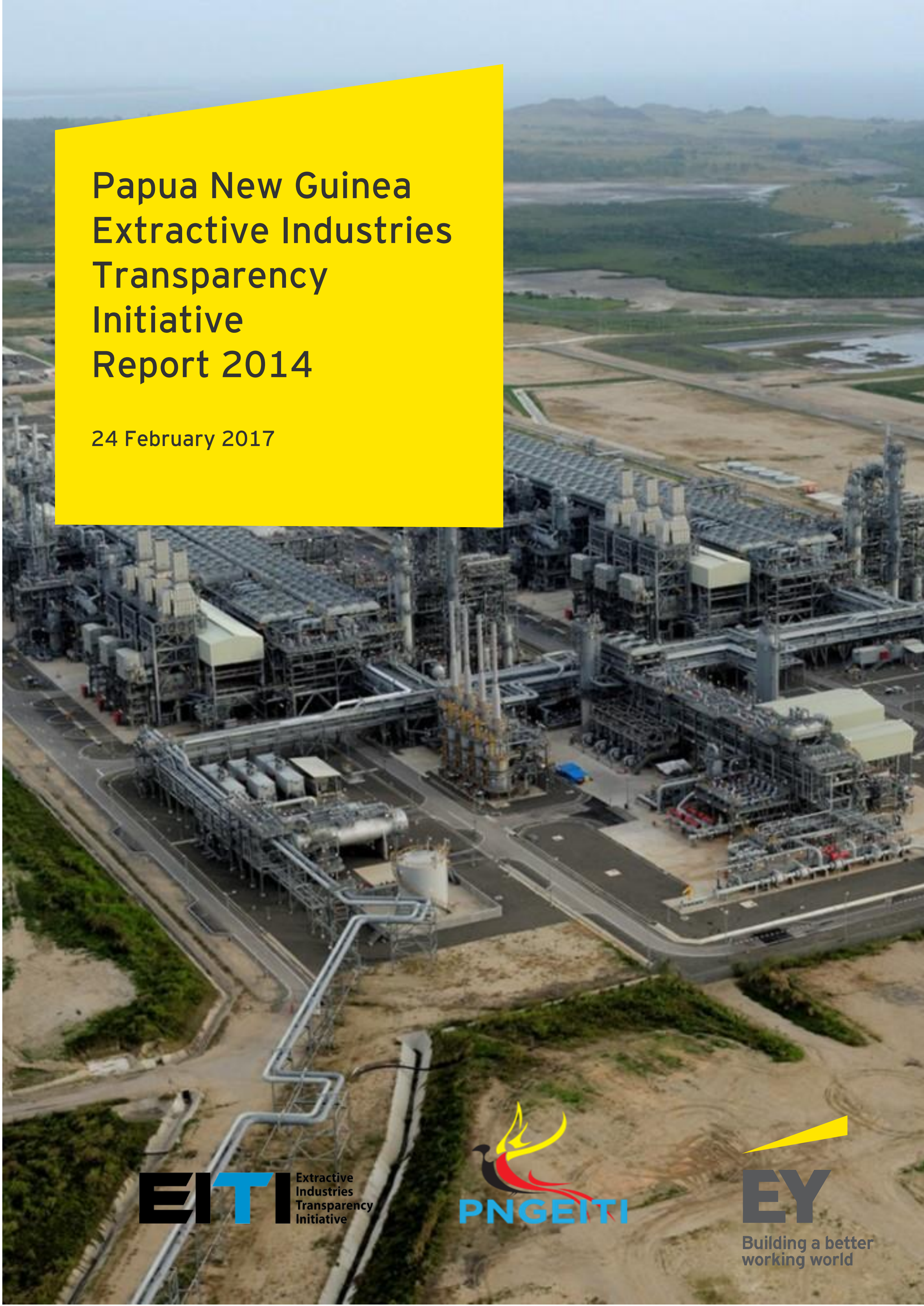
Papua New Guinea Extractive Industries Transparency Initiative Report 2014

24 February 2017



Extractive Industries Transparency Initiative

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Minister's foreword

It is with a great sense of pride that I endorse this second Extractive Industries Transparency Initiative report for Papua New Guinea (PNG). This report for the 2014 financial year, is the culmination of sustained efforts and collaboration between the PNG Government, the Extractive Industries and civil society to deliver an informative picture of the extractives sector in PNG, its impact on our economy and our management of the revenues it generates.

In this second report, I wish to congratulate MRDC management and it's Board for supporting EITI implementation by taking a step towards greater transparency. This has added value to the report given the importance and the value of assets it holds for our people.

This report builds on the first report (2013 report) published in early 2016 and I hope it will be utilised by all segments of the community to enhance the understanding of the economic impacts of this important sector. From a Government perspective the report not only highlights the very sound fiscal settings surrounding the sector but also illustrates where information management may give rise to better systems and enhance the ease of doing business in PNG.

Though PNG remains one of the most challenging countries to invest geographically, it is amongst the most geologically attractive countries in the world. While current global commodity prices have experienced dramatic declines resulting in many resource extraction projects being halted or delayed, a number of major proposed projects in PNG remain commercially sound and operators have sent a clear message to government by proceeding with several major mine developments.

I hope this report will provide those investors and Papua New Guineans with great confidence that the Government of PNG is committed to transparency, accountability and enhanced development outcomes for all citizens.

I commend this second report and officially endorse it for publication.

Hon. Patrick Pruaitch, CMG, MP
Minister for Treasury & Chairman,
PNG Extractive Industries Transparency Initiative

Multi-stakeholder group statement

The Papua New Guinea Extractive Industries Transparency Initiative Multi-Stakeholder Group (PNG EITI MSG) was established in 2013 to provide guidance and oversight of the EITI implementation process. One of the MSG's main activities is the production of annual EITI reports as required by the EITI International Secretariat for all implementing countries. Since the establishment of the MSG, members representing Government, Civil society and the Industry have worked together in the true spirit of collaboration towards completion of the first PNG EITI report. The first report covering the calendar year 2013 was launched and published by the Prime Minister in February 2016. The MSG continued to provide its oversight and guidance in the production of this second report which covers the calendar year 2014.

The EITI process is helping to improve current policy settings for the extractive sector. It is set to ensure PNG adheres to global best practices in the sector by increasing transparency and accountability of revenues paid by the companies to the National, Provincial and Local level governments and landowner associations. It further enhances transparency in the distribution of revenues from the national governments to sub-national levels. It is encouraging to see first-hand the level of collaboration happening between Government, Industry and the Civil Society in publishing the annual EITI reports, consistent with global standard. The publication of this second report will further stimulate discussions on the management of the sector and will continue to build greater trust between local communities, government and the industry for better governance and accountability.

The second report further extends a journey the MSG has taken together. The MSG has been focused on the PNG EITI objectives of:

- Improving public understanding of the management of the extractives industry
- Improving the accountability of both Government and Industry through enhanced understanding of the management of the extractives sector
- Improving the transparency of payments made to provincial and local level governments and landowner groups
- Ensuring that revenue generation and collections are consistent with the Government's policy settings for the extractives sector.

However, the activities of the MSG have not only resulted in the culmination of EITI reports but have given rise to other opportunities for Government, Industry and Civil Society to work together and improve communication and awareness of the extractives industry. This is an avenue that forms an alliance of a wider partnership between government, private sector and civil society over fiscal transparency, access to information and improved service delivery, being developed under the Open Government Partnership (OGP), of which Papua New Guinea is a member. The MSG is also approved an EITI Open Data Policy and Framework which came into effect in January 2017 as required under the 2016 EITI Standard, and the EITI Open Data Policy will complement the principles of OGP.

PNGEITI

PAPUA NEW GUINEA

TRANSPARENCY INTERNATIONAL PAPUA NEW GUINEA INC.

PAPUA NEW GUINEA CHAMBER OF MINES AND PETROLEUM

PNG MIWAGA

PNG MINING WATCH GROUP ASSOCATION

ina

CIMC CONSULTATIVE IMPLEMENTATION & MONITORING COUNCIL

baca

Some of the activities of the MSG can be found on the PNGEITI website (www.pngeiti.org.pg). These include the annual activity reports and a range of awareness activities on the EITI process and roadshows conducted in regional centres and resources impact areas. These outreach activities were targeted at informing the public on EITI implementation and the outcome and findings from the first report and its recommendations. The MSG has also recently released a Beneficial Ownership Roadmap. The Roadmap will be implemented from 2017 to 2020 when PNG will be required to report on beneficial ownership as required under the 2016 EITI Standard. The MSG has also started work on the EITI legislative and policy framework that will be pursued in 2017. According to the MSG's annual Work Plan, it has other critical activities to undertake in 2017 such as a scoping study on extending EITI implementation to sub-national levels of governments to report on sub-national transfers and contract transparency.

Through the chairmanship of the MSG by the Government, it has further strengthened the relationship between policy, revenue administration and regulating agencies. Inter-agency collaboration is key to getting the most positive resource revenue management outcomes, both in terms of collections, expenditure and transparency. Inter-agency collaboration is also important to identify opportunities to make systems and processes more user- friendly for business. Through the MSG process, an NEC Policy Submission had been formulated and endorsed to go before Cabinet in 2017. The proposed Policy Submission will be sponsored by Minister for Treasury as Chair of the PNG EITI MSG and tasks each government entity to implement key recommendations from the first report.

The EITI MSG process has not only allowed for better inter-agency collaboration and proposed policy developments and reforms but it has also enhanced it further through greater access to Industry and civil society.

Industry representatives on the MSG have been drawn from both the oil and gas sector and the mining sector. Our industry representatives have worked consistently with us, with great generosity of time and resources to help advance all aspects of the EITI process. This second report shows what valuable partners they are in the pursuit of our development objectives as a nation and the real contribution they make to the economy. The report is not only focused on revenues generated by this sector in 2014 financial year but also sets out other important economic contributions such as voluntary social expenditures.

Civil Society have also been critical partners in the EITI process since the establishment of the MSG and this active participation is key to ensure that the transparency created by the EITI leads to greater accountability. Civil Society has a wider network and provides information to and a voice for the many Papua New Guineans from impacted areas and the community more generally who have their own perspectives on the impacts and contributions of the extractives industry.

PNG Council of Churches

Civil Society MSG Stakeholders have organised themselves with the establishment of the PNG Resource Governance Coalition (PNGRGC) which extends to network with wider Civil Society. The PNGRGC, along with individual MSG CSO stakeholders, have worked with Government and the Industry group in conducting community outreach activities that have been critical in informing public debate on how PNG Government and Industry have been managing its substantial and valuable natural resource endowment; debating benefits and some hazards of exploitation; the nature of agreements and fiscal conditions; and sustainable management into the future.

The MSG would like to extend their thanks and appreciation to the PNG EITI National Secretariat headed by Mr Lucas Alkan for their tireless efforts and to the EITI International Secretariat for their valued advice and support. The MSG would also like to thank Ernst & Young for performing its duties as the Independent Administrator in producing this second report.

