | ▶ National Petroleum Company PNG Holdings Ltd /Kumul Petroleum Holdings Ltd (and subsidiary) |
| ▶ Santos (and subsidiaries) | ▶ Mineral Resources Development Company (MRDC) |
| ▶ JX Nippon Oil and Gas (and subsidiaries) | |

PDL 10 was granted to the following participants in the Stanley joint venture in 2014 however production had not yet started in 2015.¹⁹⁸

- | | |
|----------------------------------------|--------------|
| ▶ Repsol (Talisman Energy Niugini Ltd) | ▶ Osaka Gas |
| ▶ Horizon Oil Papua Ltd | ▶ Mitsubishi |

¹⁹⁷ Provided by PNG Chamber of Mines & Petroleum

¹⁹⁸ Horizon Oil, Projects - operations, <https://horizonoil.com.au/projects-operations/papua-new-guinea/ppl-4/> accessed 18 October 2017

There are a number of companies holding petroleum retention licences including:¹⁹⁹

- ▶ Total E & P PNG Ltd
- ▶ Oil Search (PNG) Ltd
- ▶ Repsol (Talisman Energy Niugini Ltd)
- ▶ Horizon Oil Papua Ltd
- ▶ Posman Kua Aisi Lawyers
- ▶ Eaglewood Energy (BVI) Ltd
- ▶ Esso PNG Exploration Ltd
- ▶ Heritage Niugini Ltd

There are also a large number of companies that hold petroleum prospecting licences (PPL) conducting exploration activities during the reporting period. These are listed in Appendix E.

8.2 Overview of producing operations in 2015

8.2.1 Oil projects

Oil Search operates all of the oil fields that are currently producing oil in PNG.²⁰⁰ Oil Search took over the operation of the five oil fields in 2003 following the acquisition of Chevron Niugini Ltd:²⁰¹ Kutubu, Moran, Gobe main, SE Gobe and SE Mananda. The SE Mananda oil field was shut-in in May 2014 as it had reached the end of its economic life. The Kutubu field consists of a network of wells that produce oil from the lagifu-Hedinia, Usano and Agogo fields. The oil is processed on site at Agogo Processing Facility (APF) and Central Processing Facility (CPF) and then pumped through the 270 kilometre Kutubu Export Pipeline to the coast and the Kumul Marine Terminal in the Gulf of Papua. Oil produced at the Moran field is processed at the APF then piped to the CPF for further processing, storage and export through the export pipeline. Oil from both the Gobe main and SE Gobe fields is processed at the Gobe Processing Facility, which is joined to the Kutubu Export Pipeline with an 8 kilometre pipeline.

¹⁹⁹ Sourced from data reporting template provided by DPE for this report. Received 8 September 2017

²⁰⁰ Oil Search - Operated Production, <http://www.oilsearch.com/what-we-do/production/operated-production> accessed 18 October 2017

²⁰¹ Oil Search Ltd ASX Announcement, 17 October 2003 'Oil Search completes acquisition of Chevron Niugini and takes over operatorship of PNG oil fields', <http://www.asx.com.au/asxpdf/20031017/pdf/3jdkhkcnt1f63.pdf> accessed 30 October 2017

Figure 44: Oil Search licence interests, processing and distribution routes²⁰²



8.2.2 Gas projects

8.2.2.1 Hides Gas to Electricity Project

The Hides Gas to Electricity Project is fully owned and operated by Oil Search (see location in Figure 44). It comprises a pipeline from the gas wells in the Hides field, to the Hides Production Plant in the Tagari River Valley. Following processing, the gas is used by the Porgera Joint Venture to generate electricity for the Porgera gold mine. The condensate produced in the process is distilled into diesel and naphtha and sold locally. The diesel is used as a back-up fuel for the running of the power station. Gas supplied from the Hides gas field is sold under long-term contracts that were last revised in 2012.

During 2015, Oil Search delivered 5,312 MMscf natural gas to the Porgera Gold Mine.²⁰³

8.2.2.2 PNG LNG Project

The PNG LNG project shipped its first liquefied natural gas (LNG) in May 2014 and the project achieved financial completion on 6 February 2015. The project has design capacity of 6.9 million tonnes of LNG per annum and in 2015 exceeded this by shipping 7,423,719 tonnes of LNG. The project provided a significant number of jobs in recent times during its construction (peaking at 21,200 in 2012) but this number declined as the project moved into production. As of December 2015 the PNG LNG project had a workforce of 2,400, 79% of whom were PNG citizens.²⁰⁴

²⁰² Oil Search Annual Report 2016, p.58

http://www.oilsearch.com/_data/assets/pdf_file/0016/7045/HC_OSF_AR16_Interactive_v01A.pdf, accessed 8 November 2017.

²⁰³ Oil Search Annual Report 2015, p.19 http://www.oilsearch.com/_data/assets/pdf_file/0018/1566/OSH_AR16-a3d8b18e-1b65-4a66-a4a0-34826fa5db87-2.PDF, accessed 4 October 2017.

²⁰⁴ PNG LNG Environmental and Social Report-Second Half 2015, PNG LNG, 2015 <https://pnglng.com/media/PNG-LNG-Media/Files/Environment/Environment%20and%20Social%20reports/2H15-ES-Report-FINAL-26-02-2016-FULL-ENG-WEB.pdf>, accessed 6 November 2017.

Despite current low commodity prices the project is expected to make a significant long-term contribution to the economy and government revenues. Falling global LNG prices have already negatively impacted project returns, with potential ramifications for the government's financial position. The project has had significant impacts on affected communities, both positive and negative.

The relative interests of each partner in the PNG LNG project for the 2015 reporting period are as follows:

- ▶ ExxonMobil (33.2% and operator)
- ▶ Oil Search (29.0%)
- ▶ Santos (13.5%)
- ▶ National Petroleum Company of PNG (PNG Government) (16.8%)
- ▶ JX Nippon Oil and Gas Exploration Company (4.7%)
- ▶ Mineral Resources Development Company (PNG Government, on behalf of landowners) (2.8%)

8.3 Beneficial owners of oil and gas projects

The table below summarises the available information for the beneficial ownership of each of the oil fields and gas projects active during the reporting period.

Table 23: Beneficial ownership data for oil and gas projects operating during the 2015 calendar year

Permit	% Interest	Operator(*)/partners	Parent organisation	Ownership structure
PDL 1 Hides	36.81	* ExxonMobil PNG Ltd	ExxonMobil	NYSE listed
	16.66	Oil Search (Tumbudu) Ltd	Oil Search Ltd	ASX listed
	19.38	Santos (Hides) Ltd	Santos Ltd	ASX listed
	4.65	Lavana Ltd	Santos Ltd	ASX listed
	20.50	Kroton No. 2 Ltd	Kumul Petroleum Holdings Ltd	SOE
	2.00	Gas Resources Gigira Ltd	MRDC	SOE
PDL 1 (Hides GTE)	100.00	*Oil Search (Tumbudu) Ltd	Oil Search Ltd	ASX listed
PDL 2 Kutubu Field Complex Iagifu Hedinia Usano Agogo	60.05	*Oil Search (PNG) Ltd	Oil Search Ltd	ASX listed
	11.61	Ampolex (PNG Petroleum) Inc.	ExxonMobil	NYSE listed
	18.69	Merlin Petroleum Co.	Japan Papua New Guinea Petroleum Company: 40.7% Nippon Oil Exploration (PNG) Pty Ltd: 38.9% Marubeni Corporation: 20.4% ²⁰⁵	JX Nippon Oil and Gas Exploration Corporation ²⁰⁶ (Tokyo listed) Privately held, Australia ²⁰⁷ Tokyo listed ²⁰⁸
	2.91	Merlin Pacific Oil Co. NL	ExxonMobil	NYSE listed
	6.75	Petroleum Resources Kutubu Ltd	MRDC	SOE

²⁰⁵ <http://www.nex.jx-group.co.jp/english/activity/oceania/png.html>, accessed 9 December 2016

²⁰⁶ <http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=128311971>, accessed 9 December 2016

²⁰⁷ <http://www.abr.business.gov.au/SearchByAbn.aspx?SearchText=69134179810>, accessed 9 December 2016

²⁰⁸ <https://www.marubeni.com/company/profile/>

Permit	% Interest	Operator(*)/partners	Parent organisation	Ownership structure
PDL 2 Kutubu Export Line	60.05	*Oil Search (PNG) Ltd	Oil Search Ltd	ASX listed
	11.61	Ampolex (PNG Petroleum) Inc.	ExxonMobil	NYSE listed
	12.69	Petroleum Resources Kutubu Ltd	MRDC	SOE
	2.91	Merlin Pacific Oil Co. NL	ExxonMobil	NYSE listed
SE Mananda	72.27	*Oil Search (PNG) Ltd	Oil Search Ltd	ASX listed
	19.84	Merlin Petroleum. Co. Ltd	see detail under PDL2	
	7.90	Petroleum Resources Kutubu Ltd	MRDC	SOE
PDL 3 SE Gobe	15.92	*Barracuda Ltd	Santos Ltd	ASX listed
	36.36	Oil Search (PNG) Ltd	Oil Search Ltd	ASX listed
	40.15	Southern Highlands Petroleum Co. Ltd	JX Nippon Holdings ²⁰⁹	Tokyo listed
	5.57	Cue PNG Oil Co. P/L	Kumul Petroleum Holdings Ltd ²¹⁰	SOE
	2.00	Petroleum Resources Gobe Ltd	MRDC	SOE
PDL 4 Gobe Main	10.00	*Oil Search (PNG) Ltd	Oil Search Ltd	ASX listed
	73.48	Merlin Petroleum Co. Ltd	see detail under PDL2	
	14.52	Ampolex (Highlands) Ltd	ExxonMobil	NYSE listed
	2.00	Petroleum Resources Gobe Ltd	MRDC	SOE
SE Gobe Unit PDL 3: 59.0% PDL 4: 41.0%	25.55	*Oil Search (PNG) Ltd	Oil Search Ltd	ASX listed
	30.13	Merlin Petroleum Co. Ltd	see detail under PDL2	
	23.69	Southern Highlands Petroleum Co. Ltd	JX Nippon Holdings	Tokyo listed
	9.39	Barracuda Ltd	Santos Ltd	ASX listed
	5.95	Ampolex (Highlands) Ltd	ExxonMobil	NYSE listed
	3.29	Cue PNG Oil Co. P/L	Kumul Petroleum Holdings Ltd	SOE
	2.00	Petroleum Resources Gobe Ltd	MRDC	SOE
Gobe Common Facilities SE Gobe: 50% Gobe Main: 50% (Includes PL3)	17.78	*Oil Search (PNG) Ltd	Oil Search Ltd	ASX listed
	51.80	Merlin Petroleum Co.	see detail under PDL2	
	11.84	Southern Highlands Petroleum Co. Ltd	JX Nippon Holdings	Tokyo listed
	10.24	Ampolex (Highlands) Ltd	ExxonMobil	NYSE listed
	2.00	Petroleum Resources Gobe Ltd	MRDC	SOE
	1.64	Cue PNG Oil Co. P/L	Kumul Petroleum Holdings Ltd	SOE

²⁰⁹ 'The Southern Highlands Petroleum Co. Ltd was established jointly with Japan Petroleum Exploration Co. Ltd and Teikoku Oil Co. Ltd' Source: Japan Energy Group *Overview of Businesses*, 2005, p. 16 http://www.hd.jx-group.co.jp/english/ir/library/annual/2005/pdf/nmh_en_ar_fy2005_05.pdf accessed 9 December 2016

²¹⁰ Kumul Petroleum purchased Cue PNG OIL Company Pty Ltd on 20 November 2014, http://www.cuenrg.com.au/irm/PDF/2339_0/AnnualReport2016 accessed 8 November 2017

Permit	% Interest	Operator(*)/partners	Parent organisation	Ownership structure
PDL 5 Moran	36.81	*Esso Highlands Ltd	ExxonMobil	NYSE listed
	40.69	Oil Search (PNG) Ltd	Oil Search Ltd	ASX listed
	20.50	Eda Oil Ltd	Petromin PNG Holdings Ltd	SOE
	2.00	Petroleum Resources Moran Ltd	MRDC	SOE
PDL 6 NW Moran	71.07	*Oil Search (PNG) Ltd	Oil Search Ltd	ASX listed
	18.36	Ampolex (Highlands) Ltd	ExxonMobil	NYSE listed
	8.58	Merlin Petroleum Co.	see detail under PDL2	
	2.00	Petroleum Resources North West Moran Ltd	MRDC	SOE
Greater Moran Field PDL 2: 44% PDL 5: 55% PDL 6: 1%	49.51	*Oil Search (PNG) Ltd	Oil Search Ltd	ASX listed
	20.25	Esso PNG Moran Ltd	ExxonMobil	NYSE listed
	11.28	Eda Oil Ltd	Petromin PNG Holdings Ltd	SOE
	8.31	Merlin Petroleum Co.	see detail under PDL2	
	5.11	Ampolex (PNG Petroleum) Inc.	ExxonMobil	NYSE listed
	0.18	Ampolex (Highlands) Inc.	ExxonMobil	NYSE listed
	2.97	Petroleum Resources Kutubu Ltd	MRDC	SOE
	1.28	Merlin Pacific Oil Co. NL	ExxonMobil	NYSE listed
	1.10	Petroleum Resources Moran Ltd	MRDC	SOE
PDL 7	36.81	*Esso Highlands Ltd	ExxonMobil	NYSE listed
	40.69	Oil Search (Tumbudu) Ltd	Oil Search Ltd	ASX listed
	20.50	National Petroleum Company of PNG (Kroton) Ltd	Kumul Petroleum Holdings Ltd	SOE
	2.00	Gas Resources Hides No.4 Ltd	MRDC	SOE
PDL 8	36.81	*Esso Highlands Ltd	ExxonMobil	NYSE listed
	40.69	Oil Search (Tumbudu) Ltd	Oil Search Ltd	ASX listed
	20.50	National Petroleum Company of PNG (Kroton) Ltd	Kumul Petroleum Holdings Ltd	SOE
	2.00	Gas Resources Angore Ltd	MRDC	SOE
PDL 9	21.71	*Esso PNG Juha Ltd	ExxonMobil	NYSE listed
	24.42	Oil Search (Tumbudu) Ltd	Oil Search Ltd	ASX listed
	21.68	Ampolex (Papua New Guinea) Ltd (ExxonMobil)	ExxonMobil	NYSE listed
	20.50	National Petroleum Company of PNG (Kroton) Ltd	Kumul Petroleum Holdings Ltd	SOE
	9.69	Nippon Papua New Guinea LNG LLC	JX Nippon Oil and Gas Exploration Corporation	Privately held, Japan
	2.00	Gas Resources Juha No.1 Ltd	MRDC	SOE

Permit	% Interest	Operator(*)/partners	Parent organisation	Ownership structure
PDL 10 ²¹¹ Stanley	40.00	*Talisman Niugini Pty Ltd	Repsol	NYSE listed
	30.00	Horizon Oil (Papua) Ltd	Horizon Oil Ltd	ASX listed
	20.00	Osaka Gas Niugini Pty Ltd	Osaka Gas Pty Ltd	Tokyo listed
	10.00	Diamond Gas Niugini B.V.	Mitsubishi Corporation	NYSE listed

*Operator

8.4 New oil and gas projects

8.4.1 Stanley project

The Stanley Gas Agreement was approved in April 2014. The Stanley gas-condensate field is located in PDL 10 and is operated by Repsol.²¹² Its main focus to date has been to provide Ok Tedi mine with gas for electricity to extend its mine life. The project includes a condensate recovery plant with the aim of producing a commercially viable end-product for the domestic market. Production had not begun during the reporting period so the joint venture partners were not included as material reporting entities.

8.4.2 Papua LNG Project (Elk-Antelope gas discoveries)

The Elk-Antelope gas discoveries (PRL 15) are one of the largest undeveloped gas resources in PNG. Investigations are currently underway to determine the size and structure of the gas resource, with preliminary findings suggesting that the site has the potential to underpin a second world-scale LNG development in PNG.

The participants under the PRL 15 licence in 2015 were:

Total (operator)	40.1%
InterOil	36.5%
Oil Search	22.8%
Minorities	0.5%

As at July 2015 the PRL 15 joint venture participants had endorsed recommendations from Total for key project infrastructure sites for development of the Elk-Antelope gas field. This includes a central processing facility near the Puraru River in the Gulf province, about 306 kilometres north-west of Port Moresby, which will be connected to the LNG facility by onshore and offshore gas and condensate pipelines. The concept design is currently underway, with works scheduled to begin in mid-2017.²¹³ A PDL is yet to be approved for this project.

8.4.3 Other gas projects in development

The PNG LNG and Papua LNG projects are expected to be the first of a series of potential gas developments, including the:

- ▶ Potential development of the P'nyang field to support PNG LNG Project expansion
- ▶ Possible aggregation of a number of gas accumulations in the Western Province
- ▶ Offshore Pandora field for a possible LNG development.²¹⁴

²¹¹ <http://horizonoil.com.au/projects-operations/papua-new-guinea/ppl-4/>, accessed 19 November 2016

²¹² *ibid*

²¹³ CSLA Investors Forum Hong Kong Presentation, Oilsearch, 2016 <http://www.oilsearch.com/Investor-Centre/ASX-Releases/Presentations-and-Webcasts.html>, accessed 21 October 2016

²¹⁴ Information from MSG & 'Petroleum in PNG,' PNG Chamber of Mines and Petroleum, <http://pngchamberminpet.com.pg/petroleum-in-png/>, accessed 7 February 2017

Oil and gas exploration is at an all-time high across PNG. In 2012, there were 71 Petroleum Prospecting Licences and over 15 applications pending, covering large parts of the country, and much of the near-shore environment.²¹⁵

The introduction of the Unconventional Hydrocarbons Act 2015 (UHA) during 2015 has also cleared the way for further exploration and production including unconventional hydrocarbons such as shale oil and gas that were previously excluded from the OGA.

8.5 Oil and gas production data

Oil and gas project operators report production data to the Department of Petroleum and Energy (DPE) on a monthly basis. During 2015, DPE did not perform detailed reviews or audits of this data due to resourcing constraints.²¹⁶

The figures below were reported by Oil Search and ExxonMobil.²¹⁷ The figures included in the Budget for 2015 are also included for comparison.²¹⁸

Table 24: Oil and gas production and export data 2015

Source	Amount reported produced by operator	Amount reported exported by operator	Total export value reported by operator (PGK)	Total export value reported in Budget (PGK)
Oil	15,081 stbopd	5,297,638 stbo	752,047,605	943,200,000
Condensate	9,274 stbopd	3,065,055 stbo	435,112,265	1,413,500,000
Hides Gas	5,312 MMscf	8,362,693 MMscf	Not provided	0
PNG LNG Project LNG	7,423,719 tonnes	7,339,524 tonnes	Not provided	8,206,600,000

Just prior to publication of this report, DPE supplied the following data for oil production and export. No data was supplied for export value, or for the production of condensate, LNG liquids or LNG.

Table 25: Oil production and export data provided by DPE²¹⁹

	Kutubu	Agogo	Moran	SEM	SE Gobe	Gobe Main	Total
Production (stbopd)*	12,795	4,447	8,647	0	1,247	833	27,969
Cumulative production (stbo)	4,670,070	1,661,314	3,152,355	0	454,899	303,762	10,242,400
Exports (stbo)							20,260,698

* Recalculated from monthly data by IA, as DPE totals were incorrect.

These figures show significant variance from those reported by the operator, as shown below. The IA did not have time to investigate this further.

²¹⁵ *ibid*

²¹⁶ Direct communication from DPE, 6 February 2017.