Multi-Stakeholder Group

Mr Lucas Alkan
Head of Secretariat
PNG EITI National Secretariat

State	State-owned enterprises	Industry	Civil society
Chairman of PNGEITI MSG Hon. Patrick Pruaitch CMG MP Treasurer & PNG Ministry of Treasury	Mr Thomas Abe Managing Director Kumul Mineral Holdings Ltd	Mr Greg Anderson Executive Director PNG Chamber of Mines and Petroleum	Mr Lawrence Stephens Chairman Transparency International PNG (TIPNG)
Mr Kepsey Puiye Acting Secretary Department of Petroleum and Energy	Mr Augustine Mano Managing Director Mineral Resources Development Company	Mr Peter Aitsi Country Manager Newcrest Mining Ltd	Mr Paul Barker Executive Director Institute of National Affairs (INA)
Ms Betty Palaso Commissioner General Internal Revenue Commission	Mr Wapu Sonk Managing Director Kumul Petroleum Holdings Ltd	Mr Gerea Aopi Executive General Manager of External Affairs and Sustainability Oil Search (PNG) Ltd	Fr Denny Guka Chairman PNG Council of Churches
Mr Philip Samar Managing Director Mineral Resources Authority	Mr Garry Hersey *(Non-Voting)* Managing Director Kumul Consolidated Holdings Ltd	Mr Andrew Barry Lead Country Manager ExxonMobil PNG Limited	Mr Patrick Yepe Lombaia Executive Director PNG Mining Watch Group Association Inc.
Ms Harry Hakaua *(Non-Voting)* Secretary Department of National Planning and Monitoring		Mr Philippe Blanchard Managing Director Total E&P PNG Limited	Mr Senson Mark Manager EcoForestry Forum
Mr Shadrick Himata *(Non-Voting)* Secretary Department of Mineral Policy and Geohazards Management		Mr Anthony Smare Director Barrick Niugini Ltd	Ms Mayambo Peipul Project Manager Business Against Corruption Alliance (BACA)
Mr Bruce Java *(Non-Voting)* Acting Director – Non-renewable Resources Department of Prime Minister and NEC		Mr Kepas Wali Executive Manager Corporate Affairs PNG, Harmony Gold SE Asia	Ms Wallis Yakam Executive Officer Consultative Implementation and Monitoring Council (CIMC)
Mr Gunther Joku *(Non-Voting)* Managing Director Conservation and Environment Protection Authority			Mr Martyn Namorong *(Non-Voting)* National Coordinator PNG Resource Governance Coalition
Dr Ken Ngangan *(Non-Voting)* Secretary Department of Finance			
Mr Philip Nauga *(Non-Voting)* Auditor General Auditor General's Office			

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Diagrams

Abbreviations

APT	Additional profits tax
BOPY	Barrels of oil per year
CITF	Community Infrastructure Trust Funds
CMCA	Community Mine Continuation Agreement
DPE	Department of Petroleum and Energy
EITI	Extractive Industries Transparency Initiative
FGTF	Future Generation Trust Funds
FOB	Free on board
GBT	General Business Trust
GDP	Gross Domestic Product
GST	Goods and Services Tax
IPBC	Independent Public Business Corporation
IRC	Internal Revenue Commission
ITA	Income Tax Act 1959
LNG	Liquefied natural gas
m^3	cubic metres
MA	Mining Act 1992
MAC	Mining Advisory Council
MoA	Memorandum of Agreement
MRA	Mineral Resources Authority
MRDC	Mineral Resources Development Company Limited
MMscf	Millions of standard cubic feet (gas)
Mscf	Thousands of standard cubic feet (gas)
MSG	Multi-stakeholder group
MTFS	Medium Term Fiscal Strategy 2013–2017
MYEFO	Mid-Year Economic and Fiscal Outlook
NEC	National Executive Council
NGO	Non-government organisation
OGA	Oil and Gas Act 1998
OTML	Ok Tedi Mining Ltd
oz	ounce
PGK	Papua New Guinea kina
PNG	Papua New Guinea
PRK	Petroleum Resources Kutubu
scf	standard cubic feet (gas)
SOE	State-owned enterprise
stbopd	standard barrels of oil per day
SWF	Sovereign Wealth Fund

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Independent administrator's notes

Reporting period

This report covers the calendar year from 1 January 2014 to 31 December 2014. In instances where figures for 2014 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 2014 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 2014 calendar year. Some of these payments may have been accrued in previous years. Where payments were accrued during 2014, but made during 2015, these will be included in the 2015 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. According to S&P Capital IQ, the average 2014 USD/PGK exchange rate was 1 : 2.525.

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. No quality assurance has been provided to confirm the accuracy of the data, meaning there could be the possibility of errors and incompleteness in the data.

Report completeness

We have experienced varied levels of cooperation from reporting entities. In general, the release of the PNG EITI Report 2013 has increased entities' understanding of the process and their willingness to participate. However, significant gaps remain in this report.

Nearly all companies have complied fully or partially.

Data templates from some reporting entities were received only after publication of the draft report on 23 December 2016. Barriers cited to delayed provision of the required information included capacity constraints and the need to receive authorisation from senior management or departmental secretaries. The National Secretariat has taken steps to address these problems by engaging the independent administrator early in March for preparation of the next 2015 Report. It is expected that by avoiding the November-January period where the PNG public sector operates on reduced staff due to holiday periods, the data collection process will be more efficient.

The late receipt of critical data has restricted the independent administrator from fully investigating the variances and discrepancies between the data reported by the entities.

As PNG EITI approaches its first validated report for the 2016 calendar year, we believe the reporting entities have developed the necessary expertise in collating the data and also allocating functional responsibilities within their respective organisations including authority levels to provide the data templates and explanations to variances to the IA.

Executive summary

Papua New Guinea (PNG) has a wealth of natural resources which, with better management, could underpin development and improve the lives of PNG citizens. To support this aim, the Government of PNG has undertaken to work towards compliance with the Extractive Industries Transparency Initiative (EITI) global standard.

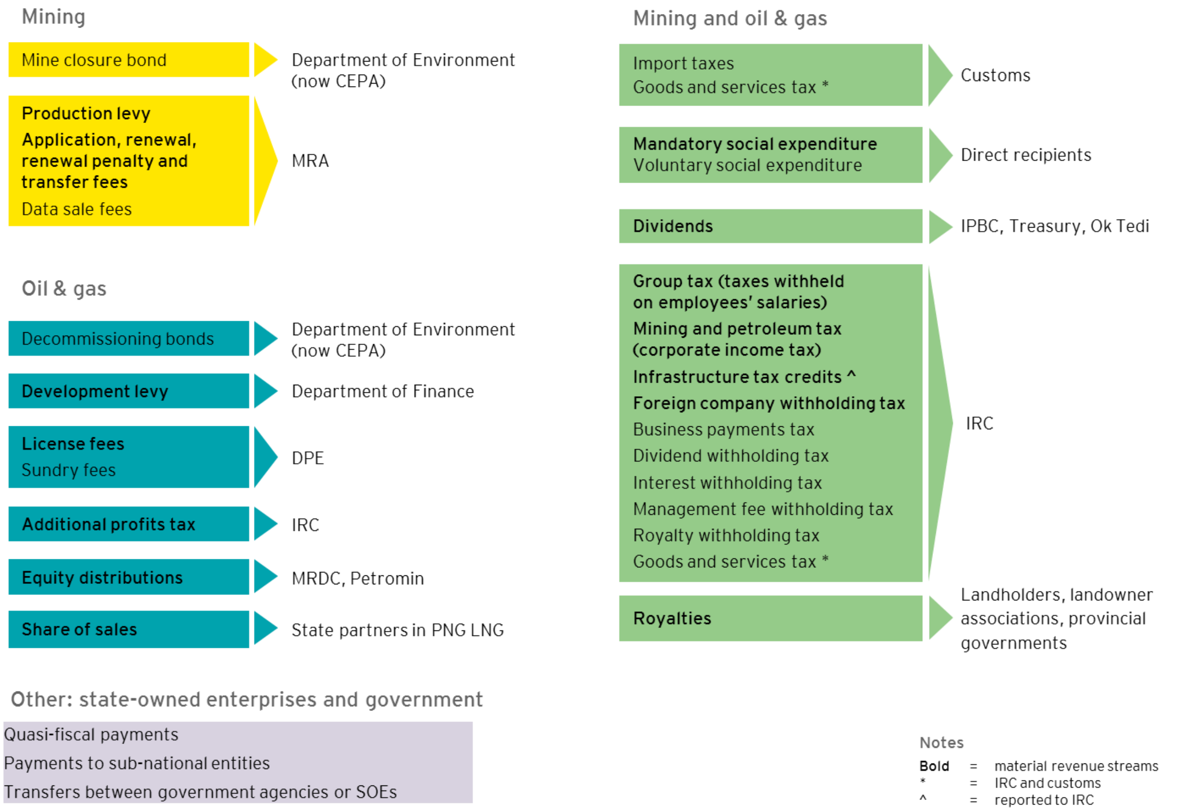
The EITI is a global organisation established in 2002 with a goal of increasing industry transparency and accountability. Participating countries issue annual reports reconciling payments from the extractive industries to receipts by governments, in accordance with the EITI Standard. This is PNG's second EITI report, focusing on the 2014 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, 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.

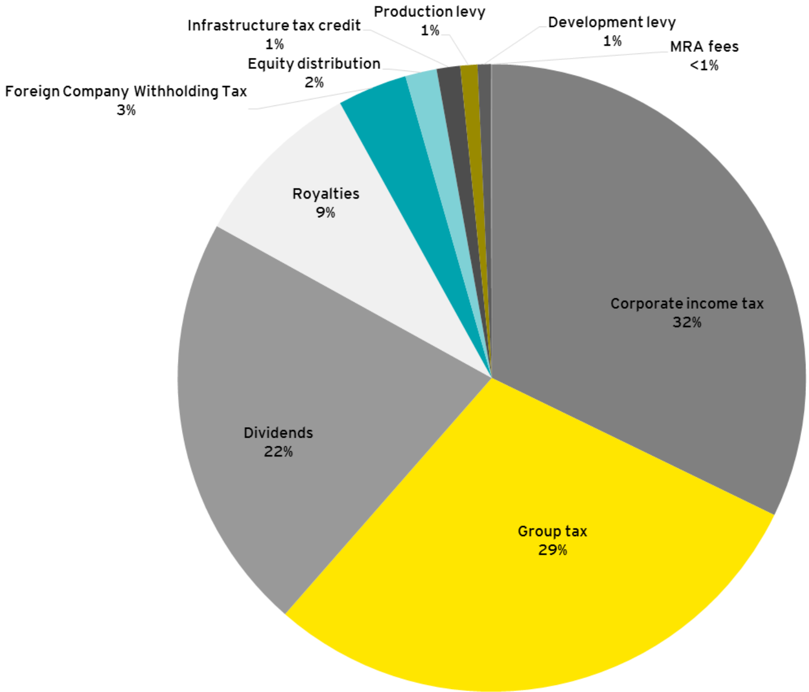
Revenue streams

Both quantitative and qualitative criteria were used to establish which revenue streams from the extractives sector would be considered material for this report. The complete set of revenue streams is shown below, with material streams in bold.

Figure 1: Revenue streams from the extractive sector, together with receiving entity



The relative contribution of the material revenue streams is shown below, with taxes comprising close to 80% of the total revenue.



Reporting entities

The MSG determined that the PNG EITI Report 2014 would cover 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.

Table 1: Reporting entities 2014

Mining companies	Oil and gas companies	State-owned enterprises	Government departments and statutory authorities
▶ Ok Tedi Mining Ltd (Ok Tedi) ▶ Barrick Gold (Porgera) ▶ Lihir Gold Ltd (Lihir) ▶ MCC Ramu NiCo Ltd (Ramu) ▶ Newcrest and Harmony (Hidden Valley) ▶ Petromin (Tolukuma) ▶ Simberi Gold Co. Ltd (Simberi) ▶ Niuminco (Edie Creek) ▶ New Guinea Gold (Sinivit)*	▶ ExxonMobil ▶ Oil Search ▶ Santos ▶ Nippon ▶ Cue Energy (equity sold to NPCP in 2014) ▶ Petromin ▶ MRDC	▶ Independent Public Business Corporation (now Kumul Consolidated Holdings) ▶ Mineral Resources Development Company Limited ▶ National Petroleum Company of Papua New Guinea (now Kumul Petroleum Holdings) ▶ Ok Tedi Mining Limited ▶ Petromin (now Kumul Mineral Holdings)	▶ Internal Revenue Commission ▶ Mineral Resources Authority ▶ Department of Treasury ▶ Department of Finance ▶ Department of Petroleum and Energy ▶ Department of National Planning and Monitoring

Contribution of the extractive industries to the economy

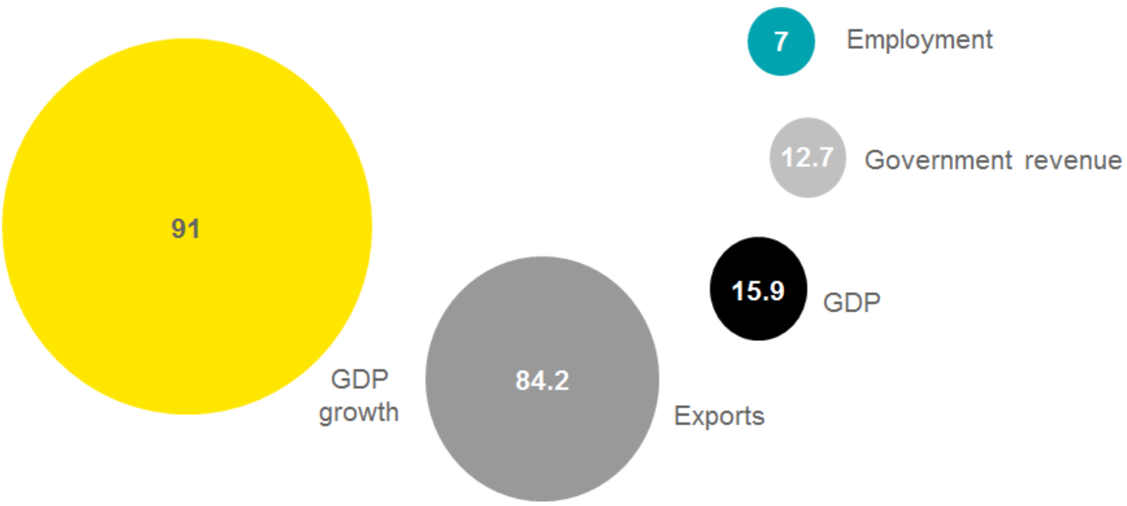
After 14 years of consecutive economic growth, PNG has progressed from 'low income' to 'lower middle income' according to World Bank classifications.[1] However, the country is still establishing infrastructure and establishing governance structures, and faces the complexities of a substantially non-monetised economy and a geographically and culturally diverse population. PNG currently ranks 158 out of 187 countries in the United Nations' *Human Development Index*, and many social indicators such as health, education and gender equality are very poor.[2] The PNG Government has expressed a strong commitment to address these issues and to meet the Sustainable Development Goals.[3]

PNG's economy is dominated by two sectors: the agricultural, forestry, and fishing sector, which engages most of the labor force (the majority informally); and the minerals and energy extraction sector, which accounts for the majority of export earnings.[4] In 2014, PNG's Gross Domestic Product (GDP) was PGK43,279.2 million[5] (US$16.93 billion).[6]

Economic growth rose to 8%, with 91% of that growth coming from the extractives sector (compared with 9% in 2013). This was largely driven by the first exports from the PNG LNG project. Growth in other sectors of the economy remained modest, and the construction industry contracted as the PNG LNG project moved from construction phase into operation.

While the extractive industries dominate exports, they have a smaller impact on other economic measures, as shown below.

Figure 2: Percentage contribution of the extractives sector to economic measures[7]



[1] 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 October2016

[2] 'Papua New Guinea reckons with unmet development goals,' *UNDP*, http://www.pg.undp.org/content/papua_new_guinea/en/home/presscenter/pressreleases/2015/05/27/papua-new-guinea-reckons-with-unmet-development-goals.html, accessed 26 October 206

[3] ibid

[4] 'PNG Overview', http://www.worldbank.org/en/country/png/overview, accessed 11 November 2016.

[5] National Budget, Vol 1, Appx 3, Table 10(ii) p. 118, http://www.treasury.gov.pg/html/national_budget/files/2016/Volume1-Econ&DevPolicies.pdf, accessed 04 October 2016.

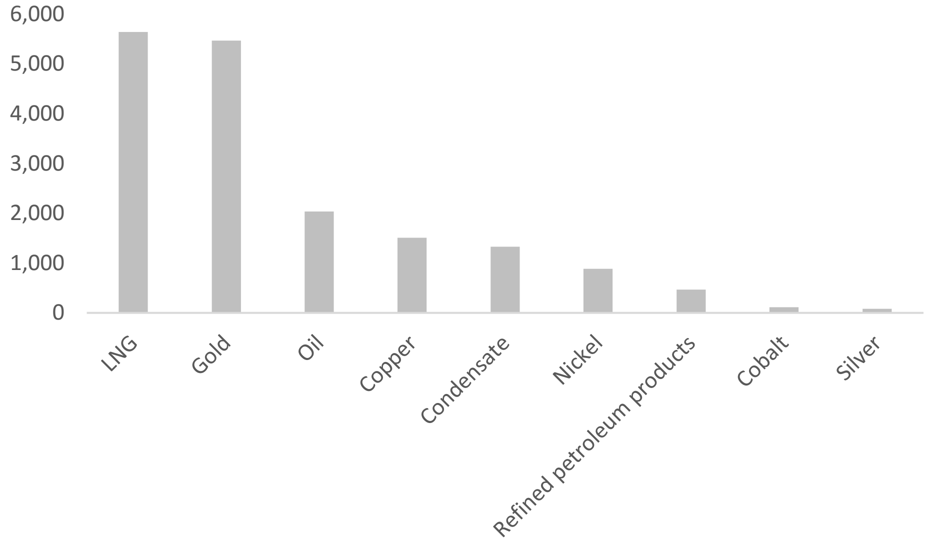
[6] 'Papua New Guinea' http://data.worldbank.org/country/papua-new-guinea, accessed 04 October 2016.

[7] 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, accessed 07 February 2017.

The extractives industry contributed 12.7% of government revenue in 2014, compared with 7.5% in 2013. This increase correlates with the commencement of the PNG LNG project. Revenue flows to the government from the extractives industry can fluctuate in accordance with the performance of individual operations, which are vulnerable to commodity prices, and the impacts of severe weather events such as drought and flood.

The value of total mineral exports for 2014 was PGK17,522.5 million, comprising 84.18% of total export value.[8] This high proportion leaves the PNG economy vulnerable to commodity price fluctuations. The government has made attempts through policy interventions to manage this, such as the new Sovereign Wealth Fund and promoting investments in the non-extractives sector.

Figure 3: Mineral exports 2014 (PGK million)[9]



The extractives sector provides limited direct employment, with estimates ranging from 2.5% to 10% of PNG's formal workforce. However, it indirectly supports a significant amount of employment across the economy. During construction, the PNG LNG project provided up to 21,200 jobs (in 2012), while in operation it employs around 2,400 workers (as at December 2015), 75% of whom were PNG citizens.[10] There are also up to 80,000 small-scale miners, largely working outside the formal economy.

The extractives industry has both positive and negative impacts. It provides employment, training and revenue, and gives rise to infrastructure, and many operators actively seek to improve the lives of people in their areas of operation. However, the industry can also be a source of social tensions related to benefits distribution and negative environmental impacts.

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[8] 2016 Budget, Vol 1, Appx 3, Table 5, p. 111 (figures listed as estimated but then sourced as 'actuals from BPNG'), http://www.treasury.gov.pg/html/national_budget/files/2016/Volume1-Econ&DevPolicies.pdf, accessed 04 October 2016.
[9] 2016 Budget, Vol 1, Appx 3, Table 5, p. 111 (figures listed as estimated but then sourced as 'actuals from BPNG'), http://www.treasury.gov.pg/html/national_budget/files/2016/Volume1-Econ&DevPolicies.pdf, accessed 04 October 2016.
[10] PNG LNG Environmental and Social Report-Second Half 2015, PNG LNG, 2015 (accessed via http://pnglng.com/media/pdfs/2H15-ES-Report-FINAL-26-02-2016-FULL-ENG-WEB.pdf, 21 October 2016)

Legal framework and fiscal regime

PNG's system of government is highly decentralised in response to the country's geographic and cultural diversity; there are five layers of government including national, provincial, district, local level governments and wards. While the Government sets strong policy and has a relatively robust legislative regime and fiscal control, implementation is challenging due to weak capacity and a lack of accountability, particularly at local levels. The associated lack of transparency also leaves the way open for corruption.[11]

Subsoil assets in PNG belong to the State. Their extraction is governed principally by the *Mining Act 1992* (MA) and the *Oil and Gas Act 1998* (OGA). 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.

The PNG Government does not require companies to disclose the ultimate 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. In accordance with the EITI Standard 2016, PNG EITI has published a roadmap towards disclosure of beneficial ownership by 2020.

Management and distribution of revenues

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.

In 2016, the PNG Sovereign Wealth Fund came into operation. The fund draws on revenues from the extractive industries and is intended to help protect the economy from external shocks and invest resources wealth for the benefit of future generations.

It is difficult to obtain information relating to sub-national transfers and payments linked to extractives revenue. Some information is contained in the National Economic and Fiscal Commission Provincial Government Budget Reports, which outline regional allocations of royalties, equity, dividends, compensation payments and Special Support Grants. Accountability mechanisms vary significantly and the capacity of sub-national governments is constrained.

Auditing of both national and sub-national governments is constrained by limited capacity of both the Auditor-General's office and the entities which it is auditing. With the exception of Ok Tedi and Petromin, none of the State and state-owned reporting entities yet had audited accounts for 2014, while audits for earlier years all had qualifications.

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 voluntary, or may be mandated through legislation or through contracts with the government.

The EITI Standard does not define 'social', and we found variances in what different reporting entities considered to fall into this category. In particular, some reporters included compensation payments and lease payments to landholders as mandatory social expenditures, while others categorised these as commercial transactions rather than social payments.

[11] Wiltshire 2013, cited in PNG NHDR 2014.

Discretionary social payments from 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.

Mining

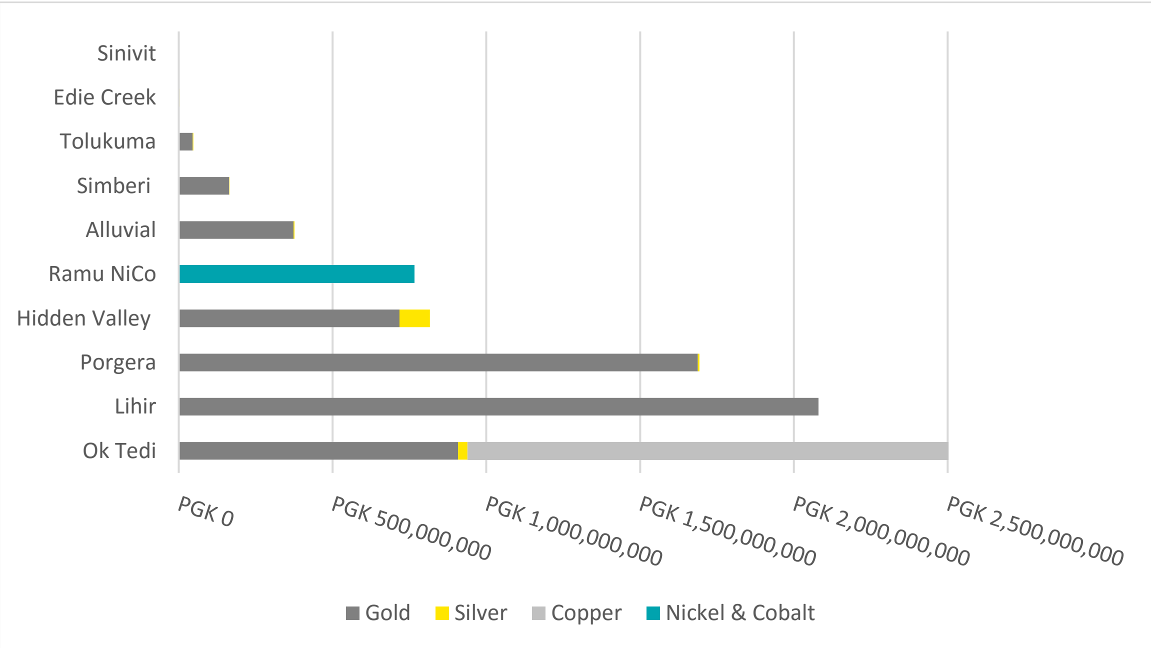
PNG is rich in minerals, ranking in the top 20 world gold and copper producers, and also producing silver, nickel and cobalt. Mining has taken place in PNG since the late 19th century, intensifying in the 1960s, and the past decade has seen an unprecedented level of activity, with a number of projects commencing operations or in planning and development stages.

During 2014, nine mines were operating in PNG, distributed over a number of provinces. Mining companies active 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.

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 (MoA).

The Mineral Resources Authority (MRA) collects production data from operators. Figure 4 below provides an overview of exports during the reporting period.

Figure 4: Overview of export value by mine site[12]



We identified a number of discrepancies between the production quantities reported by the MRA and the production quantities reported by companies directly to the Independent Administrator. In most cases the discrepancies are within 5%, but there are instances of larger discrepancies. [13]

[12] Based on MRA data on FOB sales

[13] See Table 15 in Chapter 7 for overview of production data reconciliation

Oil & gas

PNG's proven crude oil reserves are estimated at 2.53 million barrels, placing it at 99 out 103 countries with proven reserves. However, the country's location close to Asia Pacific buyers, and their relatively low production costs,[14] give the industry strategic advantages.[15]

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 has been in slow but steady decline since the mid-1990s.