²¹⁷ Information included in Oil Search and ExxonMobil data templates provided for this report, received 8 and 19 September 2017

²¹⁸ 2015 figures from 2017 Budget, Vol 1, Appx 3, Table 5, p. 106 (Actuals from BPNG. Projections from Dept. of Treasury) http://www.treasury.gov.pg/html/national_budget/files/2017/2017%20Budget%20Volume%201%20Economic%20and%20Development%20Policies.pdf

²¹⁹ Updated DPE data template received 14 December 2017

Table 26: Oil production and export variances

	Reported by operator	Reported by DPE	Variance	Variance (%)
Production (stbopd)	15,081	27,969	(12,888)	(46.08)
Exports (stbo)	5,297,638	20,260,698	(15,178,027)	(74.91)

8.6 Regulation of the oil and gas sector

Oil and gas regulation in PNG is overseen by DPE, a government department that is chronically under-resourced, has no website, and has not produced an annual report for the past six years.

DPE informed the IA in 2016 that there are plans to reconstitute DPE as an independent authority (as is the case with the MRA) although the timeframe for completing this has not been announced to date.

DPE was the subject of a number of priority recommendations in the 2013 and 2014 PNG EITI Report that have subsequently been endorsed by the national executive council (NEC). Although no changes had been implemented during 2015, DPE advised that in 2016, the first workshop was held to discuss the way forward for establishing a licensing database to address one of the key recommendations.²²⁰

During 2015, new legislation was passed to govern the exploration for and production of unconventional hydrocarbons in Papua New Guinea. Unconventional hydrocarbons such as coal seam gas or shale gas, require additional methods of extraction other than traditional methods. Previously, exploration for unconventional hydrocarbons was not permitted under the *Oil and Gas Act 1998* (OGA). Further information about the OGA and the *Unconventional Hydrocarbons Act 2015* (UHA) can be found in Section 4.5.1.

8.7 Register of licences

The official register of oil and gas licences is maintained by the DPE in handwritten ledgers. Figure 45 below shows an image of the ledgers as they appeared in 2015. This ledger is not organised sequentially on the basis of licence numbers; new entries are made when applications are made. In principle the register is publically accessible, but clearly this is not a practical reality.

Figure 45: Oil and gas licence registers in 2015



²²⁰ Non-financial data template provided by DPE for this report. Received 6 November 2017

The reliance on hard copy documentation, coupled with sub-optimal file storage, poses a significant risk, which could result in a catastrophic data loss should, for example, a fire occur at DPE's premises.

DPE reported that during 2016, the licence register was scanned so there is a digital copy. They also reported that a workshop was held during 2016 to investigate establishing a licencing database similar to the one implemented by the MRA for mining tenements. The complete register of petroleum development licences held as at November 2013 appears as an Appendix to the [PNG EITI Report 2013](#). The register is set up to record all information required by the EITI Standard, but a number of information gaps in individual entries were identified.

A review was carried out by DPE in previous years to assess whether the following functions of DPE were being undertaken in compliance with regulatory requirements:

- ▶ Adherence to reporting requirements
- ▶ The validity of work programs being implemented
- ▶ Payment of licence fees.

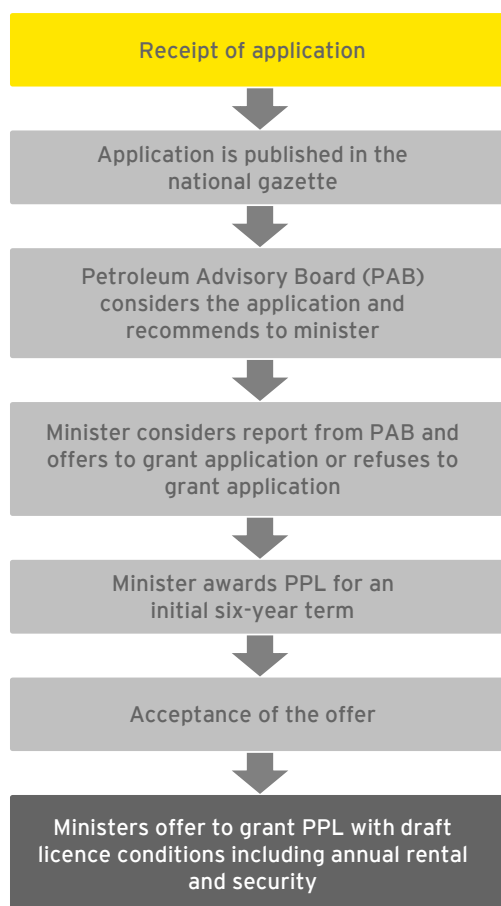
The initial findings of the compliance review indicated that 50% of all licences did not comply with the OGA. DPE advised that 10 PPLs had been cancelled during 2015 for non-compliance.²²¹

²²¹ Non-financial data template provided by DPE for this report. Received 6 November 2017

8.8 Allocation of licences

Oil and gas licences are allocated by DPE, according to the process illustrated in Figure 46 below.

Figure 46: Process for DPE licence allocation²²²



Information on the technical and financial criteria for petroleum prospecting licences is set out in the Petroleum Policy Handbook, and includes the following criteria for considering applications for licences:²²³

When granting a prospecting licence the Minister must be satisfied that the applicant has a coherent exploration strategy for the licence area as well as the technical and financial resources to carry out the required work programme. The following information should therefore be included in an application:

- The full name of the individuals or companies who are to be the licence holders
- If more than one individual or company is to hold the licence, the respective participating interests and the identity of the operator
- The specific blocks over which a licence is being sought, and a sketch map indicating their position

²²² Petroleum division - an overview, p. 21

²²³ Petroleum policy handbook, pp. 8 and 9, 2003

- d. An outline of the technical resources of the applicant, including prior experience in PNG and descriptions of similar exploration programmes carried out elsewhere, as well as the resumes of key individuals to be involved in the proposed programme
- e. Details of the financial and asset resources of the applicants including the most recent financial statements and where appropriate outlines of similar ventures undertaken
- f. Detailed work and expenditure programmes proposed for the first two years of the initial licence period
- g. Indicative work and expenditure programmes proposed for the final four years of the initial licence period
- h. A synopsis of the technical rationale used in developing the work programme proposed
- i. Postal, fax and email addresses of the applicants
- j. Any other information that might be relevant to the application.

The legislation for exploration and production licensing for unconventional hydrocarbons is outlined in Division III of the UHA. Under the Act the traditional Petroleum Prospecting Licence and Unconventional Hydrocarbon Prospecting License can co-exist on the same area of land. The UHA addresses conflicts regarding this in section 63-65 of the Act, indicating where ownership of the resource reverts to if either conventional or unconventional hydrocarbons are discovered within a licenced area.

DPE confirmed that there were no licences awarded through a competitive bidding process in 2015 and there were no non-trivial deviations from the regulatory regime.²²⁴

Before a production licence is issued, social mapping and clan vetting must be conducted, which is audited by DPE. This culminates in a Development Forum that brings together stakeholders to finalise the benefit sharing agreement. Agreements include different levels of compensation and benefits, which may include social benefits such as schools or hospitals. DPE commented that landholder groups have become much more adept at negotiating for their interests in recent years.

Production licences also require 'detailed proposals by the applicant for the construction, establishment and operation of all facilities and services for and incidental to the recovery, processing, storage and transportation of petroleum from the licence area'.²²⁵

DPE advised that applications are assessed by the registrar for completeness, geoscience staff for technical criteria, and economics staff for financial criteria. The findings go into a technical brief which then goes before the DPE board.

Development agreements allow for deviations from the legal and regulatory agreement, with this information being included in official gazettes (statutory instruments).

A petroleum development licence will not be granted until PNG Conservation and Environment Protection Authority (CEPA) grants environmental approval. CEPA is the government agency responsible for administering the *Environment Act 2000*.

CEPA facilitates three levels of the environment permits approval process as outlined below:²²⁶

²²⁴ Non-financial data template provided by DPE for this report. Received 6 November 2017

²²⁵ *Oil and Gas Act 1998* s.54

²²⁶ CEPA, response to data request for 2015 and 2016 PNG EITI Report, received 2 October 17

- ▶ **Level 1:** Level 1 approval is given after consultations with existing environment guidelines and code of practice.
- ▶ **Level 2A:** Once a permit application is accepted by the CEPA, CEPA has 30 days to assess the application for compliance involving public notices and consultations before the environment permit is approved by the Executive Management Committee (EMC) and issued. There are no referrals.
- ▶ **Level 2B:** Similar to approval process for Level 2A. However, there are referrals to be considered and the application assessment takes 90 days.
- ▶ **Level 3:** An environment impact report (EIR) and environment impact statement (EIS) must be forwarded to the CEPA to assess over a six-month period that covers the referrals, public advertisement and consultations before the EIS is approved by EMC and forwarded for Minister of Environment approves, and a permit is issued.

Information provided by CEPA identifying the environmental permits that were issued, amended or renewed in 2015 is included in Appendix D.

Table 27 shows the different types of licences and the number of licence applications by type as at 31 December 2015.

Table 27: DPE licence statistics for 2015²²⁷

Licence type	Quantity	Applications	Awarded	Extended	Expired	Cancelled	Surrendered	Transferred
Petroleum Development Licence (PDL)	10	2	0	0	0	0	0	0
Petroleum Retention Licence (PRL)	10	0	0	0	0	0	0	0
Petroleum Prospecting Licence (PPL)	100	64	15	14	8	10	4	7
Petroleum Processing Facility Licence (PPFL)	2	0	0	0	0	0	0	0

Transfer processes are outlined in the OGA.²²⁸ Transfers are registered by DPE but no criteria are applied; it is a commercial transaction between organisations. Exploration licences cannot be transferred for a period of two years from being granted. The list of licences transferred in 2015 is included in Appendix F.

Taxation review case study - comments on oil and gas licencing

The PNG Taxation Review 2015 evaluated the exploration licensing process through its review of mining and petroleum taxation. For oil and gas, this involves a 'work program bidding' auction model. However, 'the Review believes it is unclear as to whether in practice the bidding process is competitive and transparent. The Chamber of Mines and Petroleum has acknowledged the problem with the current system of petroleum license issuance' (p. 101). According to the review, exploration licences can be obtained without evidence of genuine intent to undertake exploration, meaning land can be 'banked' and licences sold to other interested parties.

The review therefore recommended a competitive bidding system, where exploration licences are awarded based on criteria such as work program, technical and financial capabilities, so that companies are reputable and have a genuine intent to undertake exploration. However at its conclusion the review decided that the current system for allocating licences would be maintained, with the introduction of a capital gains tax on the sale of exploration licences to address the 'land banking' issue.

²²⁷ Non-financial data template provided by DPE for this report. Received 6 November 2017

²²⁸ Section 97

9. State-owned enterprises

9.1 Legal basis

The State holds the right to acquire a participating interest in any mining or petroleum project in PNG at par value, or 'sunk cost'. In return, the State can receive a share of the profits of the project, paid as dividends in accordance with its rights as a shareholder (see Reconciliation 10.4.1.2 for details of payments). Further information on the State's equity participation rights is provided in Chapter 4.

The state-owned enterprises (SOEs) involved with the extractive sector in PNG during 2015 were:

- ▶ Independent Public Business Corporation (IPBC) - until August 2015 when it was became Kumul Consolidated Holdings Ltd (KCH)
- ▶ National Petroleum Company of PNG (NPCP) Holdings Ltd - until June 2015 when the Kumul Petroleum Holdings Ltd Authorization Act 2015 was passed changing the name to Kumul Petroleum Holdings Ltd (KPH)
- ▶ Petromin PNG Holdings Ltd - until January 2016 when Petromin's assets were divided between Kumul Mineral Holdings Ltd (KMH) and Kumul Petroleum Holdings Ltd
- ▶ Ok Tedi Mining Ltd (OTML)
- ▶ Mineral Resources Development Company Ltd (MRDC)

During 2015 changes were made to the structure of PNG SOEs in accordance with the Kumul Consolidation Agenda. The Kumul Consolidation Agenda is intended to improve synergy, coordination and efficiency of the National Government's participation in commercial activities.²²⁹ This includes the aggregation of related government companies in different sectors such as all mining interests included in Kumul Mineral Holdings Ltd and petroleum interests moved to Kumul Petroleum Holdings Ltd (KPH). Each of the SOEs and their subsidiaries are discussed further in this chapter.

9.2 Independent Public Business Corporation (IPBC) / Kumul Consolidated Holdings Ltd (KCH)

9.2.1 Creation, ownership and structure

In August 2015, the Independent Public Business Corporation (IPBC) of Papua New Guinea was renamed Kumul Consolidated Holdings Ltd (KCH) and restructured under a new act of parliament, the *Independent Public Business Corporation of Papua New Guinea (Kumul Consolidated Holdings) (Amendment) Act (2015)*.²³⁰ KCH remains a statutory corporation with the same legal identity; it remains the trustee of the GBT and there is no change to the trust structure or the role of KCH in managing the SOEs owned by the trust. The State continues to be the beneficiary of the GBT.

²²⁹ Press release from Minister Abel, 22 February 2017, <https://www.kch.com.pg/minister-clarifies-consolidation/> accessed 13 November 2017

²³⁰ Independent Public Business Corporation of PNG (Kumul Consolidated Holdings) Amendment Act 2015 <http://www.parliament.gov.pg/index.php/bills-and-legislation/view/independent-public-business-corporation-of-png-kumul-consolidated-holdingsa> accessed 03 October 2017

KCH, a 100% state-owned corporation, was formed under an act of parliament (2002, amended in 2012).²³¹ During 2015, the KCH was the trustee of the General Business Trust (GBT) which owns many of PNG's SOEs. KCH's role in monitoring and managing the SOEs owned by the Trust is to:

- ▶ Appoint the board of directors (can alternatively be appointed by the National Executive Council)
- ▶ Approve the annual business plan
- ▶ Approve capital expenditure
- ▶ Set policies or give directions concerning the SOE's activities, including operations, planning, staffing and remuneration, board remuneration, contract tendering, engagement of consultants, and industry reform

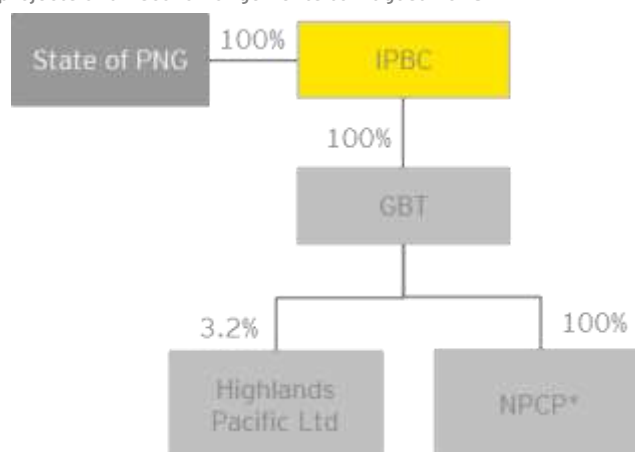
During 2015, the GBT was the owner of the National Petroleum Company of PNG (NPCP) Holdings Ltd (renamed Kumul Petroleum Holdings Ltd (KPH) in July 2015), and its subsidiary companies. KPH is discussed in more detail below (p.101). The other SOEs involved in the extractives industry, OTML, Petromin and the MRDC are not owned by the GBT, but are directly held by the State of PNG.

The IPBC also directly held a 3.2% share in Highlands Pacific during 2015.²³²

9.2.2 Projects and fiscal arrangements

The projects and fiscal arrangements relevant to the extractive sector held by the IPBC until August 2015 are summarised in the figure below.

Figure 47: IPBC extractive projects and fiscal arrangements to August 2015



*A more detailed description of the projects and fiscal arrangements of the NPCP is included on page 101.

In August 2015, the IPBC was renamed Kumul Consolidated Holdings Ltd (KCH). Interests held by KCH, through the GBT, in the NPCP were transferred to Kumul Petroleum Trust free of debt and at no cost to KPH.²³³

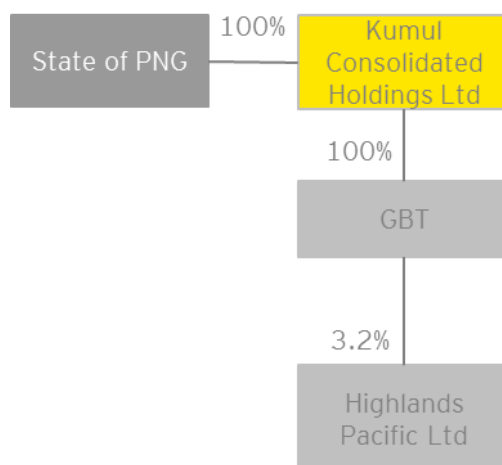
The only remaining investment that Kumul Consolidated Holdings had in the extractives sector post August 2015 was the 3.2% shareholding in Highlands Pacific. The updated project and fiscal arrangements post Kumul restructure are shown in the figure below.

²³¹ Independent Public Business Corporation of Papua New Guinea (Amendment) Act 2012, <http://www.parliament.gov.pg/index.php/bills-and-legislation/view/independent-public-business-corporation-of-papua-new-guinea-amendment-act-2>

²³² Highlands Pacific Annual Report 2015, p64.- accessed 27 September 2017

²³³ Data provided by Kumul Consolidated Holdings in data template completed for this report 08 September 2017

Figure 48: Kumul Consolidated Holdings extractive projects and fiscal arrangements post August 2015



As part of the 2015 Kumul restructure, the GBT investment in Highlands Pacific will be transferred to Kumul Mineral Trust but at the time of writing this report, the transfer was still pending the completion of legal processes.²³⁴

9.2.3 Revenue and payment streams

The GBT is entitled to any dividends from the SOEs it owns. Some of this may be returned to the State through dividend declaration, apart from monies allocated to IPBC/KCH for its operations. The monthly budgetary allocation is disclosed in the IPBC/KCH operating budget, which is approved by the NEC.

Prior to August 2015, dividends from KPH would normally be paid to the IPBC, who informed us they would then seek to pass it, in its entirety, to Treasury. In 2015, KPH generated a dividend of PGK86.4 million. KCH responded in the reporting template as though this payment was first received by KCH and then paid to the State; however, Treasury confirmed the payment was made directly to Treasury.

A dividend payment was reported from KCH to the Treasury of PGK286.4 million. At the time this report was completed, Treasury were yet to confirm this amount. Based on analysis of the amount, this payment may be inclusive of the PGK86.4 million generated by KPH in 2015, but may also include advances paid by KPH for 2016.

KCH advised that the 3.2% share in Highlands Pacific has not generated any dividends to date. This is consistent with the Pacific Highlands Annual Report for 2015 that states 'Since the end of the previous financial year no amounts were paid or declared by way of dividend by the Company. The Directors do not recommend a final dividend in respect of the year ended 31 December 2015.'²³⁵

KCH reported that they did not receive any physical share of production or infrastructure provisions or barter arrangements from the extractive industry during the reporting period, and did not make any subnational payments or transfers.

KCH stated that they did not provide loans or loan guarantees to mining or oil and gas companies operating within the country during 2016.

²³⁴ Data provided by Kumul Consolidated Holdings in data template completed for this report 08 September 2017

²³⁵ Highlands Pacific Annual Report 2015, p. 25, accessed 3 October 2017, Highlands Pacific Annual Report 2016, p. 15, accessed 03 October 2017

9.2.4 Social and quasi-fiscal expenditure

KCH did not report any social or quasi fiscal expenditures relating to the extractive sector during the reporting period.