A range of national and multinational oil and gas 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 just starting, with the PNG LNG project shipping its first liquefied natural gas (LNG) in May 2014.[16] The project has design capacity of 6.9 million tonnes of LNG per annum,[17] 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.[18] The project has had significant impacts on affected communities, both positive and negative.

Oil and gas interests in PNG are predominantly in listed companies, with the exception of PNG state-owned enterprises.

Production figures for 2014 were:

- Oil: 10,989,055 BOPY
- LNG: over 3.79 million tonnes

The Department of Petroleum and Energy's (DPE) figures for oil production agreed with those provided by Oil Search. However, the figures provided by DPE for LNG production did not appear to be accurate, since they did not agree with those provided by ExxonMobil, which were consistent with figures reported by Petromin.

The oil and gas industry in PNG is 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. The National Secretariat has informed us that an NEC Policy Submission that tasks all government entities to implement the recommendations of the 2013 report is currently before Cabinet for consideration and endorsement. At the time of writing however, there was no indication of progress by the DPE towards addressing these recommendations.

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14 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)

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

16 '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

17 'project capacity of 6.9 million tonnes of LNG', ibid.

18 'PNG Government works to stimulate growth', *Oxford Business Group*, https://www.oxfordbusinessgroup.com/overview/png-government-works-stimulate-growth, accessed 7 February 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 2014, PNG's relevant state-owned enterprises (SOEs) were:

- Independent Public Business Corporation (IPBC)
- National Petroleum Company of PNG Limited (NPCP)
- Petromin PNG Holdings Limited
- Ok Tedi Mining Limited
- Mineral Resources Development Company Limited (MRDC)

The government has since restructured all state-owned assets, apart from MRDC and Ok Tedi, into three new companies:

- Kumul Petroleum Holdings Limited (all hydrocarbon assets)
- Kumul Minerals Holdings Limited (all mining assets)
- Kumul Consolidated Holdings (all other assets)

During the reporting period, IPBC was the owner of NPCP, while NPCP, Petromin and Ok Tedi were operators in the extractive industries.

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;[19] consequently, not all mining operations have an associated MRDC subsidiary.

MRDC joined the MSG in 2016, following recommendations in the PNG EITI Report 2013. As a result of increased engagement in the EITI process, and some stakeholder pressure, MRDC provided data for the PNG EITI Report 2014. Given the importance and value of the assets they hold for the people of PNG, they are to be congratulated for taking this step towards greater transparency.

Reconciliation of revenue streams

Nearly all reporting entities submitted data for this report. In some cases the data was provided after the initial publication deadline of 31 December 2016, necessitating the release of a substantially incomplete draft report. The late receipt of critical data has left insufficient time to properly investigate variances and gaps. It is to be hoped that, having taken the important step towards disclosure, data for future reports will be received more promptly, so a more complete picture of PNG's resources revenue can be compiled.

Some revenue streams reconciled with insignificant variances. Where variances were identified, we were not in all instances able to fully investigate the reasons due to the capacity constraints placed upon some of the reporting entities to provide comprehensive explanations to the variance observed. Furthermore, unexplained variances may have also resulted from the confusion over the exact definition of the revenue stream (for example, reporting of ITCs showed different approaches); others were due to accrued amounts being reported instead of cash payments.

Many key revenue streams had doubled in 2014 compared with 2013, largely driven by the PNG LNG project.

[19] Mining Act 1992 s.16A

Table 2: Overview of reconciliation results

	Revenue stream	Reconciled?	Receiving entity	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)
Mining	Production levy	Y	MRA	22,573,313	21,173,907	885,127	(4.08%)
Mining	MRA fees	Unilaterally declared (MRA)	MRA	n/a	1,329,638	n/a	n/a
Oil & gas	Development levy	Partial	Finance (via DPE)	16,672,575	16,369,437	16,672,575	1.82%
Oil & gas	Licence fees	Unilaterally declared (DPE)	DPE	n/a	None reported	n/a	n/a
Oil & gas	Additional profits tax	Unilaterally declared (IRC)	IRC	0	0	n/a	n/a
Oil & gas	Equity distributions	Partial	MRDC, Petromin	1,249,875	None reported	1,249,875	(100%)
Oil & gas	Share of sales	N/A	State partners in PNG LNG	No payments made in 2014	No payments reported by State Partners	n/a	n/a
Mining and petroleum	Mandatory social expenditure	Unilaterally declared (companies)	See further comments in Chapter6	281,160,039	n/a	n/a	n/a
Mining and petroleum	Voluntary social expenditure	Unilaterally declared (companies)	See further comments in Chapter6	645,912,859	n/a	n/a	n/a
Mining and petroleum	Dividends	Partial	IPBC, Treasury, Ok Tedi	See discussion in chapter			
Mining and petroleum	Group tax	Unilaterally declared (IRC)	IRC	n/a	723,650,131	n/a	n/a
Mining and petroleum	Corporate income tax	Y	IRC	756,231,918	796,917,438	-40,685,521	(5.11%)
Mining and petroleum	Infrastructure tax credits	Partial	IRC	See discussion in chapter			
Mining and petroleum	Foreign company withholding tax	Unilaterally declared (IRC)	IRC	n/a	88,799,868	n/a	n/a
Mining and petroleum	Royalties	Y	Landowners and sub-national governments	238,198,522	221,374,350	16824,173	(7.6%)

Findings and recommendations

The PNG EITI Report 2013 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. While a few recommendations have been acted on, planned measures for most had not yet been implemented at the time of compiling this report, and we encountered many similar issues to the previous report. In addition to providing an update on progress against the 2013 Report findings, we have provided the following recommendations for the 2014 reporting period:

- *Importance of continued stakeholder engagement, particularly with reporting entities*: The MSG's increased focus on engaging with all reporting entities has delivered improvement in the level of participation in the 2014 Report, compared to the 2013 Report. This has flow-on benefits for transparency within government and the extractive sector. We encourage the MSG to continue to engage with reporting entities, and to encourage timely participation in the reporting process.
- *Implementation of Beneficial Ownership Roadmap*: A Beneficial Ownership Roadmap has been completed as required by the EITI Standard. Many of the activities included in the Roadmap such as embedding data collection procedures and generating awareness present opportunities to improve EITI reporting and awareness more broadly as well.
- *Continue progress against the Work Plan*: We have noted strong commitment from the MSG to implementation of projects in the EITI Work Plan. We encourage the MSG to continue to progress development and implementation of key supporting projects documented within the Work Plan, including the scoping study for subnational payments.
- *Preparation for validation of the 2016 EITI Report:* The EITI Board has agreed that the first validation process for PNG will commence on 1 April, 2018, covering PNG's 2016 EITI Report. To meet this deadline, the MSG will need to ensure that barriers encountered to timely release of data for the 2014 Report are addressed early during the reporting period. These include capacity constraints, and authorisation from the senior management of reporting entities.

Chapter 1: Introduction

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. The Extractive Industries Transparency Initiative provides an opportunity for Papua New Guinea to improve collection and distribution of revenues from the natural resource sector.

About the Extractive Industries Transparency Initiative (EITI)

The Extractive Industries Transparency Initiative (EITI) was established in 2002 with a goal of increasing industry transparency and accountability. 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 56 countries (including PNG) at various stages of implementing the EITI Standard.

EITI implementation in Papua New Guinea

Papua New Guinea (PNG) has a wealth of natural resources. With better management, this could help reduce poverty and improve 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 168 countries in Transparency International's *Corruption Perception Index* in 2015.[20] Similarly challenging assessments of corruption and attractiveness for foreign investment have been published by the World Bank,[21] Natural Resource Governance Institute[22] 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. In March 2014, the country was accepted as a candidate country, and in early 2016 it published its first EITI report, for the calendar year 2013.This report focuses on the 2014 calendar year.

Through working towards EITI compliance, PNG is seeking to achieve:

- Improved public understanding of how the extractive industries are managed
- Improved accountability of both government and industry
- Improved attractiveness of PNG as a destination for foreign investment
- Fair and transparent collection and distribution of revenue raised from prudent investment in the development of natural resources
- Improvement in the country's systems and processes for receiving and distributing revenue and payments to provincial and local-level government and landowner groups
- Revenue generation and collection that is consistent with policy settings.

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[20] 'Corruption Perceptions Index 2015', *Transparency International*, https://www.transparency.org/cpi2015#results-table, accessed 7 February 2017
[21] Doing Business 2016, *Measuring Regulatory Quality and Efficiency*, World Bank, 2016 (accessed via http://www.doingbusiness.org/reports/global-reports/doing-business-2016, 7 February 2017)
[22] 'Resource Governance Index', Natural Resource Governance Institute, http://www.resourcegovernance.org/rgi, accessed 7 February 2017
[23] Survey of Mining companies, Fraser Institute, 2014, (accessed via https://www.fraserinstitute.org/sites/default/files/survey-of-mining-companies-2014.pdf, 7 February 2017)

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.[24] The MSG is chaired by the PNG Treasurer, and comprises:

- Eleven representatives from the Government of PNG, including four voting and seven non-voting members, selected from the State Working Group[25] through internal processes and through direct engagement with participating ministries, agencies and departments
- Four representatives from state-owned enterprises, including three voting and one non-voting member
- Eight representatives from civil society, including seven voting and one non-voting members, 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.

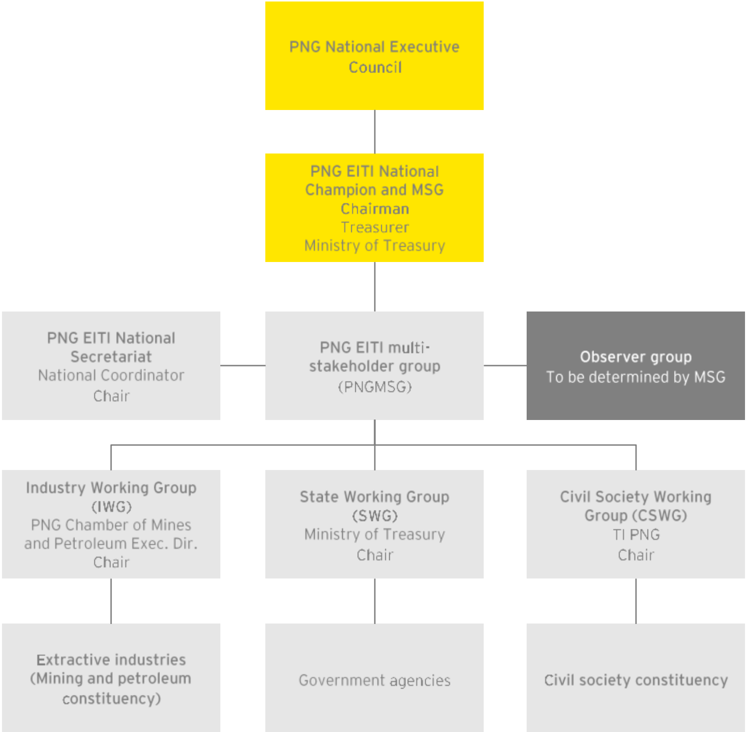
Following recommendations from the 2013 PNG EITI report, the MSG has been expanded to include the Mineral Resources Development Company (MRDC), as well as the new state-owned enterprises Kumul Minerals Holdings (KMH) and Kumul Petroleum Holdings (KPH).

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 the 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.