9.3 National Petroleum Company of PNG Ltd (NPCP) / Kumul Petroleum Holdings Ltd (KPH)

9.3.1 Creation, ownership and structure

The National Petroleum Company of Papua New Guinea (NPCP) has been through a series of changes of structure and name since it was first incorporated in June 2008 under the name Kroton No. 2 Ltd. In 2010 the name was changed to National Petroleum Company of PNG (Kroton) Ltd (NPCP Kroton), at which time it was mandated by the State to be a special purpose vehicle to hold and manage the State's 16.57% interest in the PNG LNG Project.

In 2011, the NEC directed that NPCP Kroton become a business unit of IPBC, with the company itself retained as a shelf company. However, on 30 January 2013, the NEC rescinded this decision, and directed that the company be revived and its full functions be restored.

On 2 September 2014, the NEC approved the establishment of NPCP Holdings Ltd as a wholly-owned subsidiary of IPBC and directed that all petroleum assets of the State, including the Oil Search shares held by Treasury,²³⁶ all petroleum assets held through Petromin and the NPCP Kroton shares held by IPBC, be consolidated into NPCP Holdings Ltd. The shares of NPCP Kroton Ltd held by IPBC were transferred to NPCP Holdings Ltd on 17 December 2014.²³⁷

The Kumul Petroleum Holdings Ltd Authorization Act 2015 was passed in June 2015, changing the name of NPCP Holdings Ltd to Kumul Petroleum Holdings Ltd (KPH), and making it the State nominee for all commercial matters relating to oil and gas projects.²³⁸ Immediately following the Act coming into operation, in October 2015 all issued shares, including any rights to receive dividends or distributions were transferred to the Kumul Petroleum Trustee. This transfer occurred without payment of any consideration to the IPBC, whether in its own right or in its capacity as trustee under the General Business Trust.

9.3.2 Projects and fiscal arrangements

Up to September 2015, NPCP Holdings Ltd, through its ownership of NPCP Kroton Ltd, held a 20.5% interest in four petroleum development licences: PDL 1 Hides, PDL 7 Hides, PDL 8 Angore and PDL 9 Juha.²³⁹ Together, these equate to a 16.57% interest in the PNG LNG project. NPCP's (now KPH's) participating interest is determined by the amount of gas committed to the project from a defined area within each of the four PDLs. KPH participates in the management of the PNG LNG project through representation on the operating, technical, and sales and marketing committees.²⁴⁰

²³⁶ 'The PNG Gov took a loan from the Australian arm of Swiss bank UBS in 2014 to buy a 10% stake in Oil Search. PNG mortgaged its expected revenue from the project for the loan and did not pass legislation in Parliament enabling the transaction. KPH sold the shares in 2017.' <http://www.afr.com/street-talk/ubs-jpm-in-oil-search-block-trade-20170920-gylmwg>, accessed 22 September 2017.

²³⁷ Kumul Petroleum Holdings Limited - About Us - History, <http://kumulpetroleum.com/about-us/history/>, accessed 16 October 2017

²³⁸ Kumul Petroleum Holdings Limited Authorisation Act 2015, <http://www.parliament.gov.pg/uploads/acts/15A-06.pdf> accessed 17 October 2017

²³⁹ 'PNG LNG Project,' Kumul Petroleum Holdings Limited, <http://kumulpetroleum.com/pnglng-project/> accessed 7 February 2017

²⁴⁰ Direct communication from Kumul Petroleum, 20 November 2015

KPH, through its co-ownership in PDL 1, also jointly sells gas to the Oil Search owned and operated gas to electricity plant (the Hides Project) The Hides Project buys gas from the PDL 1 partners, conditions and sells to the Barrick operated Porgera gold mine.²⁴¹

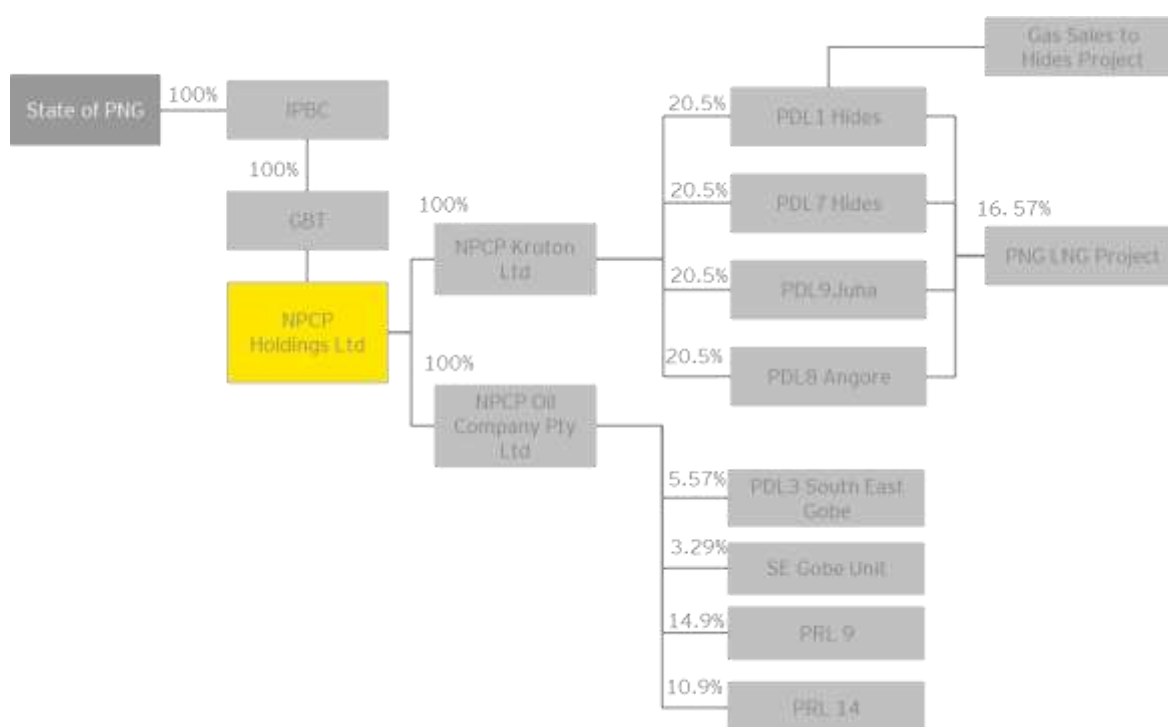
KPH informed us that the company has received dividends from the PNG LNG project since 2014, and that these are paid to Treasury as consolidated revenue.

KPH also holds interests in the following assets through its 100% ownership of NPCP Oil Company Pty Ltd. The company holds the following asset interests:²⁴²

- ▶ PDL 3: 5.568892%
- ▶ SE Gobe Unit: 3.285646%
- ▶ PRL 9: 14.894%
- ▶ PRL 14: 10.94%²⁴³

The projects and fiscal arrangements for NPCP up until September 2015 are outlined in Figure 49 below.

Figure 49: NPCP Holdings Ltd projects and fiscal arrangements up to September 2015



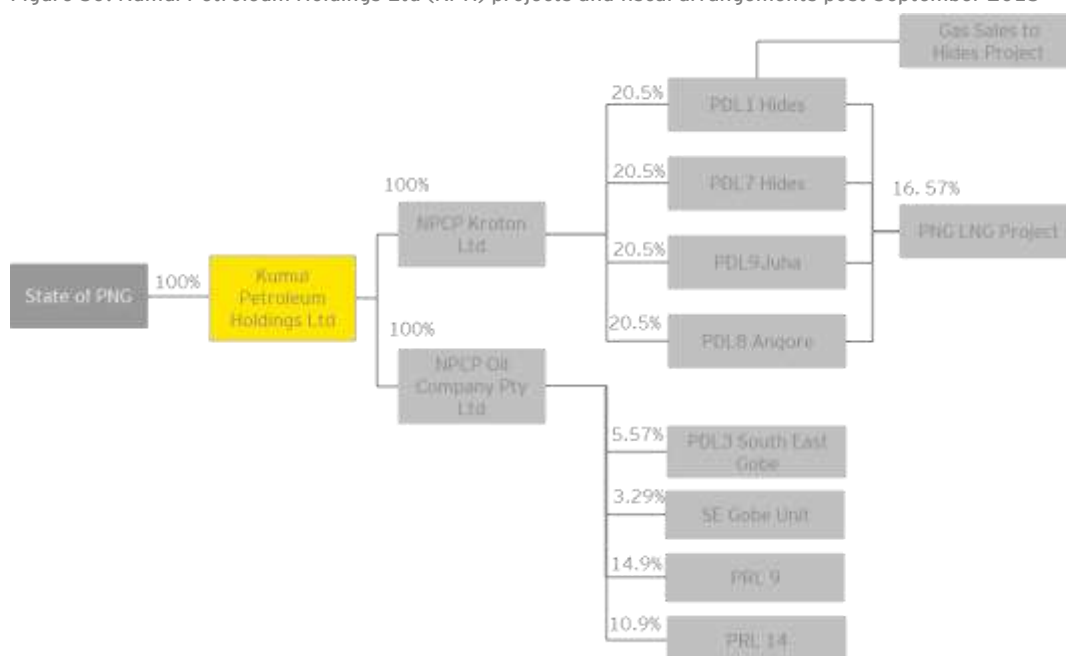
The projects and fiscal arrangements post September 2015 are outlined below:

²⁴¹ 'Gas Sales to Hides Project' Kumul Petroleum Holdings Limited, <http://kumulpetroleum.com/gas-sales-to-hides-project/> accessed 16 October 2017

²⁴² Cue completes the sale of Papua New Guinea portfolio, Cue Energy ASX release, 24 December 2014, http://www.cuenrg.com.au/irm/PDF/1846_0/CuecompletesthesaleofPapuaNewGuineaportfolio, accessed 16 October 2017

²⁴³ Direct communication from Kumul Petroleum, 20 November 2015

Figure 50: Kumul Petroleum Holdings Ltd (KPH) projects and fiscal arrangements post September 2015



KPH informed us that no subnational payments were made during the reporting period.

9.3.3 Revenue and payment streams

The gas produced by PNG LNG is jointly marketed through an incorporated entity known as GloCo which is jointly owned by co-venturers of the PNG LNG Project in proportion to their ownership in the project. Liquids produced are marketed individually (or grouped) through GloCo. GloCo may provide sales proceeds to partners net of lender and operating cost obligations (by way of borrower restricted payment) up to once per quarter. There were cash distributions in 2016 directly to the co-venture partners. GloCo is operated on behalf of all co-venture partners by ExxonMobil PNG Ltd, but it is not an ExxonMobil affiliate or subsidiary.²⁴⁴

These share of sales revenues were referenced by KPH as 'money not physically received'. We understand that the equity distribution payment (the borrower restricted payment) is the money actually received whereas the 'share of sales' is not received on a cash basis for the 2015 reporting year.

Table 28: Revenue and payments for KPH during 2015

Revenue/payment stream	Amount (PGK)	Comment
PNG LNG equity distribution (by way of borrower restricted payments)	1,003,577,758	
PDL 1 revenue (Hides GTE)	13,091,133	
Equity distributions from Oil Search shares	34,807,038	Oil Search pays dividends owned by KPH directly to JP Morgan. JP Morgan then pays KPH after they retain funds in accordance with the UBS loan. In 2015, JP Morgan received PGK 74,323,960 from Oil Search and paid KPH PGK 34,807,038.
Dividends paid to Treasury	86,400,000	
Advance payment to the State, to finance the 2015 Budget. ²⁴⁵	365,000,000	

²⁴⁴ Information provided by ExxonMobil in data template submission for this report, received 9 September 2017

²⁴⁵ Letter from Secretary of Treasury to KPH 'Debtor Confirmation' dated 18 April 2017 - copy provided to the IA

9.3.4 Social and quasi-fiscal expenditure

KPH reported that they made no mandatory or voluntary social payments during the reporting period.²⁴⁶

9.4 Petromin PNG Holdings Ltd

9.4.1 Creation, ownership and structure

Petromin PNG Holdings Ltd (Petromin), a 100% state-owned company, was created in 2007 to hold the State's assets and to maximise indigenous ownership and revenue gains in the mineral and oil and gas sectors. Its mission included encouraging more production and downstream processing of oil, gas and minerals in PNG through proactive investment strategies either wholly or in partnership with other investors.

In 2015, the following subsidiaries were owned by Petromin:

Table 29: Petromin subsidiaries in 2015

Subsidiary	Assets/interests
Eda Oil Ltd	Moran Petroleum project Holds a 20.5% interest in PDL5, which equates to 11.275% of the 'Moran Unit' a JV comprising PDL2, PDL5 and PDL6 portions of the Moran field operated by Oil Search (PDL2 & PDL6) and ExxonMobil (PDL5). Equity split is 44:55:1 to PDL2, PDL5 and PDL6 respectively. ²⁴⁷ The equity interest in the Moran Petroleum project was fully paid by Eda Oil. ²⁴⁸
Kumul LNG Ltd	PNG LNG project This wholly owned subsidiary of Eda Oil Ltd is a JV partner in the PNG LNG Project, with a 0.203709% interest that represents the share of gas from Eda Oil's 20.5% interest in PDL5. ²⁴⁹
Tolukuma Gold Mine Ltd	100% owner and operator of Tolukuma gold mine

Petromin also had other subsidiaries in 2015 that were special purpose vehicles incorporated to facilitate participation in emerging mining and petroleum projects, but which were not yet operational and are therefore not material for this report.²⁵⁰

With the 'Kumul consolidation agenda', Petromin was renamed Kumul Mineral Holdings Ltd in January 2016, and the remaining assets were divided between this entity and Kumul Petroleum Holdings.

9.4.2 Projects and fiscal arrangements

The Petromin Heritage Book provides a detailed overview of projects as at 2012, including finance arrangements.²⁵¹ Figure 51 below identifies the ownership structure of Petromin and its subsidiaries that were participating in active extractive industry projects in 2015.

²⁴⁶ Data provided by Kumul Petroleum Holdings Ltd in data template completed for this report, 4 October 2017

²⁴⁷ 'Petromin Group of Companies,' *Petromin PNG Holdings Ltd*, <http://www.petrominpng.com.pg/assets.html>, accessed 21 October 2016

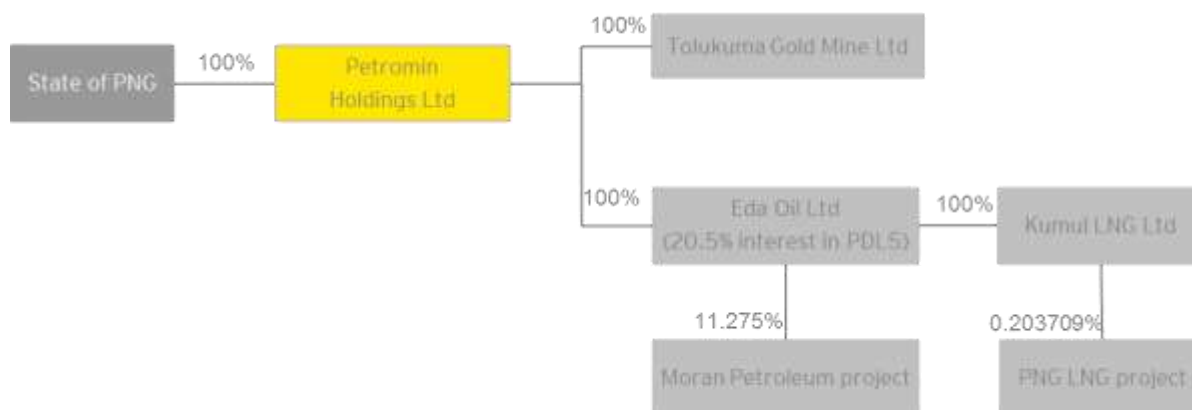
²⁴⁸ Data provided by Kumul Mineral Holdings in data template completed for this report, 30 August 2017

²⁴⁹ Petromin Group of Companies,' *Petromin PNG Holdings Ltd*, <http://www.petrominpng.com.pg/assets.html>, accessed 21 October 2016

²⁵⁰ Petromin Heritage Book, p.45 <http://www.petrominpng.com.pg/about/Petromin%20Heritage%20Book.pdf>, accessed 17 October 2017

²⁵¹ *ibid*

Figure 51: Ownership structure of Petromin projects and fiscal arrangements to October 2015

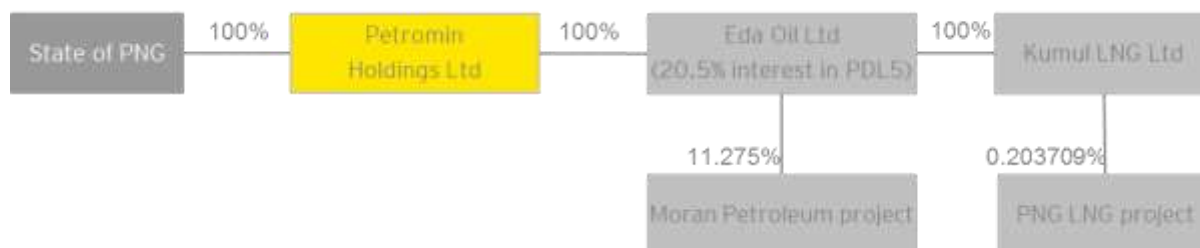


9.4.2.1 Tolukuma Gold Mine Ltd

Petromin purchased its first operating mine, the Tolukuma Gold Mine (TGM) through a Share Sale Agreement dated 5 February 2008 and began to operate the mine under its subsidiary, Tolukuma Gold Mines Ltd (TGML).

The sale of Tolukuma Gold Mines Ltd to Asidokona Mining Resources Pte Ltd of Singapore commenced on 7 October 2015.²⁵² For further information relating to the details and conditions of the sale, refer to Chapter 7. The ownership structure of the remaining active subsidiaries of Petromin post October 2015 are summarised in Figure 52 below.

Figure 52: Ownership structure of Petromin projects and fiscal arrangements post October 2015



9.4.2.2 Eda Oil Ltd

Eda Oil interest in the Moran petroleum project was previously managed by MRDC until its shares were transferred to Petromin consistent with the government's policy on management and development of state interest in the petroleum and mining project and as expressed by the Petromin Act, 2007. Thus, Petromin subsequently replaced the previous owner MRDC to manage and hold Eda Oil's participating interest in PDL 5 by way of accession to the MOUA and subsequent amendments and related agreements.²⁵³ Eda Oil's 20.5% interest in PDL5, equates to 11.275% of the 'Moran Unit' a JV comprising PDL2, PDL5 and PDL6 portions of the Moran field operated by Oil Search (PDL2 & PDL6) and ExxonMobil (PDL5). Equity split is 44:55:1 to PDL2, PDL5 and PDL6 respectively.²⁵⁴

²⁵² 'Petromin Completes Divestment Process On Tolukuma Gold Mine,' Petromin PNG Holdings Limited <http://www.petrominpng.com.pg/news/Press%20Release%20TGM%20Sale%20Completion%2010%20Dec%202015.pdf> accessed 21 October 2016

²⁵³ Petromin Heritage Book, p.45 <http://www.petrominpng.com.pg/about/Petromin%20Heritage%20Book.pdf>, accessed 17 October 2017

²⁵⁴ 'Petromin Group of Companies,' Petromin PNG Holdings Ltd, <http://www.petrominpng.com.pg/assets.html>, accessed 21 October 2016

9.4.2.3 Kumul LNG Ltd

Petromin, through its wholly owned subsidiary Eda Oil Ltd and its special purpose vehicle Kumul LNG Ltd held 0.2% interest in the PNG LNG project (Project). PNG LNG Gas Agreement was executed between the State and Project Sponsors on 22 May 2008. The project partners have jointly under relevant agreements agreed to develop the project as an integrated LNG project. The decision to integrate the interest has been recorded under the PNG LNG Coordinated Development and Operating Agreement (CDOA) executed on the 13 March 2008. Under the CDOA, the parties have agreed that it will govern their relationship as the owners of the Project and the conduct of operations to design, execution, operation and abandonment will be governed by it. The CDOA further defines each participant's interest in the Project consistent with their licences interest and provides the manner of calculating their interest. The Project required a legal entity to be created which each participating interest holders holding shares in it.