[24] PNG EITI National Secretariat, 2013, (accessed via http://www.treasury.gov.pg/html/misc/Special%20Projects/PNGEITI/PNGEITI%20Multi%20Stakeholder%20Group%20-%20MoU.pdf,7 February 2017)
[25] The SWG was convened to investigate EITI and make recommendations to the PNG Government - 'Oil Search Limited,' *EITI,* https://eiti.org/supporter/oil-search-limited, accessed 7 February 2017

Figure 5: Governance of EITI in PNG



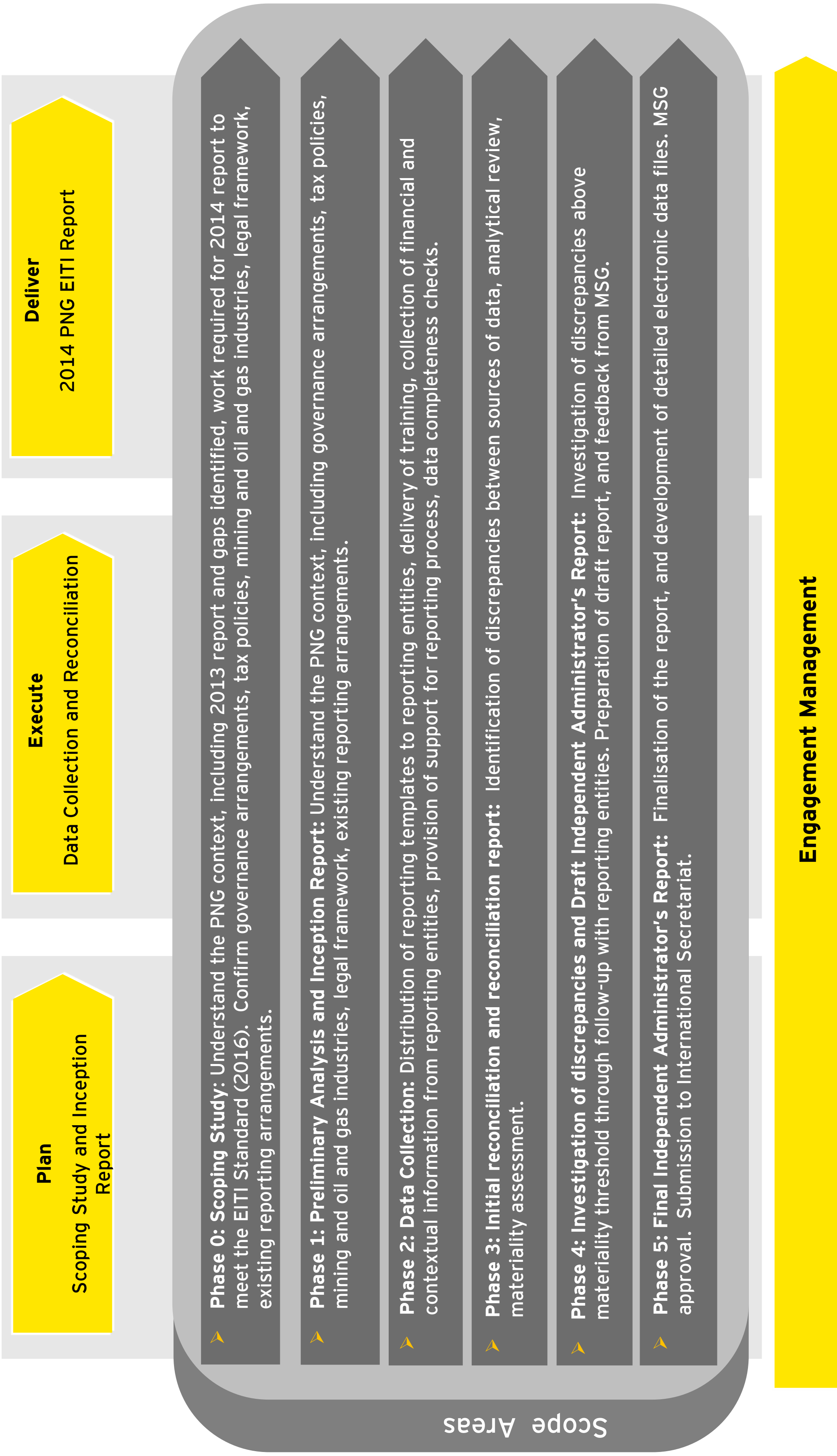
The role of the independent administrator

The EITI Standard (4.9b) requires that payments and revenues be reconciled by an Independent Administrator. 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 independent administrator are outlined within the terms of reference issued by the PNG EITI National Secretariat and provided at Appendix B.

In preparing this report, EY has executed the report as shown in Figure 6.

- Conducted a preliminary analysis building on the 2013 report, and delivered a scoping study for the MSG to approve the scope of the 2014 report
- Delivered an inception report for the MSG to approve the approach to compiling the 2014 report
- Sent data requests to all reporting entities
- Conducted desktop research and in-person interviews to supplement data received
- Conducted a reconciliation and investigated discrepancies
- Compiled this report based on information gathered

Figure 6: EY's scope and approach for the independent administrator of PNG



Chapter 2: Revenue streams and reporting entities

The boundaries of this report were based on:

- Quantitative materiality: those revenue streams that are known to contribute more than 2% of government revenue from the sector
- Qualitative materiality: 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, the State
- Limited to resource sector companies that were producing saleable product during the 2014 calendar year
- Reconciliation of revenue streams that are quantitatively material.

Revenue streams

The complete set of revenue streams relevant to the extractives sector, as identified to date, is shown in Figure 7 below. Revenue streams identified as material are shown in bold.

Figure 7: Revenue streams from the extractive sector, together with receiving entity

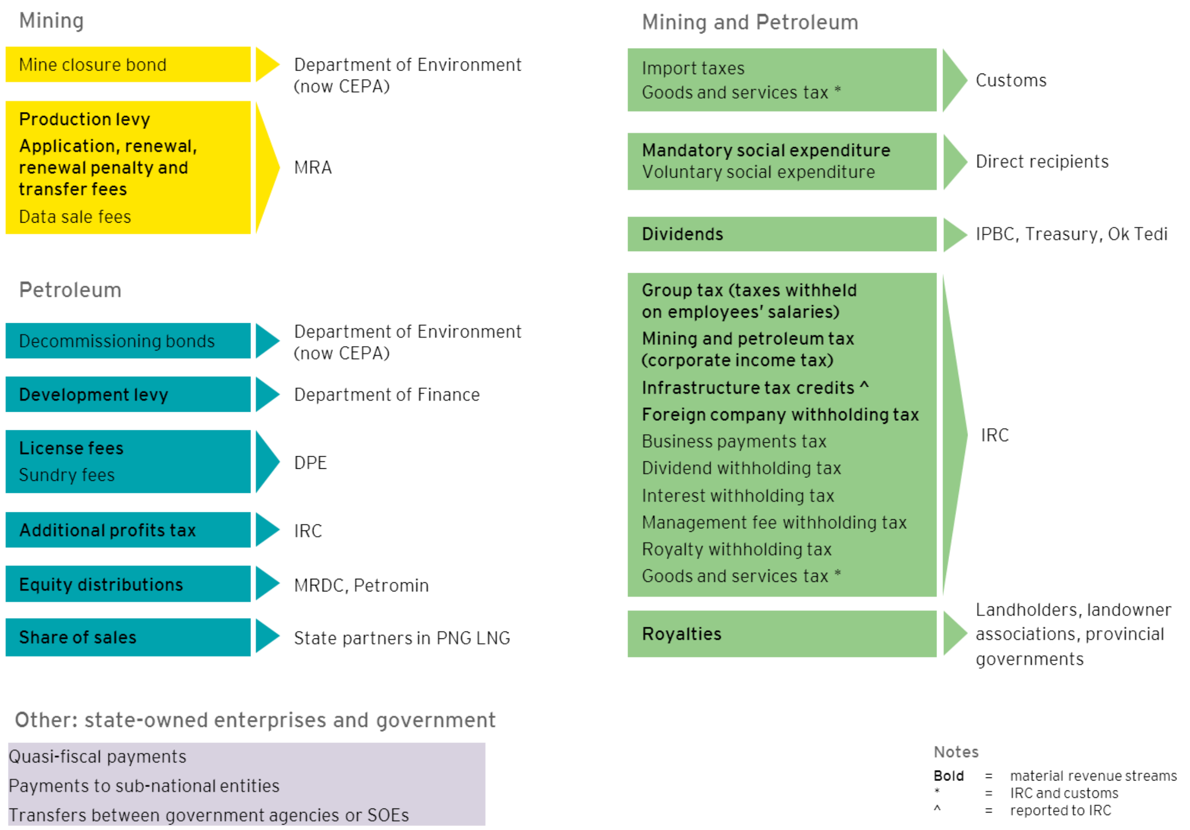
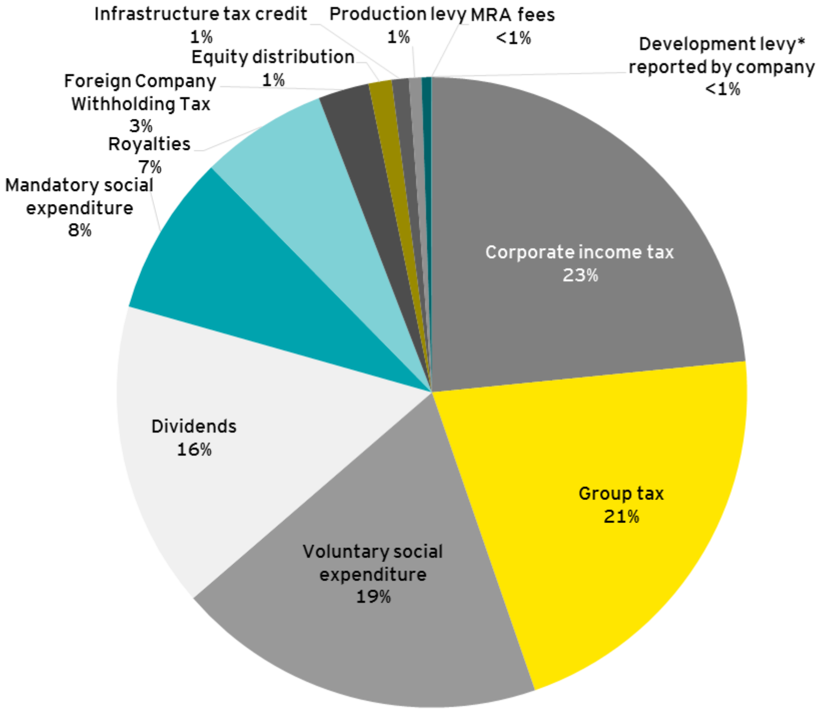


Figure 8: Revenue streams by percentage contribution[26]



Treasury confirmed that there were no barter arrangements in place that need to be included, and no material revenues from the transportation of oil, gas or minerals.[27]

Materiality

The Multi-stakeholder Group considered both qualitative and quantitative definitions of materiality to determine which of these 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' and that 'materiality is the threshold at which Aspects become sufficiently important that they should be reported.'[28]

Although the information captured in an EITI report is typically financial in nature – and therefore generally suited to a quantitative materiality – the objective of this report is to assist in addressing fraud and corruption, improving perceptions of PNG's attractiveness as an investment prospect, and generally to improve transparency and accountability. We therefore adopted a broader definition of materiality, 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.

[26] Summarised from reporting entity data compiled during reconciliation of 2014 payments. See chapter 10.

[27] Direct communication from Treasury, 22 December 2016

[28] Global Reporting Initiative https://www.globalreporting.org/

The quantitative threshold applied 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. Additionally, we have included those revenue streams that are below this quantitative threshold, but which are considered potentially material based on our qualitative definition of materiality. This includes, for example, development grants for provincial government projects. Together, this equates to approximately 96% of total known revenue from the sector.

The revenue streams identified as material are indicated in bold in Figure 7.

Reporting entities

The MSG determined that the PNG EITI Report 2014 would cover 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. The reporting streams are disaggregated to the company level, which broadly equates to the project level for the mining industry. These companies are listed in Table 3 below.

Table 3: Extractive industry companies required to report in 2014

Mining companies	Oil and gas companies
There were nine mining companies in production during the reporting period. These are (with relevant mine in parenthesis): ► Ok Tedi Mining Ltd (Ok Tedi) ► Barrick Gold (Porgera) ► Lihir Gold Ltd (Lihir) ► MCC Ramu NiCo Ltd (Ramu) ► Newcrest and Harmony (Hidden Valley) ► Petromin (Tolukuma) ► Simberi Gold Co. Ltd (Simberi) ► Niuminco (Edie Creek) ► New Guinea Gold (Sinivit)*	Oil Search and ExxonMobil were the only operators of production licences that were producing oil or gas during the 2014 calendar year. Tax was also payable by the following companies (and their relevant subsidiaries) in respect of their equity stake in operations: ► Santos ► Nippon ► Cue Energy (equity sold to NPCP in 2014) ► Petromin ► MRDC For most revenue streams identified in the report, only the operators are required to report. However, all of the partners in the unincorporated joint ventures for each of the producing PDLs must provide information on corporate income tax paid.