To achieve this purpose various documents were entered into by PNG LNG Global Company LLC ('GloCo')²⁵⁵ including:

- ▶ GloCo Shareholders Agreement
- ▶ PNG LNG Sales, Shipping and Finance Administration
- ▶ On-loan Agreement
- ▶ LNG Supply and Sales Commitment
- ▶ Liquids Supply and Sales Commitment
- ▶ Project Gas Sale and Purchase
- ▶ Liquid Sales, Head Charters
- ▶ Chartering GloCo Finance Agreements

The core finance documents include:

- ▶ the Common Terms Agreement
- ▶ Common Security Agreement
- ▶ Completion Agreement
- ▶ Transfer Restriction Agreement
- ▶ On-Loan Agreement
- ▶ Custody Agreement
- ▶ CDOA Power of Attorney
- ▶ State Direct Agreement
- ▶ Kumul Escrow Agreement and others as required

9.4.3 Revenue and payment streams

Kumul LNG Ltd received a share of sales from the PNG LNG project in 2015. From this, Kumul LNG's portion of royalty and development levy payments are made to the operator, ExxonMobil PNG. In practice, these payments may be deducted by the operator from the share of sales.

Eda Oil Ltd received a share of sales from the Moran Petroleum project in 2015. From this, Eda Oil's portion of royalty and development levy payments are made to the operator, Oil Search. In practice, these payments may be deducted by the operator from the share of sales.

²⁵⁵ Many key transactions relating to the PNG LNG project pass through the PNG LNG Global Company LLC ('GloCo'). This company, owned by project partners in proportion to their equity interests, was incorporated to facilitate financing for the project, and to manage all revenue, sales, marketing, ship chartering, operating costs and revenue payments to the State of PNG. GloCo provides sales proceeds to partners net of lender and operating cost obligations on a periodic basis in accordance with equity interest. GloCo is a shell company which has no staff; it is operated on behalf of the project partners by ExxonMobil, but is not an ExxonMobil affiliate or subsidiary.

No revenue was reported for Tolukuma mine in 2015 although the MRA has reported FOB value of PGK11,559,444 relating to 4,316oz of gold and 9,276oz of silver produced in 2015. No royalty or dividend payments were reported for Tolukuma gold mine.

A production levy payment of PGK123,909 was paid to the MRA in 2015 for production in the 2014 calendar year.

The State is paid a dividend as and when a dividend is declared by the Board. Dividends are paid to the Department of Finance. No dividends were paid by Petromin to the State in 2015.

9.4.4 Social and quasi-fiscal expenditure

Petromin/KMH reported that there were no social or quasi fiscal payments made during the reporting period.²⁵⁶

9.5 Ok Tedi Mining Ltd (OTML)

9.5.1 Creation, ownership and structure

Ok Tedi Mining Ltd (OTML) was incorporated in 1981 as the operator of the joint venture open pit mine at the Mt Fubilan copper, gold and silver deposit. After the exit of BHP in 2002, the shares owned by BHP were transferred to the Papua New Guinea Sustainable Development Program (PNGSDP). The PNGSDP is a not-for-profit company limited by guarantee which was incorporated on 20 October 2001 in Singapore.²⁵⁷ In 2011, shares owned by Canadian company Inmet Mining Corporation were bought and then cancelled by OTML and, on 19 September 2013, OTML became a 100% state-owned entity with the passing of the *Ok Tedi (10th Supplemental Agreement) Act 2013* by Parliament.²⁵⁸ At this time, shares held by PNGSDP were cancelled and new shares were issued by the State. The State was also given 'all necessary powers to restructure PNGSDP and its operations to ensure that PNGSDP applies its funds for the exclusive benefit of the people of the Western Province.'²⁵⁹ The agreement that formed the PNGSDP has since been the subject of litigation, both during the reporting period²⁶⁰ and most recently when a trial between the parties in the Singapore High Court was postponed after being scheduled to take place on 4 October 2016.²⁶¹

The ownership structure of OTML during the 2015 reporting period is summarised in Figure 53 below.²⁶²

²⁵⁶ Data provided by Kumul Mineral Holdings in data template completed for this report, 30 August 2017

²⁵⁷ Independent State of Papua New Guinea v PNG Sustainable Development Program Ltd [2016] SGHC 19 [http://www.supremecourt.gov.sg/docs/default-source/module-document/judgement/-2016-sghc-19-\(amended-26-feb\)-pdf.pdf](http://www.supremecourt.gov.sg/docs/default-source/module-document/judgement/-2016-sghc-19-(amended-26-feb)-pdf.pdf) accessed 17 October 2017

²⁵⁸ 'History', *Ok Tedi Mining*, <http://www.oktedi.com/about-us/history>, accessed 7 February 2017

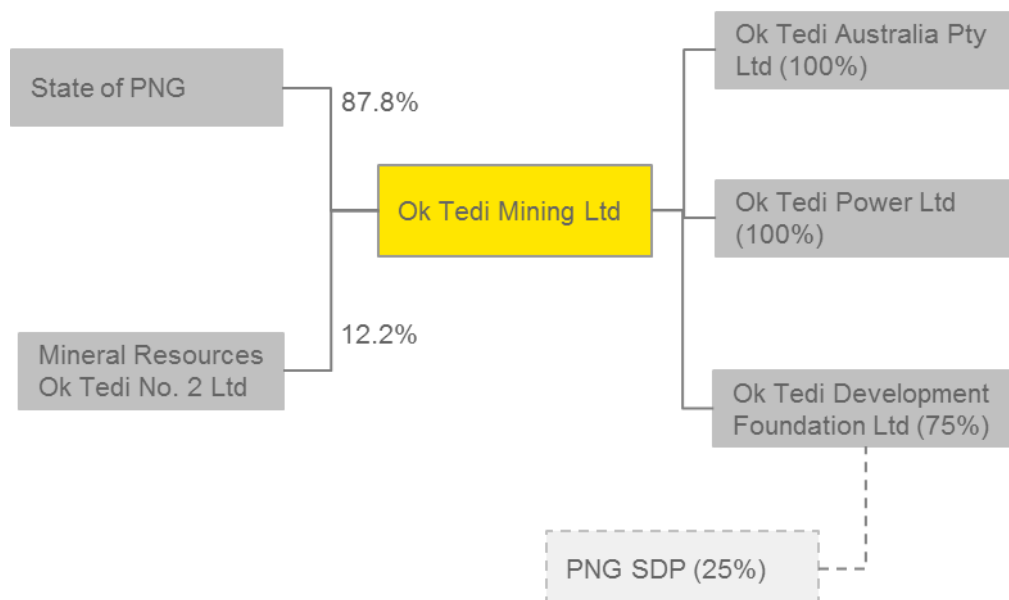
²⁵⁹ Mining (Ok Tedi Tenth Supplemental Agreement) Act 2013 (PNG) http://www.parliament.gov.pg/uploads/acts/13A_09.pdf accessed 17 October 2017

²⁶⁰ Independent State of Papua New Guinea v PNG Sustainable Development Program Ltd [2016] SGHC 19 [http://www.supremecourt.gov.sg/docs/default-source/module-document/judgement/-2016-sghc-19-\(amended-26-feb\)-pdf.pdf](http://www.supremecourt.gov.sg/docs/default-source/module-document/judgement/-2016-sghc-19-(amended-26-feb)-pdf.pdf) accessed 17 October 2017

²⁶¹ Prime Minister of Papua New Guinea, SDP Should not be Treated as a Retirement Fund by Sir Mekere Oct 18, 2016 <http://www.pm.gov.pg/sdp-should-not-be-treated-as-a-retirement-fund-by-sir-mekere/> accessed 17 October 2017

²⁶² Ok Tedi Mining Limited Annual Review 2013, p.18, <http://www.oktedi.com/media-items/publications/annual-review/220-2013-annual-review/file> accessed 17 October 2017

Figure 53: Ownership structure of OTML



The State of PNG's holding is set to be reduced to 67% following the decision of the National Executive Council (NEC) in 2016 that the Fly River Provincial Government and specific purpose community entities will move to hold 33% direct equity.²⁶³ This decision is expected to be formalised in 2017 through the execution of relevant share transfers.²⁶⁴

OTML had three subsidiaries during the reporting period:

- ▶ **Ok Tedi Australia Pty Ltd** is the marketing and Australian logistics arm of OTML, based in Brisbane (wholly owned subsidiary)
- ▶ **Ok Tedi Power Ltd** manages the Kiunga power operation and mini grids in Western Province. It was incorporated in June 2014 after the PNG Sustainable Development Program transferred its power assets in the Western Province to the Fly River Provincial Government (wholly owned subsidiary)
- ▶ **Ok Tedi Development Foundation Ltd** is a non-profit entity established to manage the development benefits and delivery of tax credit scheme and community projects to the 157 villages in the Community Mine Continuation Agreement (CMCA) area of the Western Province (75% ownership; the remaining 25% is vested in PNG Sustainable Development Program)

9.5.2 Projects and fiscal arrangements

OTML operates the Ok Tedi Mine at Mt Fubilan in the Star Mountains of Western Province. In 2015, the mine only operated from January to August, due to severe dry weather conditions. Operations resumed in March 2016.²⁶⁵ OTML also holds a portfolio of exploration leases in the vicinity of its Mt Fubilan mining operations.²⁶⁶

²⁶³ Decision 183/2016 of the National Executive Council 'Allocation of Direct Equity in OTML to Fly River Provincial Government, CMCA and Mt Fubilan Landowners (33% Direct Equity in OTML)'

²⁶⁴ Ok Tedi Mining Limited Annual Review 2016, p.17, <http://www.oktedi.com/media-items/publications/annual-review/488-2016-annual-review/file>. Accessed 27 September 17

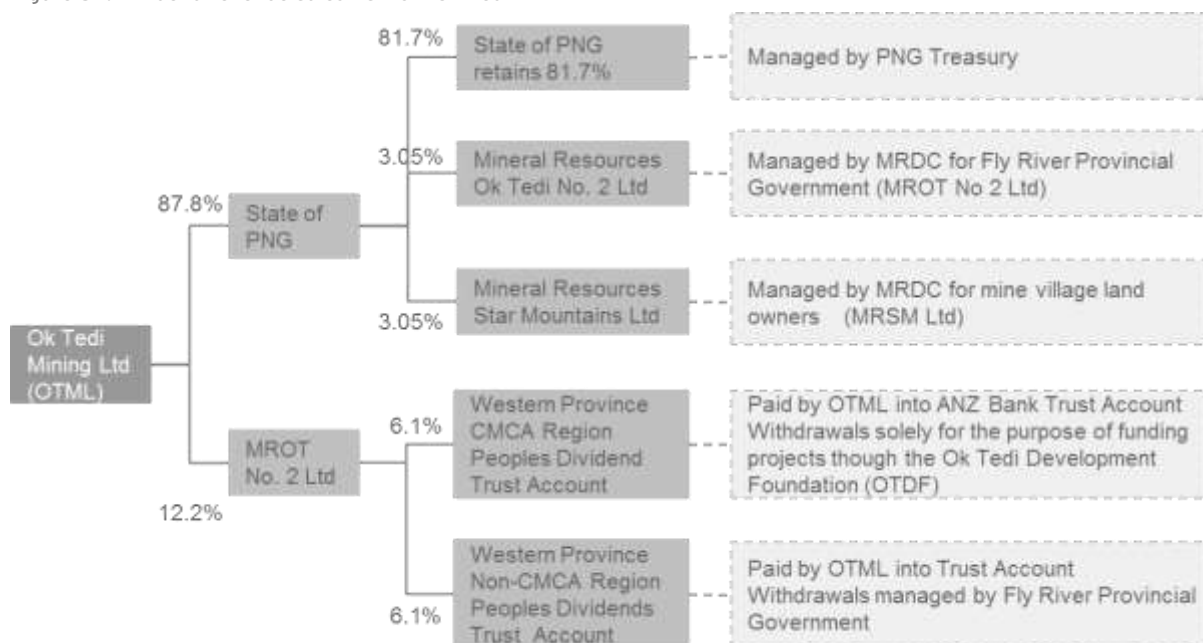
²⁶⁵ Ok Tedi Mining Limited Annual Review 2016, p.2, <http://www.oktedi.com/media-items/publications/annual-review/488-2016-annual-review/file>. Accessed 27 September 2017

²⁶⁶ Ok Tedi Mining Limited, <http://www.oktedi.com/>, accessed 7 February 2017

The OTML 2016 Annual Review²⁶⁷ outlined the following distribution of dividends for OTML:

- ▶ The Memorandum of Agreement (MOA) between the State of PNG and Fly River Provincial Government outlines that dividends equal to 3.05% be directed to Fly River Provincial Government (MROT No. 2 Ltd) and 3.05% to the Mine Village Land Owners (Mineral Resources Star Mountains Ltd)
- ▶ NEC decision 29/11/06 and MRA 02/08/07 direct 6.1% to the Western Province Peoples Dividend Trust Account - CMCA and 6.1% to the Western Province Peoples Dividend Trust Account - non-CMCA.

Figure 54: Dividend revenue streams from Ok Tedi



The 3.05% dividend payments outlined in the above figure are managed by MRDC as trustee under management arrangements for MROT No. 2 (FRPG) and MRSM. Further information is included in the MRDC section of this report on p. 111.

The Western Province Community Mine Continuation Agreement (CMCA) payments are agreed between the 157 village communities affected by the operations of the mine, and OTML.²⁶⁸ These villages are grouped into nine trust regions that receive cash compensation, investment and development payments from OTML including dividend payments of 6.1%. The Ok Tedi Development Foundation is the only company that can submit and receive project funds from this account to implement projects in the mine village and CMCA corridor. An equal dividend payment is also made to the non-CMCA region (6.1%) which is not recognised in these agreements. The Fly River Provincial Government is responsible for project submissions and delivery in relation to this fund.

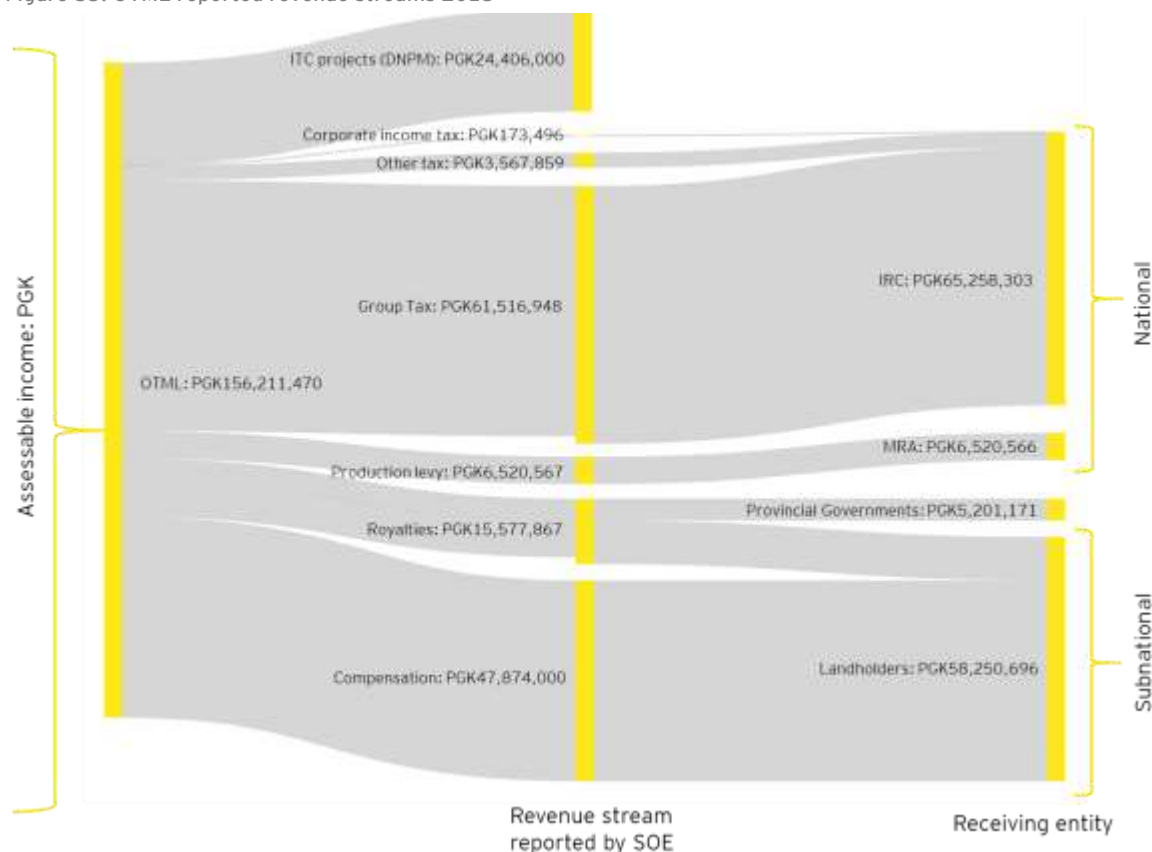
9.5.3 Revenue and payment streams

The figure below summarises the revenue streams reported by OTML and the receiving entities for 2016.

²⁶⁷ No Annual Review was issued for 2015

²⁶⁸ Ok Tedi Mining Limited, Annual Review, 2016, p.66 <http://www.oktedi.com/index.php/media-items/publications/annual-review/488-2016-annual-review/file>, accessed 17 October 2017

Figure 55: OTML reported revenue streams 2015



There were no dividends distributed in 2015, as the mine was not operating for eight months of the year.²⁶⁹

OTML confirmed that they did not provide any loans or loan guarantees to mining or oil and gas companies operating in the country during 2015.²⁷⁰

9.5.4 Social and quasi-fiscal expenditure

OTML supports community development through a number of mechanisms. These include:

- ▶ Contributing funding to the Ok Tedi Development Foundation (OTDF) which delivers and manages the major social responsibility programs for the CMCA communities. During 2015, the delivery of the OTML Community Health Program was also transferred to the OTDF.²⁷¹
- ▶ Compensation payments
- ▶ Voluntary donations
- ▶ Funding social infrastructure projects through the tax credit scheme (TCS)
- ▶ Providing subsidised power to Fly River Provincial Government through Ok Tedi Power Ltd

²⁶⁹ Ok Tedi Mining Limited, Annual Review, 2016, p.66 <http://www.oktedi.com/index.php/media-items/publications/annual-review/488-2016-annual-review/file>, accessed 17 October 2017

²⁷⁰ Reporting template received from OTML for this report. Received 30 August 2017

²⁷¹ Ok Tedi Development Foundation Annual Report 2015, <https://www.otdfpng.org/wp-content/uploads/2017/03/OTDF-Annual-Report-2015.pdf> accessed 17 October 2017

- ▶ Goods purchased in PNG (including contractors)

Details of OTML's social expenditures for the reporting period can be seen in Appendix B.

OTML confirmed that they had no loan agreements with the government during 2015.²⁷²

9.6 Mineral Resources Development Company Ltd (MRDC)

9.6.1 Creation, ownership and structure

The Mineral Resources Development Company Ltd (MRDC) is a 100% state-owned enterprise, established by an act of parliament. It sits directly under the Prime Minister's office, with the Chief Secretary acting as Chair of the MRDC board.

MRDC acts as a trustee shareholder for beneficiary landowners and provincial governments. MRDC outlines its role as:

- ▶ Acquiring, financing and managing equity interest in mining and petroleum projects for and on behalf of the State, landowners and provincial governments in the most cost effective way
- ▶ Payment of royalty and equity to petroleum project landowners
- ▶ Holding and managing landowner and/or provincial government interests in mining and petroleum projects
- ▶ Making prudent investments in diversified and safe businesses to sustain income beyond the mine, oil and gas years when those non-renewable resources are exhausted
- ▶ Developing community infrastructure and assisting with providing basic services to project area landowners.²⁷³

Under the OGA, the MRDC is responsible for managing petroleum royalties, future generation and community infrastructure trust funds. The act specifies that the benefits of equity held by the State 'shall be received and held upon trust for those persons by a corporate trustee which is wholly owned by MRDC.'²⁷⁴ An NEC decision in 2009 gave MRDC the mandate to manage and implement Memorandum of Agreement (MoA) funds associated with petroleum projects.²⁷⁵

The Mining Act 1992 allows for the MRDC to hold the State's interest, but does not mandate it; consequently, not all mining operations have an associated MRDC subsidiary.

MRDC has three mechanisms by which it holds or manages interests on behalf of the government of PNG:

- ▶ Management of landowner / provincial government interests in resources projects, as trustee, under a management agreement.²⁷⁶
- ▶ Direct equity in resource projects, including the following:

²⁷² Reporting template received from OTML for this report. Received 30 August 2017

²⁷³ Mineral Resources Development Company: Trustee of the Natural Resources for the People of Papua New Guinea', 2014?, p. 3, provided directly by MRDC, 24 Nov 2015

²⁷⁴ *Oil and Gas Act* s.176

²⁷⁵ Company Profile document emailed from MRDC, p. 5

²⁷⁶ We believe only Mineral Resources Enga comes into this category, but are awaiting confirmation from MRDC

- ▶ 7% interest in Highlands Pacific Ltd
 - ▶ 3.94% in the Ramu Nickel Project
- ▶ Subsidiary companies that hold equity interests in trust for landowners. The boards of these companies are chaired by landowners.²⁷⁷

9.6.2 Projects and fiscal arrangements

The *Oil and Gas Act 1998* (Section 176) sets out in some detail the structure and functions of landholder trusts. The activities and management of each trust are set out in a trust deed that specifies who the beneficiaries are, rules under which the trust is operated, and who the trustee is. Petroleum trusts specify the composition of the board of directors for the trusts, which includes the Managing Director of MRDC, the Secretary of DPE and three landholder representatives.²⁷⁸

The beneficiaries are incorporated land groups (ILGs) – legal entities recognised by the State as representing the local land owners. These are established before a lease is granted through a process of social mapping and a development forum that brings together the landowners, local and national government with the prospective leaseholder to agree the distribution of benefits. In some cases there are ongoing disputes or uncertainties regarding the correct identification of beneficiaries.

MRDC manages the assets on behalf of these beneficiaries. It is responsible for managing receipts and payments for each subsidiary company and ensuring liquidity; managing legal and administrative requirements; managing the administration of sales for entities which are entitled to a share of production (e.g. Porgera and PNG LNG); and administration of the landowner trust fund accounts. MRDC does not receive any in-kind revenue other than a share of production, and does not have any infrastructure provisions or barter arrangements in place.

MRDC itself is maintained by management fees from each subsidiary company. There is no fixed rate for these, and a clear explanation of the fee arrangements could not be obtained..

Royalty payments from oil and gas projects go from extractive industry companies to DPE and/or the Department of Finance,²⁷⁹ and from there to MRDC.

Royalty and equity dividend payments for each project are divided as follows:

- ▶ 30% is allocated to a ‘Future Generation Trust Fund’, ‘for future generations of project area landowners’.²⁸⁰ This is intended to provide landholder groups with a flow of benefits after the life of the project. To date no FGTF monies have been spent, in accordance with legal requirements
- ▶ 30% is allocated to a ‘Community Investment Trust Fund’ to be applied to ‘(a) the general health, welfare, education and wellbeing of the project area landowners; (b) the provision or maintenance of community projects in the area of the petroleum project; (c) such other purpose for the benefit of the project area landowners as is approved by the Minister.’²⁸¹ This is intended to ensure that ‘some of the revenue is invested in infrastructure for the whole community to improve quality of life’.²⁸² Decisions on when and how to allocate these funds are made by the board of the subsidiary company

²⁷⁷ Mineral Resources Development Company: Trustee of the Natural Resources for the People of Papua New Guinea’, 2014?, p. 4, provided directly by MRDC, 24 Nov 2015

²⁷⁸ *ibid*

²⁷⁹ See discussion in Oil and Gas chapter re ExxonMobil payments.

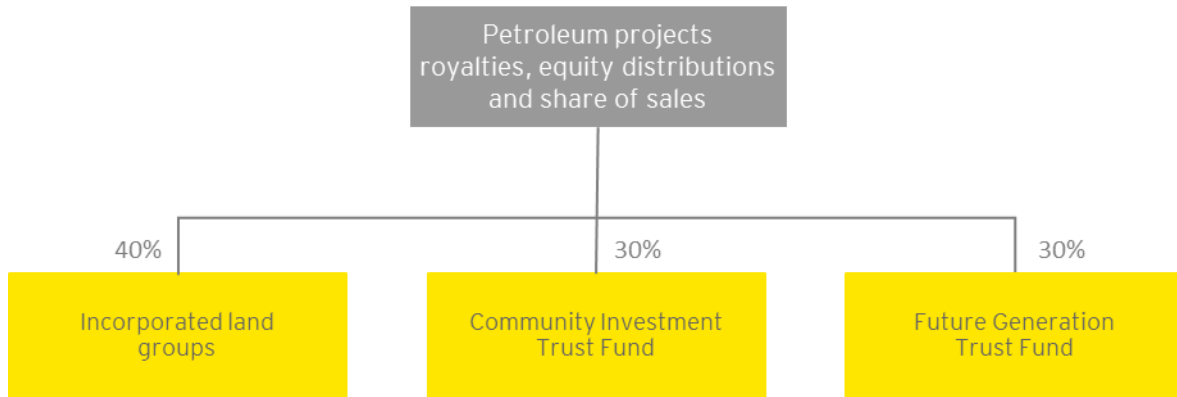
²⁸⁰ *Oil and Gas Act* p. 147

²⁸¹ *ibid*

²⁸² ‘Mineral Resources Development Company: Trustee of the Natural Resources for the People of Papua New Guinea’, p.4, undated (2014?), provided directly by MRDC, 24 Nov 2015

- ▶ 40% is paid as cash to landowners (Incorporated Land Groups). Benefit Sharing Agreements may also specify payments to relevant provincial and local governments.

Figure 56: MRDC revenue distributions



MRDC advised that all trust accounts have been audited through to 2015, and that they are currently working on publication of the 2010-12 accounts. MRDC advised that they provide loans to their own subsidiaries but not to any external organisations. They confirmed that both the organisation itself and all its subsidiaries are subject to corporate income tax.

9.6.3 Revenue and payment streams

MRDC provided the information in the table below in relation to their subsidiary entities and the associated trusts for the year 2015.

Table 30: MRDC reported receipts and payments for 2015

Provincial Government	Subsidiary/trust entity	Associated Project	Receipts			Payments		
			Royalty (PGK)	Equity distribution (PGK)	Share of sales (PGK)	Incorporated land groups (PGK)	Community Investment Trust Fund (PGK)	Future Generations Trust Fund (PGK)
Madang	Mineral Resources Ramu Ltd	Ramu Nickel Project	0	0				
Enga	Mineral Resource Enga Ltd (MRE)	Porgera Mine	1,665,977		89,981,274			
Southern Highlands	Petroleum Resources Kutubu Ltd (PRK)	Oil Search operated oil field	1,430,394	20,000,000	70,459,457		6,429,118	6,429,118
Gulf and Southern Highlands	Petroleum Resources Gobe Ltd (PRG)	Oil Search operated oil field	53,189		2,635,188		15,957	15,957
Southern Highlands	Petroleum Resources Moran Ltd (PRM)	Oil Search operated oil field	71,811		4,927,344		21,543	21,543
Southern Highlands	Petroleum Resources North West Moran Ltd (PRM)	Oil Search operated oil field			99,824			
Western (Fly River Provincial Government)	Mineral Resources Star Mountains Ltd (MRSM)	Ok Tedi						
Western (Fly River Provincial Government)	Mineral Resource Ok Tedi No. 2 Ltd (MROT)	Ok Tedi						
Western (Fly River Provincial Government)	Mineral Resource Madang Ltd (MRM)	Ok Tedi	-	-				
	Gas Resources Gigira		687,448		138,226,759		206,234	206,234
Gulf and Southern Highlands	Gas Resources Gobe		13,717		4,357,419		4,115	4,115
Southern Highlands	Gas Resources Angore	ExxonMobil-operated gas fields	80,758		16,103,597		24,227	24,227
Southern Highlands	Gas Resources Hides	ExxonMobil-operated gas fields	137,782		27,356,253		41,335	41,335

Provincial Government	Subsidiary/trust entity	Associated Project	Receipts			Payments		
			Royalty (PGK)	Equity distribution (PGK)	Share of sales (PGK)	Incorporated land groups (PGK)	Community Investment Trust Fund (PGK)	Future Generations Trust Fund (PGK)
Western (Fly River Provincial Government)	Gas Resources Juha	ExxonMobil-operated gas fields	80,654		16,068,080		24,196	24,196
Southern Highlands	Gas Resources Kutubu		650,276	20,000,000	132,683,980		6,195,083	6,195,083
Southern Highlands	Gas Resources Moran		11,931		3,695,864		3,579	3,579
	Gas Resources North West Moran		464		67,614		139	139

9.6.4 Social and quasi-fiscal expenditure

MRDC reported discretionary social expenditure of PGK697,429 during the reporting period. Details of beneficiaries were not provided, but previous EITI reports have stated that MRDC manages social infrastructure projects as a direct contribution to its communities, with examples including building classrooms in Ok Tedi and health centres in Moran. MRDC did not report any quasi-fiscal expenditure for the 2016 reporting period.

10. Reconciliation of revenue streams

This chapter compares the amounts reported as paid by the extractive industries to government entities against the receipts reported by government. The reconciliation covers material revenue streams from all mining and oil and gas companies that had interests in operations producing saleable commodities during 2015, together with all SOEs and government entities that received payments. In addition, government entities have unilaterally declared some revenue streams as an aggregated figure. Where amounts have not been reconciled, this has been noted.

10.1 The reporting process

The majority of reporting entities were identified early in the reporting process and representatives were invited to attend a training session conducted by the IA in Port Moresby on 5 July 2017. Some additional reporting entities were identified through subsequent research and consultation. These reporting entities (mainly mining companies) were briefed on requirements via phone and email.

Following this training session, the IA emailed each reporting entity a data pack containing:

- ▶ Introduction letter from the PNG EITI Secretariat
- ▶ Tailored reporting template, which set out:
 - ▶ Revenue/payment streams to be reported
 - ▶ Relevant questions on non-financial information
- ▶ A copy of the training presentation

The data pack for each of the mining companies, oil and gas companies, and SOEs also included a Tax Waiver Letter (TWL), which they were asked to sign and return. The TWL explicitly waived the entities' rights to confidentiality of payments to the IRC (which is otherwise provided by legislation), and enabled the IRC to disclose their relevant payments to the independent administrator.

The IA arranged meetings with most entities to walk through the reporting templates, provide guidance on the information provided, and answer any questions.

Following the data collection deadline, an initial reconciliation was carried out by the IA and variances identified. Variances of more than 5% have been deemed material.

To understand and address the variances identified, the IA, with the assistance of the PNG EITI Secretariat and the MSG, contacted both paying and receiving entities for subsequent discussions. In most cases, meetings were arranged with both the reporting and receiving entities to understand discrepancies in reported amounts. During these meetings, and in subsequent communications with reporters, progress was made in rectifying these differences. In some instances however, it proved difficult to identify suitable contacts, or the IA's communications went unanswered. The IA followed up on these entities, but nevertheless there remain gaps in the report.

10.1.1 Data requested

As agreed with the MSG, one of two approaches was adopted for requesting and collecting data for each revenue stream:

1. **Reconciled revenue streams:** data collected from both the paying and receiving entity
2. **Unilaterally disclosed revenue streams:** data collected from either paying or receiving entity only

For most revenue streams, data was requested from both the paying and receiving entity, so the amounts could be reconciled. In the following instances, the MSG agreed that data would be collected unilaterally:

- ▶ Group tax (collected by IRC)
- ▶ Mandatory and voluntary social expenditure (reported by companies - see also discussion in Chapter 9)
- ▶ Payments to subnational entities
- ▶ Quasi-fiscal payments
- ▶ Transfers between SOEs and other government agencies
- ▶ Licence fees received by DPE, MRA and CEPA

Together, the revenue streams reconciled equate to approximately 96% of total known revenue from the sector in 2015 (see Figure 58).

The decision not to reconcile group tax was made by the MSG in 2015.²⁸³ At the time, it was noted that a significant portion of group tax associated with the extractive industry was from companies associated with projects that were not producing during the 2013 reporting period, and were therefore not reporting entities according to the definition of material companies.²⁸⁴ With the PNG LNG project now in operation, this situation has changed. All available information regarding group tax for 2015 has been included in the reconciliation and the IA has made a recommendation to reconcile in future years (See Chapter 11).

10.1.2 Reporting compliance

The completeness of information received from each of the reporting entities is summarised in the table below:

²⁸³ MSG meeting minutes, 17 April 2015, <http://www.pngeiti.org.pg/wp-content/uploads/2016/03/2015.04.13-MSG-Meeting-2-Minutes.pdf> accessed 27 November 2017

²⁸⁴ Recommendation to reconcile in future years (See Chapter11)

Table 31: Summary of information provided by reporting entities

Reporting entity	Reporting template		Signed tax waiver
	Draft	Signed	
Mining			
Tolukuma Gold Mines Ltd	Yes	No	No ²⁸⁵
Lihir Gold Ltd	Yes	No	Yes
Barrick (Niugini) Ltd	Yes	Yes	Yes
Hidden Valley Joint Venture	Yes	No	Yes
MCC Ramu NiCo Ltd (Ramu)	Yes	No	Yes
Ramu Nickel Ltd	Yes	Yes	Yes
Simberi Gold Company Ltd	Yes	Yes	Yes
Niuminco Group Ltd	No	No	Yes
Oil and gas			
ExxonMobil PNG Ltd (and subsidiaries)	Yes	Yes	Yes
Oil Search Ltd	Yes	Yes	Yes
Santos Ltd (and subsidiaries)	Yes	No	Yes
JX Nippon Oil and Gas Exploration Corporation (and subsidiaries)	Yes	Yes	Yes
Government			
Internal Revenue Commission (IRC)	Yes	No	N/A
Mineral Resources Authority (MRA)	Yes	Yes	N/A
Department of Treasury	Yes	Yes	N/A
Department of Finance (DOF)	No	No	N/A
Department of Petroleum and Energy (DPE)	Yes	Yes	N/A
Department of National Planning and Monitoring	Yes	Yes	N/A
Conservation and Environment Protection Authority (CEPA)	Yes	No	N/A
SOEs			
Independent Public Business Corporation (IPBC) / Kumul Consolidated Holdings Ltd (KCH)	Yes	Yes	N/A
National Petroleum Company PNG Holdings Ltd /Kumul Petroleum Holdings Ltd (and subsidiary)	No	No	Yes
Kumul Minerals Holdings Ltd (formerly Petromin)	Yes	Yes	Yes
Ok Tedi Mining Ltd (OTML)	Yes	Yes	Yes
Mineral Resources Development Company (MRDC)	Yes	Yes	Yes

²⁸⁵ During 2015, Tolukuma Gold Mine was owned by Petromin (now Kumul Minerals Holdings Ltd). A signed tax waiver was received from KMH so IRC was able to release data for that period.

10.2 Data quality and assurance

As with the 2014 EITI report, the MSG agreed that the data templates provided by reporting entities should be signed by an authorised company representative, confirming that reported amounts are materially consistent with the audited financial statements.

It should be noted, however, that most government departments and agencies, and some SOEs, do not yet have audit statements for the reporting period, and that previous audit statements indicate serious flaws (see further in section 10.5). Improved data assurance was the subject of a recommendation in previous reports (see section 11.1)

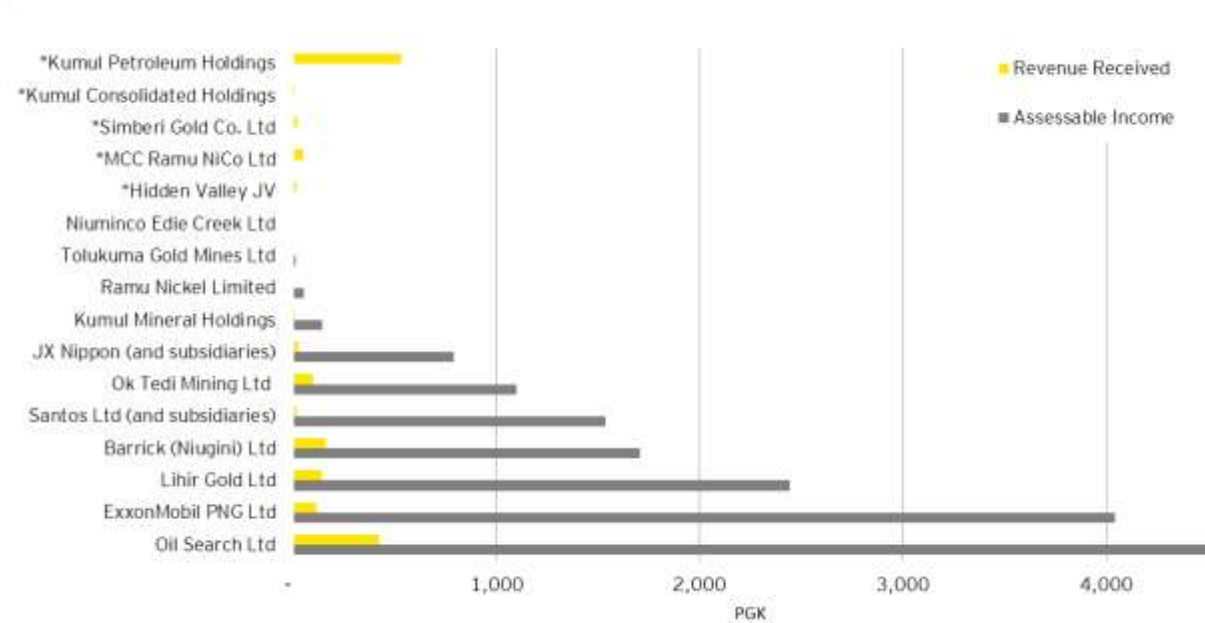
The audit status for all reporting entities is summarised in section 10.5 below.

10.3 Reconciliation overview

To put these reported revenue streams in context, the chart below highlights a comparison between the assessable income (where this data was provided by IRC or reporting entity) and State revenue received as identified through this data reconciliation process.

The revenue streams represented in the chart below include corporate income tax, development levies, dividends, equity distributions, group tax, foreign contractor withholding tax, infrastructure tax credits, production levies and royalties. Note that mandatory and voluntary social expenditure has not been included here.