*New Guinea Gold were in receivership at the time of reporting

We included all SOEs in the study, including both those who operated mining or oil and gas projects, and those who received equity distributions or dividends. The SOEs are listed in Table 4 below.

Table 4: State-owned enterprises required to report in 2014

State-owned enterprises (SOEs)
Five SOEs were required to report: ► Independent Public Business Corporation (now Kumul Consolidated Holdings) ► Mineral Resources Development Company Limited ► National Petroleum Company of Papua New Guinea (now Kumul Petroleum Holdings) ► Ok Tedi Mining Limited ► Petromin (now Kumul Mineral Holdings) and their relevant subsidiaries.

Finally, all government departments and statutory authorities that received material payments from the extractive industries were required to provide information. These government entities are listed in Table 5 below.

Table 5: Government departments and statutory authorities required to report in 2014

Government departments and statutory authorities
The following government entities were required to report for the 2014 report: ► Internal Revenue Commission ► Minerals Resource Authority ► Department of Treasury ► Department of Finance ► Department of Petroleum and Energy ► Department of National Planning and Monitoring

Chapter 3: Contribution of the extractive industries to the economy

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 850 indigenous languages and at least as many traditional societies, included in a population of over 7.3 million.[29] It is also one of the most rural, with only 15% of its people living in urban centres.[30]

The nation established independence from Australia on 16 September 1975. National general 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. The country has now experienced 14 years of consecutive economic growth, progressing from 'low income' to 'lower middle income' according to World Bank classifications. [31] However, as a country still developing infrastructure and establishing governance structures, together with the complexities of a substantially non-monetised economy, challenges to improving the wellbeing of the PNG population remain.

An estimated 40% of the population live on less than $US1.25 per day.[32] PNG currently ranks 158 out of 187 countries in the United Nations' *Human Development Index* (HDI) with an HDI of 0.505.[33] Most social indicators such as health, education and gender equality give cause for concern, with PNG failing to meet any of the benchmarks set by the UN as part of the Millennium Development Goals.[34] These have since been superseded by the Sustainable Development Goals, with the PNG Government expressing a strong commitment to meeting the goals.[35]

Levels of inequality are measured by the Gini coefficient, which ranges from 0 (complete equality) to 1 (complete inequality). PNG's Gini coefficient in 2009 (the latest available data), was 0.439, ranking 56 out of the 76 countries assessed.[36] PNG experiences regional inequality which is partly driven by the extractive industries operations. Government estimates from 2010 show poverty more prevalent in rural than in urban areas, at 42% and 29%, respectively.

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[29] PNG National Statistical Office – 2011 Census Final Figures http://www.nso.gov.pg/index.php/population; World Bank East Asia and Pacific Economic Update October 2015 http://pubdocs.worldbank.org/en/414911444005973491/pdf/EAP-Economic-Update-2015-10.pdf, accessed 18 October 2016

[30] 'About Papua New Guinea', UNDP in Papua New Guinea, http://www.pg.undp.org/content/papua_new_guinea/en/home/countryinfo, accessed 18 October 2016

[31] 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

[32] 'About Papua New Guinea', UNDP in Papua New Guinea, http://www.pg.undp.org/content/papua_new_guinea/en/home/countryinfo, accessed 12 December 2016

[33] 'Papua New Guinea', UNDP Human Development Records, http://hdr.undp.org/en/countries/profiles/PNG, accessed 18 October 2016

[34] http://www.pg.undp.org/content/papua_new_guinea/en/home/presscenter/pressreleases/2015/05/27/papua-new-guinea-reckons-with-unmet-development-goals.html, accessed 26 October 2016

[35] ibid

[36] 'Papua New Guinea reckons with unmet development goals', UNDP in Papua New Guinea, http://data.worldbank.org/indicator/SI.POV.GINI?order=wbapi_data_value_2009+wbapi_data_value&sort=asc&page=1, accessed 7 February 2017

The PNG Government is seeking to address issues associated with inequality and corruption, as evidenced in its strong commitment to meeting the UN Sustainable Development Goals, as well as support for implementation of the EITI Standard. The findings of PNG's first EITI report were seen by Treasurer, Hon. Patrick Pruaitch as '*an avenue for initiating long-lasting benefits through some significant reforms*'[37] and it is hoped that this EITI report will continue to contribute by improving understanding of the distribution of wealth from the extractive industries.

The World Bank World DataBank[38] provides a collection of data values that indicate how PNG is performing against a number of economic, social and environmental development indicators. PNG's values for a selection of these indicators are shown in Table 6 below along with figures for other countries in the East Asia and Pacific region, and from lower middle income levels.

Table 6: PNG's World Development Indicators, compared with global benchmarks[39]

	Indicator	PNG indicator value	Lower middle income countries value	East Asia & Pacific value (all income levels)	Measure	Data year
	Surface area	462,840	20,523,269	24,825,178	sq. km	2014
Population	Population, total	7,463,577	2,885,248,344	2,264,064,351		2014
Population	Population growth	2.09	1.47	0.67	annual %	2014
Population	Population density	16.48	132.62	92.83	people per sq. km of land area	2014
Economy	Gross domestic product (GDP)	16,928m	5,864,31m	21,489,980m	current US$	2014
Economy	GDP growth	8.53	5.57	3.99	annual %	2014
Economy	Gross national income (GNI)	16,527m	5,840,080m	21,594,1m	current US$	2014
Economy	GNI, Purchasing Power Parity (PPP)	20,877m	1,75,4320m	3,384,860m	current international $	2014
Economy	GNI per capita, Atlas method	2,240	2,042	9,735	current US$	2014
Economy	GNI per capita, PPP	2,800	6,080	14,950	current international $	2014
Economy	Inflation, GDP deflator	10.97	4.48	2.27	annual %	2014
Economy	Net official development assistance and official aid received	577m	51,092m	94,16m	current US$	2014
Economy	Poverty headcount ratio at $1.90 a day (2011 PPP)	39.31	26.32	NA	% of population	2009 (av.)
Health	Fertility rate, total	3.78	2.83	1.78	births per woman	2014
Health	Life expectancy at birth, total	62.61	67.25	74.93	years	2014
Health	Mortality rate, under five	59.90	54.7	17.85	per 1,000 live births	2014

[37] Minister's Speech at the Launch of the PNGEITI Country Report 2013, http://www.pngeiti.org.pg/2016/03/31/ministers-speech-at-the-launch-of-the-pngeiti-country-report-2013/, accessed 12 December2016

[38] 'World DataBank', The World Bank, http://databank.worldbank.org/data/home.aspx, accessed 7 February 2017

[39] 'Papua New Guinea', The World Bank, http://data.worldbank.org/country/papua-new-guinea#cp_wdi, accessed 7 February 2017

	Indicator	PNG indicator value	Lower middle income countries value	East Asia & Pacific value (all income levels)	Measure	Data year
Education	Adjusted net enrolment rate, primary	86.78	90.67	NA	% of primary school age children	2012
	Primary completion rate, total	78.13	90.86	105.29	% of relevant age group	2012
	School enrolment, primary	114.23	106.95	116.97	% gross	2012
	School enrolment, secondary	40.16	65.60	84.66	% gross	2012
Infrastructure	Improved sanitation facilities	18.90	51.32	76.42	% of population with access	2014
	Improved water source	40.00	88.85	93.56	% of population with access	2014
	Access to electricity, rural	10.35	68.17	92.97	% of rural population	2012
	Access to electricity, urban	72.01	94.91	NA	% of urban population	2012
	Internet users	9.38	22.56	46.89	per 100 people	2014
	Mobile cellular subscriptions	44.93	87.92	103.40	per 100 people	2014

PNG economic overview for 2014

PNG's economy is dominated by two sectors: the agricultural, forestry, and fishing sector, which engages most of the labor force (the majority informally); and the minerals and energy extraction sector which accounts for the majority of export earnings.[40] Despite PNG's rich endowment of natural resources, development is still in the early stages, and has been hampered by volatile prices for agricultural and mineral exports as well as the impacts of severe weather such as flooding and drought that have resulted in the suspension of mining activities in recent years.[41] PNG's overall economic performance has been strong since its recovery from the economic crisis of the 1990s, with the country experiencing consistent growth over the past 14 years and recording an average annual growth rate of 3.1% over the past 5 years.[42] It is currently ranked 110 in the world based on a GDP of US$19.915 billion.[43]

[40] 'PNG Overview', http://www.worldbank.org/en/country/png/overview, accessed 11 November 2016.

[41] 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

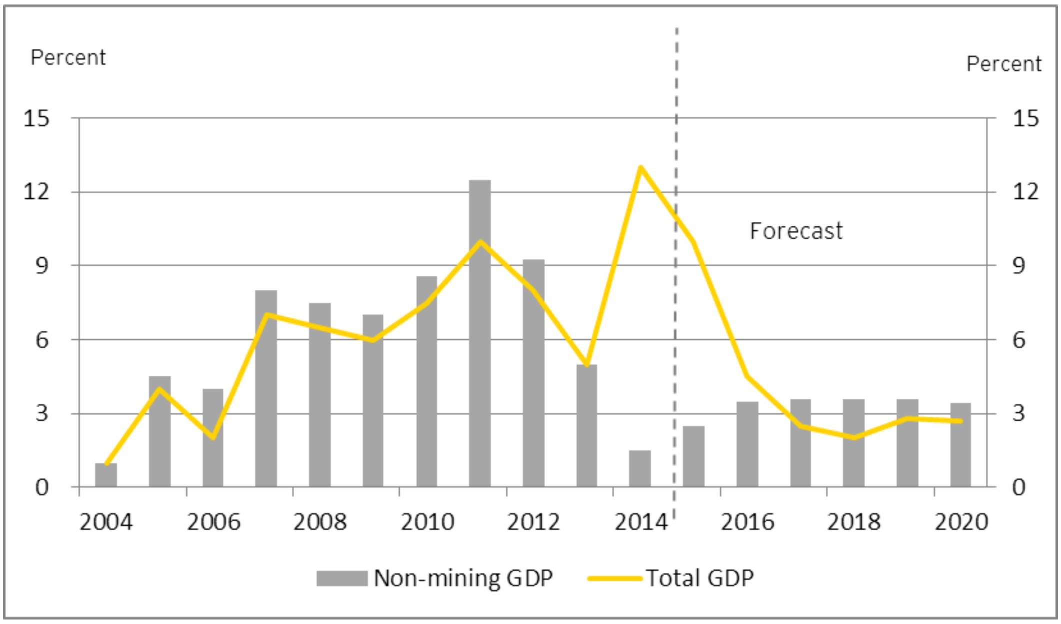
[42] Basic statistics 2016, ADB, 2016, https://www.adb.org/sites/default/files/publication/183338/basic-statistics-2016.pdf

[43] 'GDP data', http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/, accessed 11 November 2016

In the reporting year of 2014, PNG's Gross Domestic Product (GDP) was PGK43,279.2 million[44] (US$16.93 billion).[45] Economic growth rose to 8% as the country began its first exports of LNG. Growth in other sectors of the economy remained modest. Construction output fell by 6.4% in 2014, and the effects extended to the broader economy, stalling wholesale and retail trade growth at 5% and slowing utilities growth from 9% in 2013 to 6% in 2014. Long-term declines in production continued at a number of older mining operations, but with increasing output from a new nickel project, mining and quarrying as a whole expanded by 6% in 2014.[46]

PNG budget documents measure economic performance both with and without the minerals sector. The two figures track reasonably closely from 2004 through to 2013, as seen in Figure 9 below (note that in this graph 'mining' includes the oil and gas sector).

Figure 9: Economic Growth 2004-2020



Source: Department of Treasury

The large divergence between GDP and non-mineral GDP in 2014 and 2015 can be attributed to the commencement of the PNG LNG project. This project involved two distinct stages – the investment stage (2009 to 2013), which primarily benefited non-resource GDP, and the production phase (from 2014 onwards), which primarily benefits resource GDP. The two measures are expected to be similar from 2016 onwards.

[44] National Budget, Vol 1, Appx 3, Table 10(ii) p. 118, http://www.treasury.gov.pg/html/national_budget/files/2016/Volume1-Econ&DevPolicies.pdf, accessed 04 October 2016.
[45] 'Papua New Guinea' , World Bank, http://data.worldbank.org/country/papua-new-guinea, accessed 04 October 2016.
[46] Asian Development Bank (ADB). 2015. 'Asian Development Outlook: Papua New Guinea'. Manila https://www.adb.org/sites/default/files/publication/154508/ado-2015.pdf; ADB. 2015. 'Pacific Economic Monitor: Papua New Guinea'. Manila; and ADB. 2014. 'Pacific Economic Monitor: Papua New Guinea'. Manila.