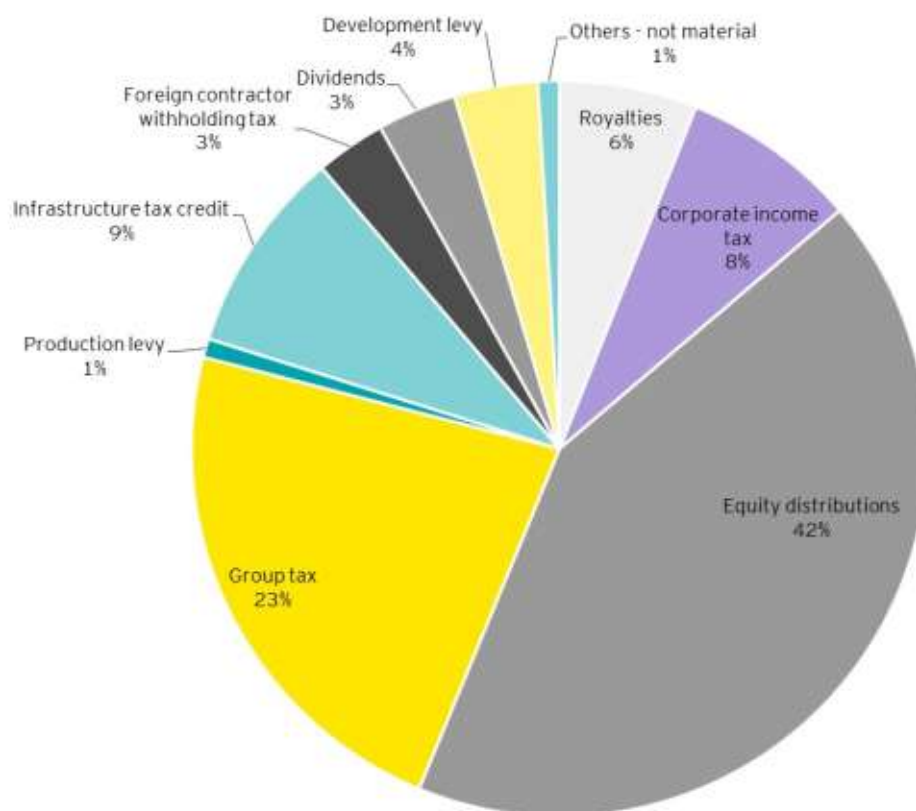
Figure 57: Comparison of assessable income and State revenue received



*No assessable income information received from these entities

Figure 58 below shows the relative size of each of the revenue streams received by the State in 2015.

Figure 58: Revenue streams summary, 2015



The table below summarises the reported amounts for each revenue stream.

Table 32: Summary of revenue streams reported 2015

	Revenue stream	Reconciled/unilateral	Receiving entity	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)
Mining	Production levy	Reconciled	MRA	20,321,174	20,336,502	(15,328)	(0.08)
	MRA fees	Unilaterally declared (MRA)	MRA	n/a	5,587,804	n/a	n/a
Oil & gas	Development levy	Reconciled	Finance (via DPE)	90,763,062	16,136,232	74,626,830	82.22
	Licence fees	Unilaterally declared (DPE)	DPE	n/a	4,497,944	n/a	n/a
	Additional profits tax	Reconciled	IRC	365,585	0	365,585	100.00
	Equity distributions	Unilaterally declared (KPH)	KPH	n/a	1,016,668,891	n/a	n/a
	Equity distributions (Oil Search shares)	Reconciled	KPH	74,323,960	34,807,038	39,516,922	53.17

	Revenue stream	Reconciled/unilateral	Receiving entity	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)
	Share of sales ²⁸⁶	Unilaterally declared (SOEs)	State partners in PNG LNG	2,442,860,571	0	n/a	n/a
Mining and petroleum	Mandatory social expenditure	Unilaterally declared (companies)	See section 6.5	146,905,425	n/a	n/a	n/a
	Discretionary social expenditure	Unilaterally declared (companies and SOEs)	See section 6.5	72,856,766	n/a	n/a	n/a
	Dividends	Reconciled	State (Treasury)	372,800,000	86,400,000	286,400,000	76.82
	Group tax	Partially reconciled	IRC	500,453,862	563,980,366	(63,526,504)	(11)
	Corporate income tax	Reconciled	IRC	98,480,705	191,619,705	(93,139,053)	(48.61)
	Infrastructure tax credits (offset against income tax payable)	Reconciled	IRC	30,750,233	61,888,348	(31,138,115)	(50.31)
	Infrastructure tax credits	Reconciled	IRC	280,010,567	222,518,923	57,491,645	25.84
	Other Taxes	Unilaterally declared (IRC)	IRC	n/a	88,107,808	n/a	n/a
	Special support grants	Unilaterally declared (Treasury)	Provincial governments, special purpose authorities	100,109,000	n/a	n/a	n/a
	Environmental permit fees	Unilaterally declared (CEPA)	CEPA	n/a	4,099,834	n/a	n/a
	Royalties	Reconciled	DPE, MRA, landowners and subnational governments	225,037,671	150,419,495	74,618,176	49.61

10.4 Detailed reconciliation

In this section of the report, the data received from each of the reporting entities is reconciled with the data reported by the receiving entity for each revenue stream.

Where possible, explanations are given for any material variances remaining following the reconciliation process - see the 'Remarks' under each revenue stream.

Reported amounts for revenue streams unilaterally declared are also included in this section.

²⁸⁶ Note that this figure does not represent cash received during reporting period - see further discussion in section 9.3.3.

10.4.1 Mining and oil and gas payments

10.4.1.1 Corporate income tax (mining and petroleum tax)

Corporate income tax is paid by resource companies (including SOEs) to the IRC.



Corporate income tax reported by companies is reconciled with data reported by the IRC in the table below.

Table 33: Reconciliation of corporate income tax payments

Company	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Barrick (Niugini) Ltd	0	0	0	0.00	
Eda Oil Ltd	0	0	0	0.00	
ExxonMobil PNG Ltd	49,874,687	51,496,031	(1,621,344)	-3.15	
Hidden Valley JV	0	0	0	0.00	
JX Nippon (and subsidiaries)	26,597,998	27,217,848	(619,850)	-2.28	
Kumul Consolidated Holdings Ltd	0	0	0	0.00	
Kumul LNG Ltd	0	0	0	0.00	
Kumul Mineral Holdings Ltd	0	Not Reported	n/a	n/a	
Kumul Petroleum Holdings Ltd	Not Reported	73,834,682	(73,834,682)	(100.00)	A
Lihir Gold Ltd	0	0	0	0.00	
MCC Ramu NiCo Ltd	0	0	0	0.00	
Niuminco Edie Creek Ltd	Not Reported	0	n/a	n/a	
Oil Search Ltd	3,839,196	3,882,454	(43,258)	(1.11)	
Ok Tedi Mining Ltd	173,496	173,496	0	0.00	
Ramu Nickel Ltd	0	0	0	0.00	
Santos Ltd (and subsidiaries)	17,995,328	18,654,992	(659,664)	(3.54)	
Simberi Gold Co. Ltd	0	0	0	0.00	
Tolukuma Gold Mines Ltd	0	0	0	0.00	
Total	98,480,705	191,619,705	(93,139,053)	(48.61)	

Remarks

- A. No further information provided by either entity.

10.4.1.2 Dividends

Dividends referred to for this reconciliation are payments from SOEs to the State, representing the State's share of profits in the project in accordance with its right as a shareholder.



The information provided by reporting entities and the entity receiving the dividend payments in 2015 are summarised below.

Table 34: Reconciliation of dividends

Company	Receiving entity	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Kumul Consolidated Holdings Ltd	Treasury	286,400,000	0	286,400,000	100.00	A
Kumul LNG Ltd		0	0	0	0.00	
Kumul Mineral Holdings Ltd		0	0	0	0.00	
Kumul Petroleum Holdings Ltd	Treasury	86,400,000	86,400,000	0	0.00	B
Ok Tedi Mining Ltd		0	0	0	0.00	
Tolukuma Gold Mines Ltd		0	0	0	0.00	
Total		372,800,000	86,400,000	286,400,000	76.82	C

Remarks

- A. Treasury yet to confirm the amounts reported by KCH. Based on analyses of the amounts, PGK286.4m may pertain to PGK86.4m dividends paid by KPH in 2015 and PGK200m advances paid by KPH in 2016.
- B. Treasury confirmed that there was an error in their internal reporting in initial reconciliation. Original amounts were not distinguished as to advances or dividends. As a government agency, Treasury should implement strict control over receipts including understanding its nature. Further, amounts received from SOE should be recorded properly in accordance with applicable standard. In 2015, KPH is still a wholly owned subsidiary of KCH. KCH reported the dividends as if received and consequently paid to the state, although the payments were directly remitted to Treasury.
- C. Figure reported in budget papers is PGK456.4 million.

10.4.1.3 Infrastructure tax credits (ITC)

Expenditure by mining and oil and gas companies on prescribed infrastructure developments can be claimed as a credit against tax payable (see sections 4.3.2.6 and 6.3).

The amount spent on prescribed ITC projects each year is reported by companies to the Department of National Planning and Monitoring (DNPM). These amounts can then be claimed as a credit against tax payable. Credits that are not used within that reporting period can be carried forward to succeeding years of income until fully utilised.

The amounts that are used as credit against tax payable each year are recorded by the IRC.

Each of these are reconciled in the tables below.



In the tables below, both the amounts reported by DNPM and the amounts reported by the IRC were reconciled with values reported by companies.

Table 35 shows the amount spent by companies on ITC projects during 2015 to generate credits, reconciled with values reported by the DNPM.

Table 35: Reconciliation of ITCs actually spent on projects, reported by companies and DNPM

Company	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Barrick (Niugini) Ltd	10,988,985	10,998,070	9,085	0.08	A
Lihir Gold Ltd	20,615,494	20,630,408	14,914	0.07	
Oil Search Ltd	224,000,088	180,132,828	43,867,260	(24.35)	B
Ok Tedi Mining Ltd	24,406,000	10,757,617	13,648,383	(55.92)	C
Total	280,010,567	222,518,923	57,491,645	25.84	

Remarks

- No further information was provided by either reporting entity to reconcile this difference.
- DNPM stated that Oil Search has been submitting its reports in US dollars and a difference in exchange rates applied may have affected the calculation. The unreconciled balance constitutes 15.67% of the total amounts declared by reporting companies.
- DNPM stated that Ok Tedi has not provided DNPM information on its ITC expenditure for 2016. The unreconciled balance constitutes 4.87% of the total amounts declared by reporting companies.

Infrastructure tax credit (ITC) amounts offset from tax paid are shown below.

Table 36 shows the amount used as credit against tax payable for 2015 reconciled with the amounts reported by the IRC.

Table 36: Reconciliation of ITC offsets reported by companies and IRC

Company	Amount reported offset by companies (PGK)	Amount reported offset by IRC (PGK)	Variance (PGK)	Variance (%)	Remarks
Barrick (Niugini) Ltd	9,228,104	9,228,105	(1)	(0.00)	
ExxonMobil PNG Ltd	18,229,359	18,408,633	179,274	(0.97)	
JX Nippon	153,770	158,097	(4,327)	(2.74)	
Lihir Gold Ltd	0	0	0	0.00	
Oil Search Ltd	3,139,000	34,093,513	(30,954,513)	(90.79)	A
Ok Tedi Mining Ltd (OTML)	0	0	0	0.00	
Total	30,750,233	61,888,348	(31,138,115)	(50.31)	

Remarks

- Variance is due to foreign exchange rates used - IRC's amounts are based on spot conversion rate at the date of payment, while reporting entities are based on foreign exchange rate as suggested by the Data template.

10.4.1.4 Group tax

Group tax is the tax withheld on employee salaries, and is payable by companies that paid salaries in PNG during the reporting period. Predominantly these companies were operators of facilities.



This revenue stream was initially reported unilaterally by the IRC however, due to the size of this revenue stream for this reporting period, where available, the IA has reconciled these amounts (see discussion section 10.1.110.1.1). Group tax for the 2015 calendar year, reported by the IRC for companies who provided signed tax waiver letters is stated below.

Table 37: Group tax reported by companies and IRC, 2015

Company	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Barrick (Niugini) Ltd	90,618,253	100,633,150	(10,014,897)	(9.95)	
ExxonMobil PNG Ltd	170,523,684	170,523,684	0	0	
Hidden Valley JV	Not reported	1,620,999			
JX Nippon	Not reported	0			A
Kumul Consolidated Holdings (KCH)	Not reported	4,790,450			
Kumul Mineral Holdings Ltd	Not reported	4,515,831			
Kumul Petroleum Holdings Ltd (KPH)	Not reported	5,601,224			
Lihir Gold Ltd	86,981,418	58,383,716	28,597,701	48.98	
MCC Ramu NiCo Ltd	Not reported	47,044,832			
Mineral Resources Development Company Ltd (MRDC)	Not reported	823,263			
Niuminco Edie Creek Ltd	Not reported	0			B
Oil Search Ltd	92,623,868	97,216,618	(4,592,751)	(4.72)	
Ok Tedi Mining Ltd (OTML)	59,706,640	59,706,640	0	0.00	
Ramu Nickel Ltd	Not reported	0			
Santos Ltd (and subsidiaries)	Not reported	0			
Simberi Gold Co. Ltd	Not reported	11,014,555			
Tolukuma Gold Mines Ltd	Not reported	2,105,403			
Total	500,453,862	563,980,366	(63,526,504)	(11.26)	

Remarks

- A. IRC asserted that the JX Nippon income tax return has not been lodged. However, JX Nippon confirmed lodgement on 30 June 2017.
- B. Niuminco and IRC both confirmed that the 2015 income tax return has not been lodged.

10.4.1.5 Social expenditure (not reconciled)

Mandatory and discretionary social expenditure are discussed in detail in Chapter 6.

10.4.1.6 Other taxes (not reconciled)

These taxes were reported unilaterally by the IRC and include:

- ▶ Foreign contractor withholding tax
- ▶ Business payments tax
- ▶ Dividend withholding tax
- ▶ Interest withholding tax
- ▶ management fee withholding tax
- ▶ Royalty withholding tax
- ▶ Other taxes

Table 38: Other taxes reported by IRC

Company	Amount reported received (PGK)
Barrick (Niugini) Ltd	2,457,863
ExxonMobil PNG Ltd	44,786,872
JX Nippon	657,024
Kumul Consolidated Holdings	2,971,907
Kumul Petroleum Holdings Ltd	605,842
Lihir Gold Ltd	5,732,175
MCC Ramu NiCo Ltd	324,174
Oil Search Ltd	27,028,369
Ok Tedi Mining Ltd	3,567,859
Simberi Gold Co. Ltd	627,593
Tolukuma Gold Mines Ltd	5,154
Total	88,107,808

10.4.1.7 Environment permit fees (not reconciled)

There were no oil and gas decommissioning bonds or mine closure bonds received or managed during the reporting period. Environmental permit fees are paid by mining and oil and gas entities to CEPA. The total fees reported by CEPA for the reporting period are summarised in the table below.

Table 39: Environmental permit fees reported by CEPA

Fee reported	Amount reported paid (PGK)
Environment permit fees	4,099,834
Decommissioning bonds	0
Mine closure bonds	0
Total CEPA fees reported	4,099,834

10.4.2 Mining payments 2015

10.4.2.1 Production levy

The production levy is paid by mining companies to the MRA.



Amounts reconciled in the table below are payments made to the MRA during 2015. Payments are made annually in arrears in the year following the year of production to which the payment relates.

Table 40: Reconciliation of production levy payments

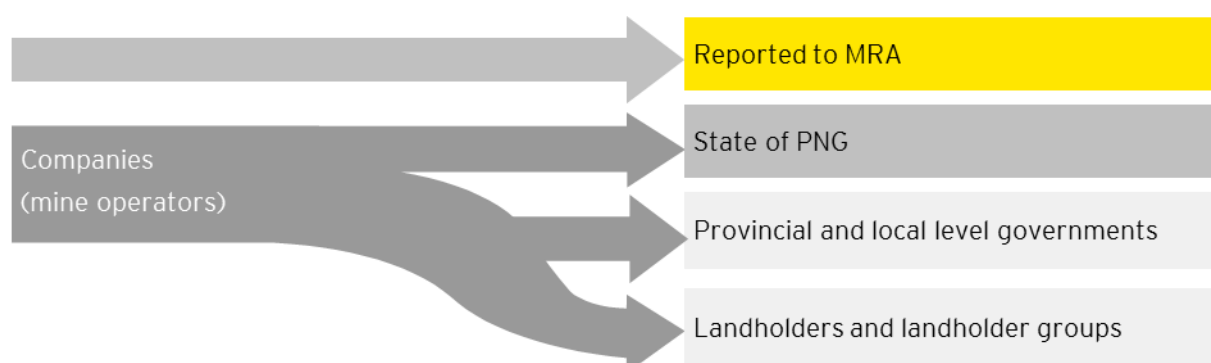
Company	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Barrick (Niugini) Ltd	4,146,042	4,146,042	0	0.00	
Hidden Valley JV	1,902,754	1,902,754	0	0.00	A
Kumul Mineral Holdings	0	Not reported			
Lihir Gold Ltd	5,482,321	5,482,321	0	0.00	
MCC Ramu NiCo Ltd	1,791,252	1,806,581	(15,329)	(0.85)	B
Niuminco Edie Creek Ltd	Not reported	Not reported			
Ok Tedi Mining Ltd	6,520,566	6,520,566	0	0.00	
Ramu Nickel Ltd	0	Not reported			
Simberi Gold Co. Ltd	354,329	354,329	0	0.00	
Tolukuma Gold Mines Ltd	123,909	123,909	0	0.00	
Total	20,321,174	20,336,502	(15,328)	(0.08)	

Remarks

- A. Hidden Valley reported their production levy figure on accrual instead of cash basis but they adjusted their reported value during reconciliation
- B. Difference pertains to foreign exchange translation used. MRA's amounts are based on spot conversion rate at the date of payment, while reporting entity amounts are based on foreign exchange rate as suggested by the data template.

10.4.2.2 Mining royalties

Mining royalties are calculated and paid directly by mine operators to beneficiaries on a monthly basis, and are also reported to the MRA.



The reconciliation below has been carried out between the amounts reported by the mine operators and the amounts reported by the MRA and the receiving entity. No royalties were paid to the PNG Government directly.

Table 41: Reconciliation of mining royalty payments paid to landholders

Company	Mine	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Barrick (Niugini) Ltd	Porgera	17,151,787	17,123,081	28,706	0.17	A
Hidden Valley JV	Hidden Valley	5,443,074	7,697,617	(2,254,543)	(29.29)	B
Lihir Gold Ltd	Luise Caldera, Lihir	10,094,687	9,589,953	504,734	5.26	C
MCC Ramu NiCo Ltd	Kurumbukari, Ramu	0	0	0	0.00	
Niuminco Edie Creek Ltd	Edie Creek	0	0	0	0.00	
Ok Tedi Mining Ltd	Mt Fuliban, Ok Tedi	8,804,938	10,376,696	(1,571,758)	(17.85)	D
Simberi Gold Co. Ltd	Simberi	6,573,601	6,124,672	448,929	7.33	E
Tolukuma Gold Mines Ltd	Tolukuma	152,980	0	152,980	100.00	F
Total		48,221,067	50,912,019	(2,690,952)	(5.29)	

Remarks

- A. Barrick has revised their amounts to reflect payments reported by MRA.
- B. Hidden Valley reported their figures based on accrual, instead of cash basis
- C. Royalties disclosed by Lihir Gold Ltd (Newcrest) as reporting entity includes the 5% royalty tax of PGK504,734.35.
- D. MRA has revised its amounts.
- E. Simberi revised its numbers based on net cash payments net of withholding tax and other deductions.
- F. Immaterial variance (<1% of total reported received value)

Table 42: Reconciliation of mining royalty payments paid to local/provincial government

Company	Mine	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Barrick (Niugini) Ltd	Porgera	17,151,787	17,123,081	28,706	0.17	A
Hidden Valley JV	Hidden Valley	5,734,560	5,678,437	56,123	0.99	
Lihir Gold Ltd	Lihir	40,378,748	40,378,748	0	0.00	
MCC Ramu NiCo Ltd	Kurumbukari, Ramu	0	0	0	0.00	
Niuminco Edie Creek Ltd	Edie Creek					
Ok Tedi Mining Ltd	Mt Fuliban, Ok Tedi	5,157,997	5,201,171	(43,175)	(0.84)	C
Simberi Gold Co. Ltd	Simberi	0	755,207	(755,207)	(100.00)	D
Tolukuma Gold Mines Ltd	Tolukuma	0	0	0	0.00	
Total		68,423,092	69,136,644	(713,552)	(1.03)	

Remarks

- A. Barrick has revised its amounts to reflect payments reported by MRA.
- B. Anomaly Ltd (Crater Gold Mining) did not provide their data reporting template due to recent staff turnover. They informed us that any payments would be immaterial in the context of consolidated figures for PNG.
- C. MRA has revised its amounts.
- D. Simberi revised its numbers based on cash payments net of withholding tax and other deductions.

10.4.2.3 MRA tenement fees (not reconciled)



Fees collected from mining companies by the MRA have been reported in the table below. These amounts were unilaterally disclosed by the MRA.

Table 43: Fees paid to MRA (unilaterally disclosed)

Fee reported	Amount reported paid (PGK)
Alluvial levies	890,735
Applications, renewal, renewal penalty, transfer and dealings fees (only related to mining - SML, ML, AML)	84,775
Mine security fees (SML, ML, AML)	116,400
Mining lease fees (SML, ML, AML rentals)	533,144
Exploration security deposits	180,000
Exploration licence rentals	3,005,350
Exploration applications, extensions, extension late fees, transfer and dealing fees	777,400
Total	5,587,804

10.4.3 Oil and gas payments 2015

10.4.3.1 Equity distributions

Equity distributions are payments received by SOEs as a percentage of profits received from joint ventures, in proportion to ownership stake.



In 2015, Kumul Petroleum Holdings Ltd (KPH) reported receiving PGK1,016,668,891 in equity distributions. These related to borrowers restricted payments from the PNG LNG project (PGK1,003,577,758) and revenue from PDL 1 - Gas to electricity project (PGK13,091,133). At the time of publication, clarification had not been obtained from KPH regarding these payments.

A third payment relating to the Oil Search shares held by KPH in 2016 is also included here.

Table 44: Equity distribution reconciliation

Company	Receiving entity	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Oil Search Ltd (shares)	KPH	74,323,960	34,807,038	39,516,922	53.17	A
PNG LNG (GloCo equity distribution)	KPH	N/A	1,003,577,758	N/A		B
PDL 1 GTE project	KPH	N/A	13,091,133			
Total		74,323,960	1,051,475,929	N/A	N/A	

Remarks

- Dividends from the Oil Search shares are paid directly to JP Morgan. JP Morgan then pays KPH after they retain funds in accordance with the UBS loan agreements. KPH have reported to EITI actual cash received from JP Morgan, while numbers per OSL may be the total paid to JP Morgan. Both reporting entities and receiving entities has not performed further reconciliation.
- No payment information is available from the GloCo in relation to payments relating to the PNG LNG project. These payments have been unilaterally declared by KPH

These amounts were not reconciled.

10.4.3.2 Development levy

Development levies are calculated at 2% of well-head value of the oil and gas produced as per Section 160 of the *Oil and Gas Act 1998*. Development levies are paid by oil and gas companies to DPE, who deposit them into a trust account held by the Department of Finance. Finance then administer payments from the trust account to the relevant local or provincial government.



Development levies are paid annually in arrears on or before 31 January in the year following the year of production to which the development levy relates.

The table below summarises the development levy information provided by the operators and DPE for the reporting period.

Table 45: Reconciliation of development levy

Company	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
ExxonMobil PNG LNG	74,626,680	0	74,626,680	100	A
Oil Search Ltd	16,136,382	16,136,232	(150)	(0.00)	B
Total	90,763,062	16,136,232	74,626,830	82.22	

Remarks

- ExxonMobil stated that their development levy payments are deposited directly with BPNG as directed by the PNG Government, and that DPE are provided with remittance advices for payments. At the time this report was published, neither DPE nor BPNG had provided the IA with confirmation of receipt.
- DPE has revised their amounts to reflect payments reported by Oil Search. We recommend that operators should confirm upon payment whether the amounts have been recorded by the receiving entity, or perform periodic reconciliation.

10.4.3.3 Oil and gas royalties

Oil and gas royalties are paid by project operators to DPE, except for PNG LNG project royalties which are paid directly by ExxonMobil PNG Ltd to Bank of PNG and remittances advices are sent to DPE.



Table 46: Reconciliation of oil and gas royalty payments

Company	Receiving Entity	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
ExxonMobil PNG Ltd	DPE, BPNG	78,035,603	0	78,035,603	100	A
Oil Search Ltd	DPE	30,357,909	30,370,832	(12,923)	(0.04)	
Total		108,393,512	30,370,832	78,022,680	71.98	

Remarks

- A. ExxonMobil stated that their royalty payments are deposited directly with BPNG as directed by the PNG Government, and that DPE are provided with remittance advices for payments. At the time this report was published, neither DPE nor BPNG had provided the IA with confirmation of receipt.

10.4.3.4 Additional profits tax

The additional profits tax is applicable to gas projects only (see section 4.3.2.3).



In 2015, JX Nippon reported paying PGK365,585 in additional profits tax. The IRC stated that they did not receive any additional profits tax for JX Nippon in 2015.

10.4.3.5 Share of sales

These are the sales proceeds derived from the joint marketing of LNG by venture partners in the PNG LNG project.



The share of sales figures reported by each state owned partner in oil and gas projects are shown below. These figures have not been included in the calculation of total government revenue for this report as it appears that there is an overlap between these payments and the equity distribution - borrowers restricted payments referenced in section 10.4.3.1. These payments are discussed further in section 9.3.3 of this report.

Table 47: Share of sales reported by oil and gas companies

Company	Amount reported paid (PGK)
Eda Oil Ltd	51,027,547
Kumul LNG Ltd	23,354,647
Kumul Petroleum Holdings Ltd	1,861,815,724
Mineral Resources Development Corporation Ltd	338,559,566
Total	2,274,757,484

10.4.3.6 DPE licence fees (not reconciled)

Licence fees and other application fees are paid by the oil and gas industry to DPE.



These may include fees related to the following licences:

- ▶ Petroleum Development Licence (PDL)
- ▶ Petroleum Retention Licence (PRL)
- ▶ Petroleum Prospecting Licence (PPL)
- ▶ Petroleum Processing Facility Licence (PPFL)

DPE provided the total licencing fees paid by the oil and gas industry for 2015 as PGK4,497,944.

10.5 Audit of financial statements 2015

Table 48 below provides an overview of the status of financial audits for each of the EITI reporting entities for the 2015 period. Where a financial statement audit was not conducted during these years, the most recent audit report available is listed.

Table 48: Auditing of reporting entities

Parent Company	Mine operator in PNG	Year audited	Qualifications/comments	Source
Mining				
Crater Gold Mining Ltd	Anomaly Ltd	FY2015	Audited by BDO. No qualifications noted.	http://goa.live.irmau.com/irm/PDF/2588_0/AnnualReporttoshareholders http://goa.live.irmau.com/irm/PDF/2444_0/AnnualReporttoshareholders
Highlands Pacific	Ramu Nickel Ltd	2015 2016	Both audited by PWC. No qualifications noted.	www.highlandspacific.com/_literature_150696/2015_Annual_Report www.highlandspacific.com/_literature_169633/2016_Annual_Report
	Ok Tedi Mining Ltd	2016 (no 2015 report)	Audit by PwC. No qualifications noted. Re-opened after 7 month suspension due to dry weather (August 2015-February 2016) Indirect economic impacts (taxes and levies, dividends, royalties, Tax Credit Scheme (TCS), goods purchased in PNG, payments to PNG contractors, local training costs and salaries and wages) limited assurance by Materiality Counts	http://www.oktedi.com/index.php/media-items/publications/annual-review/488-2016-annual-review/file
Barrick Gold Corporation (95% until 31 Augusts 2015, then 47.5% Joint Operation JO)	Porgera Mine - Barrick (Niugini) Ltd	2015 2016	Both audited by PwC. No qualifications noted.	http://barrick.q4cdn.com/808035602/files/annual-report/Barrick-Annual-Report-2015.pdf http://barrick.q4cdn.com/808035602/files/annual-report/Barrick-Annual-Report-2016.pdf
Zijin Mining Group (47.5% JO from 31 August 2015)	Porgera Mine - Joint operator with Barrick (Niugini) Ltd from 31 August 2015	2015 2016	Both audited by EY. No qualifications noted.	http://www.zijinmining.com/upload/file/2016/10/26/63b8c7f9d2a742c8a581e765cb77c6d7.pdf http://www.zijinmining.com/upload/file/2017/05/08/65aac8c4d4634c0e889a8231eb056da3.pdf

Parent Company	Mine operator in PNG	Year audited	Qualifications/comments	Source
Newcrest	Lihir Gold Ltd	FY2014 FY2015 FY2016	Audited by EY. No qualifications noted. Annual reports for each financial year are published in Sept/Oct.	http://www.newcrest.com.au/media/annual_reports/FINAL_Annual_Report_2014_72dpi_web.pdf http://www.newcrest.com.au/media/agm/NCM_Annual_Report_2015.pdf http://www.newcrest.com.au/media/annual_reports/2016_Annual_Report.pdf
Metallurgical Corporation of China Ltd. (MCC)	MCC Ramu NiCo Ltd	2015	Audit by Deloitte. No qualifications noted. 2016 report not yet published	http://www.hkxnews.hk/listedco/listconews/SEHK/2016/0405/LTN201604051843.pdf
Harmony Gold Mining Ltd	Hidden Valley JV	FY2014 FY2015 FY2016	Audit by PwC. No qualifications noted	https://www.harmony.co.za/investors/reporting/annual-reports
Petromin PNG Holdings (Kumul Mineral Holdings Ltd)	Tolukuma Gold Mines Ltd	Not available	The 2014 annual report was the last published by Petromin PNG Holdings. Kumul Mineral Holdings Ltd have not published an annual report. Tolukuma Gold Mine was sold to Asidokona Mining Resources Pty Ltd	Not available
Asidokona Mining Resources Pty Ltd	Tolukuma Gold Mines Ltd	Not available	Company was incorporated/registered on 22 July 2015. There are no public reports available from this company.	Not available
St Barbara Ltd	Simberi Gold Co. Ltd	FY2014 FY2015 FY2016	Audit by KPMG. No qualifications noted.	http://www.stbarbara.com.au/fileadmin/user_upload/documents/annual-reports/St_Barbara_Limited_Annual_Report_2014_web.pdf http://www.stbarbara.com.au/fileadmin/user_upload/documents/annual-reports/St_Barbara_Limited_Annual_Report_2015.pdf http://www.stbarbara.com.au/fileadmin/user_upload/documents/annual-reports/St_Barbara_Limited_Annual_Report_2016.pdf
New Guinea Gold	Sinivit Mine	Not available	No public reports available	Not available

Parent Company	Mine operator in PNG	Year audited	Qualifications/comments	Source
Niuminco Group Ltd	Niuminco Edie Creek Ltd	FY2015	Audit by PwC. No qualifications noted.	http://www.niuminco.com.au/docs/NIU%20Annual%20Report%202015_FINAL.pdf
Oil and gas				
Santos Ltd	Santos (and subsidiaries)	2015, 2016	Both audited by EY. No qualifications noted.	https://www.santos.com/media/3525/san675_annualreport2016_fa3_low-res_.pdf https://www.santos.com/media/3310/2015_annual_report.pdf
JX Nippon Oil and Gas Exploration Corporation	JX Nippon Oil and Gas (and subsidiaries)	2015, 2016 (year ends are 31 March of each year)	Both audited by EY. No qualifications noted.	http://www.hd.jxtg-group.co.jp/english/ir/library/annual/2014/pdf/jx_en_ar_fy2014.pdf http://www.hd.jxtg-group.co.jp/english/ir/library/annual/2015/pdf/jx_en_ar_fy2015.pdf
ExxonMobil Ltd	ExxonMobil PNG Ltd (PONGLNG project operator)	2015 2016	Audit by PwC. No qualifications noted.	http://cdn.exxonmobil.com/~media/global/files/investor-reports/2016/2015_Financial_Statements.pdf http://cdn.exxonmobil.com/~media/global/files/investor-reports/2017/2016_financial_statements.pdf
Oil Search Ltd		2015 2016	Audit by Deloitte. No qualifications noted.	http://www.oilsearch.com/_data/assets/pdf_file/0018/1566/OSH_AR16-a3d8b18e-1b65-4a66-a4a0-34826fa5db87-2.PDF http://www.oilsearch.com/_data/assets/pdf_file/0016/7045/HC_QSF_AR16_Interactive_v01A.pdf
State-owned enterprises: audits by the Auditor-General's Office of Papua New Guinea				
Petromin PNG Holdings (Kumul Mineral Holdings Ltd)	Tolukuma Gold Mines Ltd		See above	

Parent Company	Mine operator in PNG	Year audited	Qualifications/comments	Source
	Ok Tedi Mining Ltd		See above	
Independent Public Business Corporation - Now Kumul Consolidated Holdings Ltd		2013 and 2014	'My reports to the Ministers under Section 8(4) of the Audit Act on the financial statements of the Corporation for the years ended 31 December 2013 and 2014 were issued on 31 March 2016. The reports did not contain any qualifications.'	http://www.ago.gov.pg/images/downloads/Part%204%20Report%20of%20the%20Auditor%20General%20-%202015.pdf p. 62
Mineral Resources Development Company Ltd		2010	Qualification and several issues raised: For 2015 audit report: 'At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Company for the years ended 31 December 2012, 2013, 2014 and 2015 were in progress.'	http://www.ago.gov.pg/images/Annual_Reports/Part_4/Part_IV_2013.pdf http://www.ago.gov.pg/images/downloads/Part%204%20Report%20of%20the%20Auditor%20General%20-%202015.pdf p. 268
National Petroleum Company of Papua New Guinea Now Kumul Petroleum Holdings Ltd		2015	'My report in accordance with the provisions of the Companies Act on the Company's financial statements for the year ended 31 December 2015 was issued on 31 March 2016. The report did not contain any qualification.'	http://www.ago.gov.pg/images/downloads/Part%204%20Report%20of%20the%20Auditor%20General%20-%202015.pdf p. 262
Government departments and statutory authorities: audits by the Auditor-General's Office of Papua New Guinea				
Conservation and Environment Protection Authority		N/A	No record of audit available for CEPA or previous Department of Environment and Conservation.	
Internal Revenue Commission		2014	'At the time of preparing this Report, the field work associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Commission for the period 18 September to 31 December 2014 had been completed. The management letter responses together with the signed financial statements were being awaited to issue the audit report. For the 2012 Report the auditor stated: 'Audit indicated that there were significant weaknesses in the control framework. The controls activities, such as delegations, authorisations, reconciliations, data processing, segregation of duties and system access were not sufficiently robust to prevent defect or correct errors or fraud.'	http://www.ago.gov.pg/images/downloads/Part%204%20Report%20of%20the%20Auditor%20General%20-%202015.pdf p. 54

Parent Company	Mine operator in PNG	Year audited	Qualifications/comments	Source
Minerals Resource Authority		2012	'At the time of preparing this Report, the fieldwork associated with the inspection and audit of the accounts and records and the examination of the financial statements of the Authority for the year ended 31 December 2012 had been completed and the results were being evaluated. The field work associated with the inspection and audit of the accounts and records and examination of the financial statements of the Authority for the years ended 31 December 2013 and 2014 were in progress. The Authority had not submitted its financial statements for the year ended 31 December 2015 for my inspection and audit.'	http://www.ago.gov.pg/images/downloads/Part%204%20Report%20of%20the%20Auditor%20General%20-%202015.pdf p. 72
Department of Treasury		2014	'The results of my audit indicate that overall, there were notable weaknesses in the control framework. The control activities, such as delegation, authorisation, reconciliations, data processing, segregation of duties, system access, management monitoring, etc. were not sufficiently robust to prevent, detect or correct errors or fraud. Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.'	http://www.ago.gov.pg/images/downloads/Part-2-NGAD-Merge-Report-JTen-AVui-4-11-15.pdf p. 25
Department of Finance		2013	'The results of my audit indicate that overall, there were notable weaknesses in the control framework. The control activities, such as delegation, authorisation, reconciliation, data processing, segregation of duties, system access and management monitoring were not sufficiently robust to prevent, detect or correct errors or fraud. Consequently, there was an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.'	http://www.ago.gov.pg/images/downloads/Part-2-NGAD-Merge-Report-JTen-AVui-4-11-15.pdf p. 148

Parent Company	Mine operator in PNG	Year audited	Qualifications/comments	Source
Department of Petroleum and Energy		2014-2013	'The results of my audit indicate that overall, there were significant and serious weaknesses in the control framework. The control activities such as delegations, authorisations, reconciliations, segregation of duties, system access and management were not sufficiently robust to detect or correct errors or fraud. Consequently, there was an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.	http://www.ago.gov.pg/images/downloads/Part-2-NGAD-Merge-Report-JTen-AVui-4-11-15.pdf p. 139
Department of National Planning & Monitoring		2013	'In general, there were no improvements in the system and operation of controls within the Department compared to the previous years. The results of my audit indicate that there were significant weaknesses in the control framework. The control activities were not sufficiently robust to prevent, detect or correct errors or fraud. Consequently, there is an increased risk that the impact of an ineffective control environment could be far reaching, possibly resulting in financial loss, tarnished public image or ultimately, agency failure. The lack of internal control mechanism may fail to safe guard assets from loss, damage or misappropriation and may produce financial information that is not complete or reliable.	http://www.ago.gov.pg/images/downloads/Part-2-NGAD-Merge-Report-JTen-AVui-4-11-15.pdf p. 164
PNG Customs		2014-2013	'The results of my audit indicate that there were some improvements in the operations of the internal controls compared to previous years. This was evident in the Revenue collection, assets and advance management. However, overall, there were weaknesses noted in the control framework'	http://www.ago.gov.pg/images/downloads/Part-2-NGAD-Merge-Report-JTen-AVui-4-11-15.pdf p.79

11. Recommendations for the 2015 EITI Report

Through the delivery of this initiative, and via engagement with government, industry, and civil society, it has been observed that the MSG and other stakeholders in the PNG EITI continue to seek to drive improvement in transparency, systems, and accountability across the extractives sector. Based on the work undertaken, the following recommendations are provided to seek to enable the MSG to improve its EITI process across PNG for future reporting periods, in line with the requirements of the EITI Standard.