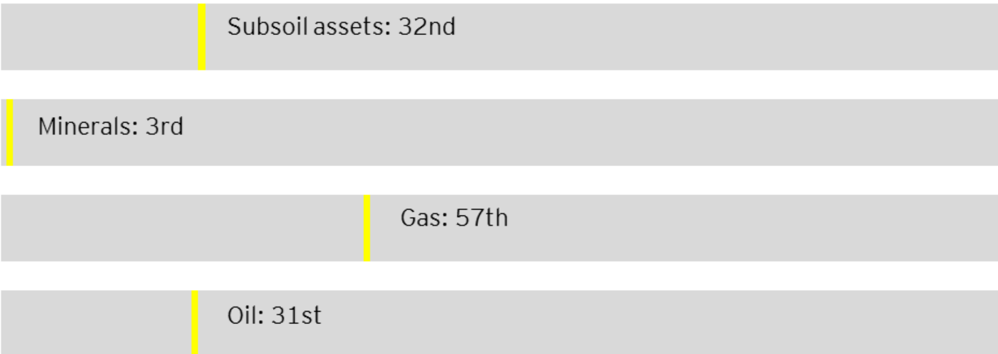
Post-2014 developments and projections

Since 2014, the PNG economy has continued to grow, although at a reduced rate in 2016.[47] Weak commodity prices and drought caused by El Niño in 2015 placed downward pressure on growth. The reduced growth forecasts are a response to the fall in commodity prices and subsequent cuts in government expenditure. There have been mixed developments in the mining sector, with increased production in some mines offsetting setbacks in others. Ok Tedi resumed production in March 2016 after a seven-month shut-down; Porgera was forced to scale down operations after a landslip and sabotage of the power transmission lines from the Hides gas field, while the Ramu Nickel mine was ordered to stop production for some days after being penalised by the MRA for non-compliance. The Lihir gold mine, owned by Newcrest, improved production and was supported by the ramp-up of production from new mines including Simberi. As a result of these mixed developments, the mining and quarrying sector is expected to grow at 8.2% in 2016, a downward revision from the 2016 MYEFO estimate of 9.4%. The oil and gas sector is expected to contract by 1.3% following the huge impact of the first LNG production in 2014 and 2015 respectively.

Impact of the extractive industries

For the purposes of this report, the MSG agreed that the extractive industries include mining, oil and gas. Quarrying, forestry and fisheries have been excluded.[48]

PNG has a wealth of subsoil assets. A 2005 World Bank survey of 152 countries ranked PNG's per capita subsoil assets as follows: [49]



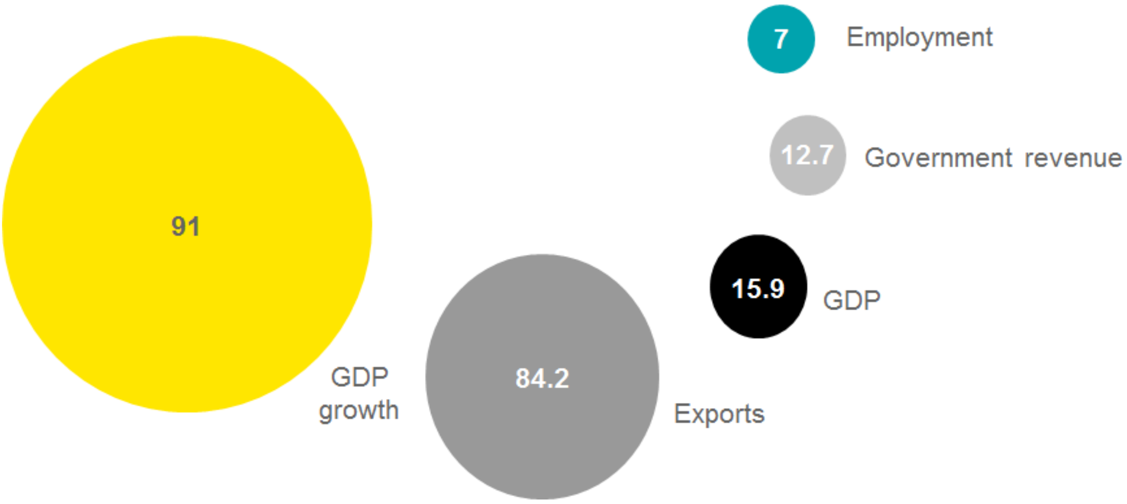
The extractive industries dominate exports, and have some downstream impacts such as construction. The relative contribution of the extractive industries to a selection of economic measures for the 2014 reporting period are shown in Figure 10 below.

[47] PNG 2017 National Budget http://www.treasury.gov.pg/html/national_budget/files/2017/Vol1-Economic%20and%20Development%20Policies.pdf, accessed 12 December 2016.

[48] Minutes of MSG meeting #2, 27 March 2015

[49] '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.

Figure 10: Percentage contribution of the extractives sector to economic measures[50]



*figures include quarrying, which Treasury advises comprised about 3% of the 'mining and quarrying' total.[51]

Table 7: 2014 gross domestic product by economic activity at current and constant prices (PGK million)[52]

	Total GDP	Oil and gas extraction	Mining and quarrying	Total non-mining GDP
Nominal	43,279.2	8,405.2	3,119.1	31,755.0
Deflator	264.2	434.2	462.5	230.6
Real	16,383.0	1,935.6	674.4	13,773.1
Rate of real growth (%)	13.3	1,101.5	-1.7	1.2

Treasury figures indicate that the oil and gas industry contributed 91% of the growth in GDP over the reporting period (see Table 8), demonstrating the significant influence of the PNG LNG project. Likewise, the contraction of the construction industry following completion of the PNG LNG project explains the negative growth in that sector, illustrating the country's dependency on the extractive industries.

[50] 2016 Budget Volume 1 Appx 3Tables 1,2,5,7&8 on pp.107-114 http://www.treasury.gov.pg/html/national_budget/files/2016/Volume1-Econ&DevPolicies.pdf

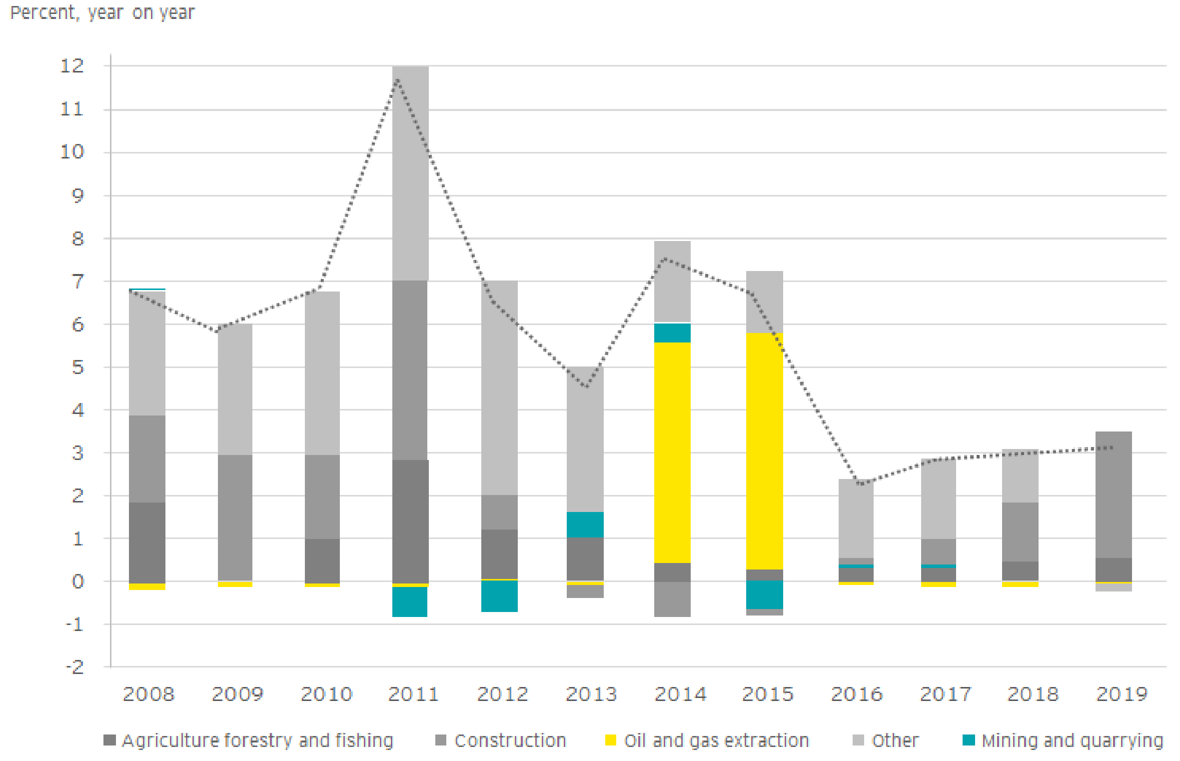
[51] Direct communication from Treasury, 2 Dec 2015

[52] 2016 Budget, Volume 1, Appx 3, Table 1, p.107 http://www.treasury.gov.pg/html/national_budget/files/2016/Volume1-Econ&DevPolicies.pdf, (figures listed as estimated)

Table 8: Contributions to growth in real gross domestic product (% points) during 2014[53]

	2014 actual
Agriculture, forestry and fishing	0.9
Oil and gas extraction	12.3
Mining and quarrying	-0.1
Manufacturing	0.3
Electricity, gas and water	0.1
Construction	-1.5
Wholesale and retail trade	0.4
Transport, storage and communication	0.3
Finance, real estate and business services	0.3
Community, social and personal services	0.4
Total GDP growth	**13.3**
Total non-mineral GDP growth	**1.2**

Figure 11: GDP growth forecast[54]



[53] ibid, p. 109

[54] World Bank East Asia and Pacific Economic Update October 2015, pp.118-20 http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/10/414911444005973491/pdf/EAP-Economic-Update-2015-10.pdf, accessed 04 October 2016.

Contribution to government revenue

Figures drawn from the 2016 Budget indicate that the mining and petroleum sectors contributed 12.7% of government revenue in 2014, as shown in Table 9:

Table 9: Contribution of the mining and oil and gas sectors to government revenue[55]

	PGK million
Total tax and non-tax revenue (excluding grants)	10,232.1
Mining and petroleum tax	794.2
Mining and petroleum dividends	507.2

This represents an increase of 41% over the contribution to government revenue in 2013, correlated with the commencement of the PNG LNG and expansion of the sector.

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.[56]

Exports

The value of total mineral exports for 2014 was PGK17,522.5 million, comprising 84.18% of total export value. A breakdown of the value of exports by commodity is provided in Table 10, below.