Recommendation 1: Reconciliation differences

Observation	Recommendation
<p>Consistent with previous reporting periods, the reconciliation process continues to require considerable time and resources of the IA and reporting entities. In particular, the following key challenges were observed:</p> <ul style="list-style-type: none"> ▶ Failure of some reporting entities to attend training ▶ Delayed completion, or partial completion of reporting templates ▶ Failure to respond to follow-up queries from the IA ▶ Inconsistent application of the reporting guidelines provided by the IA, including time period, basis of accounting, and definition of revenue streams <p>Despite significant investment of time and resources, at the time of finalising this report, some differences remain unexplained.</p> <p>It should be noted that there were errors in data initially reported by Treasury and IRC. For example, an advance paid to Treasury by KPH was initially incorrectly reported as dividends by Treasury. The IA also noted differences in values reported in the Budget documents compared with values reported during the EITI validation process.</p>	<p>To continue to drive improvement in the reconciliation process, we recommend that the MSG:</p> <ul style="list-style-type: none"> ▶ Continues to engage with reporting entities throughout the year, to assist in building understanding of the importance of the EITI process ▶ Engages the IA for the 2017 PNG EITI Report early in 2018, to enable additional lead time, in acknowledgement of the challenges collecting data ▶ Investigates options for mainstreaming²⁸⁷ EITI reporting within existing regulatory frameworks, to reduce duplication of effort

Recommendation 2: Material revenue streams

Observation	Recommendation
<p>The scale of known revenue streams reported by the IRC for the reporting period has identified that the following revenue streams account for greater than 2% of known revenue:</p> <ul style="list-style-type: none"> ▶ Group tax ▶ Foreign contractor withholding tax <p>Group tax was not reconciled for previous reports based on an earlier decision by the MSG (see discussion section 10.1.1)</p> <p>Where information was available, these amounts were reconciled in this report.</p> <p>The data collected through the 2015 reporting process identified that Foreign contractor withholding tax was now also a material revenue stream.</p>	<p>Group tax and Foreign contractor withholding tax are material revenue streams that should be reconciled in future EITI reports.</p> <p>The MSG should also investigate options to expand the definition of material reporting entities in respect of specific revenue streams (such as group tax and social payments) to include companies in advanced exploration/pre-production phases.</p>

²⁸⁷ <https://eiti.org/mainstreaming>

Recommendation 3: Engagement with government stakeholders

Observation	Recommendation
<p>The IA sought input and data from a range of government stakeholders for the 2015 EITI report. Whilst the majority of stakeholders provided most or all of the requested information, input from the following entities was either not received or received well outside the requested submission deadline:</p> <ul style="list-style-type: none"> ▶ DNPM (ITC) ▶ DPE (not reporting ExxonMobil revenue, and delayed submission of requested contextual information) ▶ BPNG <p>Conversely, it was noted that there was a significant increase in engagement and participation from the MRDC.</p>	<p>Building on Recommendation 1, conduct targeted stakeholder engagement and education in relation to the reporting entities that failed to report, or reported information incorrectly for the 2015 reporting period.</p> <p>It is recommended that this stakeholder engagement be carried out prior to the April validation of the 2016 report so that any remaining data required can be supplied and made available on the PNG EITI website.</p> <p>In particular, DPE should seek visibility over royalty and development levy payments made by electronic transfers and be prepared to provide this information for reporting purposes.</p>

Recommendation 4: Subnational payments

Observation	Recommendation
<p>During the reporting process for the 2015 PNG EITI report, a scoping study for the inclusion of subnational payments in the EITI reporting process was initiated. This work is being undertaken by the Australian government Department of Foreign Affairs and Trade. At the time of finalising this report, the National Secretariat informed the IA that consultation with subnational entities had commenced.</p> <p>Developing a greater understanding of these payments, including benefit sharing for oil and gas projects, and communicating this to key stakeholders, will go some way to addressing the concerns held by landholders impacted by extractive industries projects.</p>	<p>Build on the progress made in understanding subnational payments, through expansion of the PNG EITI report scope to incorporate these payments for the 2017 reporting period. Acknowledging that this may be challenging, it is recommended that the MSG considers including a sample of subnational payments, and considers unilateral reporting by subnational governments, in the first instance.</p> <p>It is recommended that any preliminary information made available through the scoping study into subnational reporting be made available on the PNG EITI website prior to the validation process occurring in April 2018.</p>

Recommendation 5: Reporting of quasi-fiscal expenditure

Observation	Recommendation
<p>The EITI Standard requires that quasi-fiscal expenditure is reported. Little or no information on quasi-fiscal expenditure had been provided to the IA at the time of publication. Treasury noted that they are aware of quasi-fiscal expenditures by SOEs. Treasury commented that work on updating the reporting of government finance to the International Monetary Fund, Government Finance Statistics Manual 2014 is progressing well, and will be extended to cover transactions of extra-budgetary units and the SOEs in the medium to long term.</p>	<p>The MSG should continue to engage with Treasury in relation to understanding quasi-fiscal expenditure. For the 2017 reporting period, it is recommended that the MSG:</p> <ul style="list-style-type: none"> ▶ Works with Treasury to understand the nature of payments made by SOEs ▶ Continues progress towards mainstreaming²⁸⁸ the reporting of extractive industry revenue through government reporting processes.

²⁸⁸ <https://eiti.org/mainstreaming>

Recommendation 6: Value of infrastructure tax credit (ITC) scheme

Observation	Recommendation
<p>Previous PNG EITI reports have found discrepancies and inconsistencies in the reporting of the value of tax forgone as a result of funds spent on infrastructure development. Reporting templates for the 2015 report were updated in an attempt to clarify the value of funds spent on ITC projects within the reporting period as well as the value of the tax forgone as a result of ITC project spending. Due partially to the lack of response from DNPM during the validation process, the IA was unable to verify the value of approved ITC project spending by reporting entities. There were also significant discrepancies between the ITC offset reported by companies and the IRC that in some cases could not be clarified due to differences in methodologies for reporting the value of the tax credit.</p> <p>In response to the recommendations of the Taxation Review Report²⁸⁹ the PNG government has announced that the scheme will not be abolished but will be reviewed to improve administration. The government has also noted that the process needs to be more transparent regarding guidelines and criteria involved in the approval process. And that the ITC expenditure should be included in the annual national budget books and DNPM should be able to show this information on its website.</p>	<p>Increase transparency and accountability regarding the approval process by DNPM, funds administered on projects by companies and resulting tax offset by the IRC.</p> <p>Evaluate the method currently being used to reconcile this information for EITI purposes through cash basis reporting.</p>

Recommendation 7: Oil and gas licence transfers

Observation	Recommendation
<p>The transfer process for oil and gas licences is outlined in the OGA, but there was no evidence of criteria being applied by DPE.</p>	<p>DPE should establish criteria for the transferring of oil and gas licences. These criteria should be published in an updated version of the 'Petroleum Policy Handbook' with content made easily available to the public.</p>

Recommendation 8: Reporting of social expenditure

Observation	Recommendation
<p>Inconsistencies have been observed in what companies classify as 'social' expenditure, and in which expenditures are classified as 'mandatory' or 'discretionary'.</p>	<p>The MSG should consult with EITI and provide more detailed guidance on these categories. It is expected that through the finalisation of the scoping study for subnational payments, there will be an opportunity to clarify this guidance.</p> <p>It is also expected that as further progress is made against the NEC directive to make MOAs publically available, mandatory and discretionary expenditure will become easier to delineate.</p>

²⁸⁹ PNG Taxation Review October 2015, Tax Review Committee Report to the Treasurer, Part 2 of 2: Detailed Analysis. http://taxreview.gov.pg/wp-content/uploads/2015/11/15.10.22_taxreview.final_report_vol.2.pdf accessed 10 October 2017

11.1 Progress against previous recommendations:

On 6 April 2017, the National Executive Council (NEC) endorsed the recommendations from the first PNG EITI report. Progress has already been made against a number of these directives, some, independently of the EITI recommendations. Although the timing of these improvements meant that not all benefits were noticeable during the 2015 reporting period, it is expected that these changes will continue to drive improvements in the completeness and accuracy of data relating to the extractives sector in PNG for future EITI reports.

Specifically, the progress against the following recommendations, provided by the PNG EITI National Secretariat, is noted below:

Table 49: Progress against NEC directives

NEC directive	Agency/ Department responsible	Progress made	Next steps
That the Minister for Petroleum and Energy implement a reliable electronic registry system to supersede the current paper ledger system.	DPE	<ul style="list-style-type: none"> ▶ During 2016, DPE held their first workshop on the way forward for developing a licencing database. ▶ The initial stage of implementing the electronic registry system has been the program of scanning of all documents. 	<ul style="list-style-type: none"> ▶ Increased resourcing for DPE will be required to facilitate the implementation of systems required to adhere to the EITI Standard.
That the Minister responsible for the Mineral Resources Development Company (MRDC) ensures that MRDC engages fully with the PNG EITI MSG and reports through the EITI process on the equity distribution and all other funds it holds in trust and invests for the landowners and for future generations.	MRDC	<ul style="list-style-type: none"> ▶ The MSG was expanded during 2016 to include the MRDC, as well as the new state-owned enterprises Kumul Minerals Holdings (KMH) and Kumul Petroleum Holdings (KPH). Through their engagement in the EITI reporting process as members of the MSG, these organisations provided significantly more information to the IA. This included more detail on the role these organisations play in the extractive sector, together with more data on payments and receipts. This was particularly evident for the MRDC. 	<ul style="list-style-type: none"> ▶ There are still some areas that both the MRDC and the Secretariat will continue to work through to enhance MRDC's effectiveness and efficiency in all aspects of EITI reporting and to sustain MRDC's engagement in this EITI process. ▶ MRDC will be required to participate in the subnational payment scoping study where the revenues managed by MRDC will be reconciled in more detail.
That the Minister responsible for Kumul Consolidated Holdings Ltd (KCH) ensures KCH participates in the EITI process and regularly reports through the EITI process the State's share/interest in the mining and petroleum sectors that it manages under the General Business Trust (GBT)	KCH	<ul style="list-style-type: none"> ▶ KCH does not necessarily engage directly in the PNG EITI reporting process after its organizational re-structure in August 2015. There are subsidiary entities under KCH that deal directly as a trustee of the GBT with State's interest in the Mining and Petroleum Sectors. The remaining project that KCH is now responsible for the extractive sector as of 2016 is that it holds 3.2% shareholding in Highlands Pacific. ▶ This NEC directive has been actioned because KCH is now fully engaged at the MSG level and has been participating in the EITI reporting process 	<ul style="list-style-type: none"> ▶ The continued engagement and participation in the EITI process by KCH may not be necessary in the future because KCH will not be responsible for the extractive sector. As part of Kumul restructure, the GBT investment in Highlands Pacific will be transferred to Kumul Mineral Trust as soon as all legal processes are completed.

NEC directive	Agency/ Department responsible	Progress made	Next steps
That the Minister responsible for Kumul Minerals Holdings Ltd (KMH) and Kumul Petroleum Holdings (KPH) ensures these enterprises are fully engaged in the EITI process and report as required under the EITI Standard	KMH/KPH	<ul style="list-style-type: none"> ▶ These two entities now coordinate the government's interest in the Mining, Oil and Gas sectors. ▶ Preliminary engagement has been sought by the Secretariat with these entities to ensure that they too are aligned to the reporting processes and requirements of PNGEITI. ▶ Both KMH and KPH have engaged in the EITI process and have participated in the EITI reporting process. 	<ul style="list-style-type: none"> ▶ Secretariat to continue its consultation with both KMH & KPH to identify areas where both entities can engage effectively in the reporting process.
That the Minister for Treasury ensure the National Economic and Fiscal Commission (NEFC) amend its budget and fiscal reports to collect information on subnational payments and transfers consistent with the EITI Requirements.	Treasury/NEFC	<ul style="list-style-type: none"> ▶ National Secretariat has consulted with NEFC on this issue. A meeting between the Head of Secretariat, and the CEO of NEFC along with relevant officers was convened on the 20th of September, 2017. ▶ This meeting outlined NEFC's current information collection and reporting procedures, and also discussed avenues in which this process could also incorporate and/align to the EITI process, particularly in the area of sub-national payments and transfers information. ▶ It was ascertained that the NEFC's current reporting on sub-national payments and transfers is provisioned under the Inter Government Relations (Functions & Funding) Act, which governs the mandate of NEFC's operations. ▶ Hence, it was discussed that NEFC along with the Secretariat work together to identify mechanisms that can align both NEFC reporting to that of the PNG EITI requirements. 	<ul style="list-style-type: none"> ▶ NEFC and the Secretariat will engage more frequently and consult with each other to ensure that reporting mechanisms are aligned in regard to not only sub-national payments and transfers but all other payments for the various levels of governments.
That the Minister responsible for the Mineral Resources Authority (MRA) and the Minister responsible for the State Solicitor ensure these entities make publicly available Memorandum of Agreements (MOAs) for EITI purposes and for the benefit of the general public	MRA/mining companies/State Solicitor	<ul style="list-style-type: none"> ▶ The Secretariat has conveyed the official letter to the two concerned agencies outlining this directive. A follow up via official email correspondence has been sent to the relevant contacts within MRA to gauge the progress of this directive but are yet to receive any further feedback. ▶ It is the Secretariat's understanding that MRA was to consult and clarify from State Solicitor the legality of making public the MOAs, however feedback on this consultation is yet to be received and cannot be reported on at this stage. 	<ul style="list-style-type: none"> ▶ The Secretariat will work with relevant agencies early in 2018 to check if any progress is being made in implementing this Directive. ▶ Any updates can be reported on the PNG EITI website prior to the validation process taking place in April.

NEC directive	Agency/ Department responsible	Progress made	Next steps
<p>That the Minister for Treasury to implement the recommendation of the EITI report in relation to:</p> <ol style="list-style-type: none"> 1) Publication of budget preparation process on its website; 2) Clearly and comprehensively list relevant assumptions and basis for calculation for budget document tables; and 3) Ensure units of measurement are standardized between government departments, particularly with respect to production data in budget documents 	<p>Treasury</p>	<ul style="list-style-type: none"> ▶ The Secretariat has sent an official letter early this year outlining these directives to the Secretary for Treasury for attention and implementation. The directives were also conveyed by the National Secretariat through a submission in May this year to Treasury's call for pre-budget submission for the 2018 National Budget. ▶ The submission was received and reviewed by the relevant divisions within the Treasury Department and the outcome of this analysis is as follows: <ol style="list-style-type: none"> 1) Publication of budget preparation process on the website. ▶ Treasury has an existing process in place to issue budget circulars to all government departments and spending agencies informing of the budget preparation process. Also, it has been a practice for Treasury to advertise in the social media (local newspapers) outline the key dates for preparation of the national budget and calling for policy submission from the public in the first quarter of every year. Treasury also regularly publishes its quarterly warrant release in the local newspapers and other social media. ▶ However, this has been done through the government's internal process and needed to be made transparent by way of publishing on the Treasury website. Treasury has a reliable website (www.Treasury.gov.pg) that needs to be constantly updated and maintained. ▶ The other two directives (#s 2 and #3) are outstanding and Treasury has yet to advise if there were any actions taken or will be taken to address them 	<ul style="list-style-type: none"> ▶ National Secretariat will closely liaise with Treasury to properly document its current activities and practice on budget transparency that may directly address some of the Cabinet Directives outlined in this section. ▶ Clarification was requested in relation to the recommendations from the IA that the following directives reference: <ol style="list-style-type: none"> 2) Clearly and comprehensively list relevant assumptions and basis for calculation for budget document tables <p><i>IA response:</i> Differences have been noted between revenue figures provided for the purposes of EITI reporting and those included in the PNG Budget tables. The IA found for the 2016 reported figures for example, these differences related primarily to complexities surrounding cash basis reporting of tax payments and to Treasury reporting 'advance payments' as dividend payments in one instance. Budget figures should clearly state if they are reported on a cash basis and any inclusion of advance payments should also be clarified.</p> <ol style="list-style-type: none"> 3) Ensure units of measurement are standardised between government departments, particularly with respect to production data in budget documents <p><i>IA response:</i> The IA has noted that production figures reported by the MRA are provided in ounces while the values reported in the budget are reported in tonnes. The IA would like to see standard units of measurement implemented by government departments when reporting these figures.</p> <ul style="list-style-type: none"> ▶

NEC directive	Agency/ Department responsible	Progress made	Next steps
<p>That the Minister for Treasury legislates for the EITI reporting requirements within the Government reporting process (in lieu of current practice of using a waiver letter) and reports back with draft legislation for the NEC's consideration before the 2015 EITI Report.</p>	<p>Treasury/IRC</p>	<ul style="list-style-type: none"> ▶ National Secretariat has been in consultation with the legal team from the IRC to get clarification on this issue. Advice from IRC indicated that there needs to be a legislative amendment to cater for the proposed changes. Specific and relevant provision within the Income Tax Act was identified, and it was ascertained that this would require a minor technical amendment to remove secrecy provisions in the Income Tax Act to allow IRC to disclose tax revenue information. IRC considered that this was a policy matter that required direction from Treasury before it can draft and consolidate the amendment to be included as part of the 2018 Budget Amendments. ▶ National Secretariat had also included this issue in its pre-budget submission to Treasury in May this year and this Directive has now been implemented by Treasury as part of the tax amendments in the 2018 National Budget. ▶ Amendments effective 1 January 2018 will allow tax information to be provided to: <ul style="list-style-type: none"> ▶ the Extractive Industries Transparency Initiative Secretariat or equivalent body for the purposes of reporting in accordance with the Initiative ▶ the Financial Analysis and Supervision Unit for purposes of the Anti-Money Laundering and Counter Terrorism Financing Act 2015. 	<ul style="list-style-type: none"> ▶ To build on the progress made, PNG EITI National Secretariat Policy and Legislative Technical Working Group (TWG) will continue to progress with the current work on an EITI Policy and Legislative Framework. ▶ Background work by the TWG was completed in October 2017 and the Secretariat will soon call for an expression of interest to engage a legal and policy expert to commence drafting of the EITI Bill.
<p>That the Minister for Finance undertake assessment of all monies received from mining and petroleum projects that are held in trust accounts, which include future generation trust and set up a database to effectively monitor the trust accounts in accordance with Section 15 of the Public Finance (Management) Act 1995.</p>	<p>Finance</p>	<ul style="list-style-type: none"> ▶ This Directive has been actioned. The Department of Finance has incorporated this as part of its work on the Financial Framework Review (FFR) this year. This has triggered current amendments to the Public Finance (Management) Act (PFMA) 1995 to review all government Trust Accounts (inclusive of extractives trust accounts). Part of the reforms to the new PFMA 2016 included financial instructions to review all Trust Accounts and migrate them onto the Integrated Financial Management System (IFMS) for effective monitoring, compliance and transparency purposes. ▶ There are still areas which need to be clarified, especially with regard to monies held in mining and petroleum trust accounts and others. Department of Finance is continuing with this work to ensure it is achieved. 	<ul style="list-style-type: none"> ▶ National Secretariat will continue its consultation with the Department of Finance to ensure that through review of trust accounts, monies sitting in mining, oil and gas trust accounts are reviewed to bring about transparency for EITI reporting purposes.

NEC directive	Agency/ Department responsible	Progress made	Next steps
<p>Minister for Finance to take action to ensure payments currently being done manually via cash or cheque by some government agencies are improved and modernized to electronic systems such as the use of EFTPOS because the absence of a robust system for managing resource payments leaves the system vulnerable to fraud, corruption and human error</p>	<p>Finance</p>	<ul style="list-style-type: none"> ▶ National Secretariat's consultation with the Department of Finance recently reveals that this particular Cabinet Direction has been actioned. Part of the amendments to the PFMA also directed government entities to transition from cash and cheque based payments to electronic transactions. ▶ There were specific financial instructions from the Finance Minister for government agencies to heed this change and transition into electronic payments system where possible. ▶ Currently, all previous cash based transactions are being converted in electronic transactions as per the financial instructions. 	<ul style="list-style-type: none"> ▶ National Secretariat will continue to engage and work closely with Department of Finance to ensure that this electronic payment system is implemented successfully.
<p>That Government Agencies ensure to submit their books to the Auditor General's Office in a timely manner for audit purposes; that the capacity at the Auditor General's Office be improved to undertake audits as highlighted under the heading of "Way Forward" of the submission; and that this would be one of the Government's key agendas to improve transparency and accountability in the public service.</p>	<p>Auditor General</p>	<ul style="list-style-type: none"> ▶ The formal letter of notification on this directive was conveyed to the AG's office in September this year. To date no formal response has been received on their implementation progress. 	<ul style="list-style-type: none"> ▶ National Secretariat to continue following up with the AG's office to gauge an update and ensure progress is been made to implement this directive.

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