Table 10: 2013 and 2014 exports from the extractive industries in absolute terms and as a percentage of total exports[57]

Commodity	2013 (PGK million)	2014 (PGK million)	% Change
Gold	5,414.6	5,462.5	0.88%
Copper	1,524.8	1,510.7	-0.92%
Silver	102.4	83.3	-18.65%
Nickel	426.9	883.2	106.89%
Cobalt	129.1	112.1	-13.17%
Oil	2,030.9	2,037.1	0.31%
LNG	-	5,640.3	5,640.30%
Condensate	-	1,324.8	1,324.80%
Refined petroleum products	978.5	468.6	-52.11%
Total mineral exports	10,607.2	17,522.5	65.19%
Total exports	13,331.9	20,815.2	56.13%
extractives as % of total	79.56	84.18	5.81%

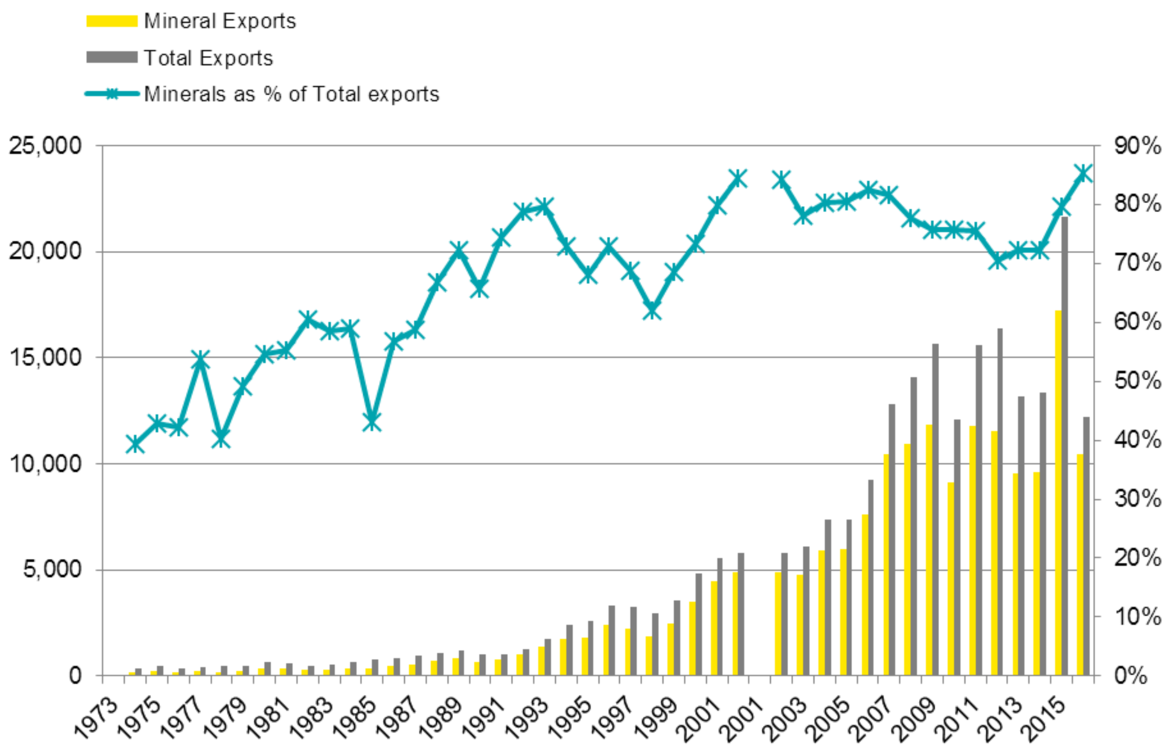
[55] 2015 Budget,Vol 1, Appx 3, Table 8 p. 114 (figures listed as actual) http://www.treasury.gov.pg/html/national_budget/files/2015/Vol1-Economic%20and%20Development%20Policies.pdf, accessed 04 October 2016.

[56] 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

[57] 2016 Budget, Vol 1, Appx 3, Table 5, p. 111 (figures listed as estimated but then sourced as 'actuals from BPNG'), http://www.treasury.gov.pg/html/national_budget/files/2016/Volume1-Econ&DevPolicies.pdf, accessed 04 October 2016.

Exports from the extractive industries have long made up the majority of total exports (see Figure 12).[58] In combination with the limited range of commodities being exported, this leaves the PNG economy vulnerable to commodity price fluctuations. The government has made attempts to manage this, such as in the new Sovereign Wealth Fund, discussed further in Chapter 5.[59]

Figure 12: Mineral exports as a proportion of total exports, 1973-2015[60]



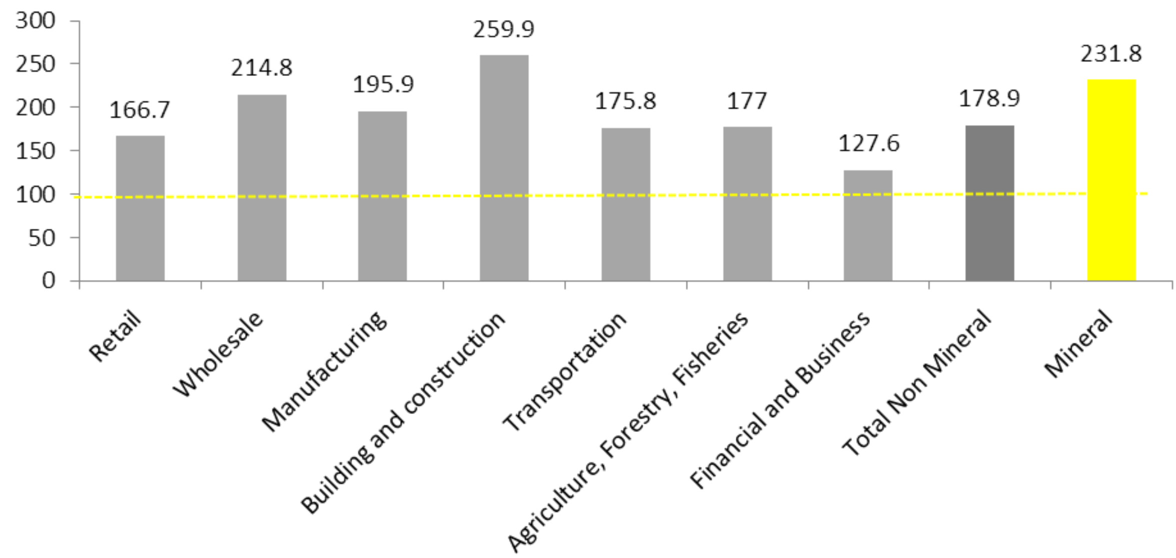
Employment

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 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. Figure 13 below indicates that employment in the extractives sector is up by 131.8 basis points since 2002. It shows the strong growth of employment in that sector compared with others, but does not give us a comparison of actual employment numbers.[61]

[58] PNG NHDR 2014
[59] ibid
[60] Data provided directly by BPNG, 31 December 2015
[61] Direct communication from Treasury, 31 December 2015

Estimates of actual numbers employed vary considerably. For the purpose of the 2013 EITI report, Treasury sourced figures from the Bank of PNG which suggest that in 2013 the extractive industry contributed around 7% of total employment.[62] Similarly, the United Nations Development Programme suggests that 'the sector provides no more than 10% of the formal sector employment', or around 30,000 people.[63] 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 14 below.[64]

Figure 13: 2014 Employment index[65]



*Relative to March 2002 = 100

Figure 14: 2011 census employment data

62 Direct communication from Treasury, 8 December 2015

63 PNG NHDR 2014

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

65 2016 Budget Vol 1, Appx 3, Table 7, p. 113, sourced to BPNG http://www.treasury.gov.pg/html/national_budget/files/2016/Volume1-Econ&DevPolicies.pdf, accessed 04 October 2016.

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

The 2011 census indicated that, along with education as a close second, the sector provides by far the highest median wages. Furthermore, a recent study adds:

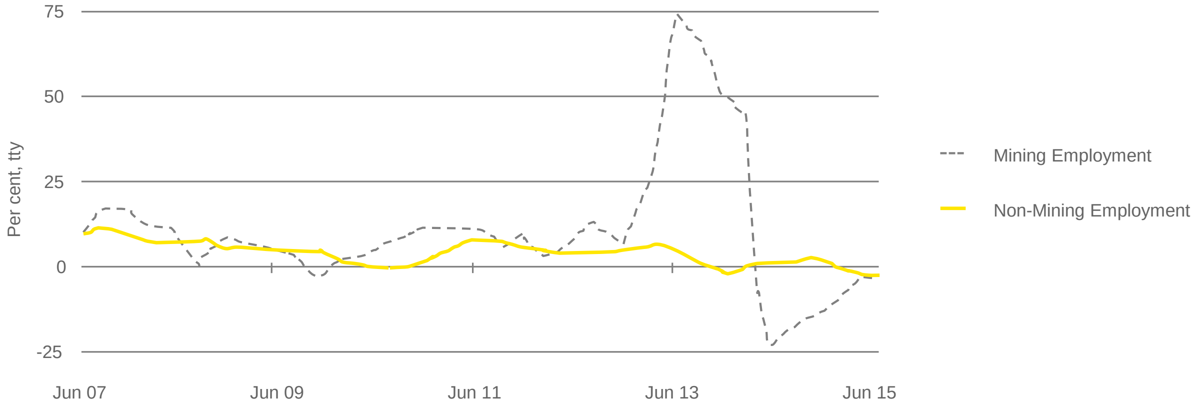
> 'Although mining and quarrying only provides limited direct employment, in practice it supports a significant amount of employment in other sectors of the economy. For example, during the construction phase of mineral and hydrocarbon resource projects, employment is classified in the construction sector 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 2014[68] 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.

Nevertheless, the extractive industries have been important to the growth of formal sector employment over the last decade. Figure 15 below illustrates employment in the extractives sector over time, including a spike in 2013 due to Ramu Nickel mine coming into full operation, LNG-related recruitment and training, and an increase in exploration activity by a mining company on Simberi Island in the New Ireland province. However, mining employment has since fallen below previous levels of employment in the industry. According to information from the Bank of PNG *Quarterly Economic Bulletin*, the sharp reduction in mining employment in the June quarter 2014 was associated with:

- Restructuring at Ok Tedi and Tolukuma mines in response to low commodity prices
- Completion of LNG-related contracts and a slowdown in exploration activity
- Termination of a number of workers in Morobe following an industrial dispute earlier in 2014
- Completion of a work program at one of the major mines; and closure of a small gold mine.[69]

Figure 15: Mining and non-mining employment growth[70]



[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

[69] Direct communication from Treasury 2 Dec 2015

[70] http://www.treasury.gov.pg/html/national_budget/files/2016/Volume1-Econ&DevPolicies.pdf Budget 2016 Vol 1, Appx 3, Chart 18 p. 17, sourced to Treasury and BPNG

Large mines may employ over 2000 staff and similar numbers of contractors,[71] 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 dramatically as the project moved into production. As of December 2015 the PNG LNG project had a workforce of 2,400, 75% of whom were PNG citizens.[72]

Construction jobs related to the extractives industry are captured in the 'Building and construction' category of the employment index rather than the 'Mineral' category. The Bank of PNG commented that employment numbers for the construction phase of the LNG project were understated, as most companies involved were based overseas and not part of the index survey.[73] The extractive industries also create employment through procurement, contracting and service delivery, and many firms have local procurement policies, or are obliged through their mine development contracts to buy local. Porgera, for example, has issued contracts to national firms worth PGK1.2 billion over its life, while Ok Tedi has made purchases from PNG firms of over PGK3.5 billion over the last decade.[74]

Up to 80,000 small-scale miners work in the informal alluvial sector. The associated export value is estimated as PGK373.4 million for gold and PGK2.3 million for silver, representing just over 2% of the total export value for minerals. Refer to Chapter 7 for more detail on the alluvial mining sector.

Commentary on the contribution of the extractives sector to the economy

The government's *Vision 2050* sets an ambition to move the economy away from dependence on the extractives sector to a broader base encompassing agriculture, forestry, fisheries, eco-tourism and manufacturing.[75]

The United Nations Development Programme surveys the impacts of the extractive industries on PNG's economy in their *Papua New Guinea National Human Development Report 2014*.[76] The report offers a detailed overview of the positive and negative social, economic and environmental impacts of the extractive industries, and suggests why the wealth generated by these sectors has not translated into a better standard of living for the majority of Papua New Guineans. It notes that 'despite 14 consecutive years of economic growth, there has been little change in poverty levels in the country. In fact the level of inequality in the country has increased.'

PNG presents unique challenges: its seven 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. The Asian Development Bank has called for greater transparency in sub-national government resource revenue flows.[77]

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[71] World Bank 2013b cited in PNG NHDR 2014

[72] PNG LNG Environmental and Social Report-Second Half 2015, PNG LNG, 2015 http://pnglng.com/media/pdfs/2H15-ES-Report-FINAL-26-02-2016-FULL-ENG-WEB.pdf, accessed 21 October 2016.

[73] Direct communication from Bank of PNG, 31 December 2015

[74] PNG NHDR 2014

[75] 'Vision 2050', 2009, PNG Government, https://sustainabledevelopment.un.org/content/documents/1496png.pdf

[76] PNG NHDR 2014

[77] *Asian Development Outlook 2015: Financing Asia's Future Growth*, Asian Development Bank 2015, http://www.adb.org/sites/default/files/publication/154508/ado-2015.pd p. 256

This lack of transparency also leaves the way open for corruption.[78] In 2013, the former Anti-Corruption Taskforce Sweep claimed that 40% of the government's development budget had been misused or was unaccounted for.[79] There are moves to address corruption at various levels, but it is still regarded as a serious problem.

At the level of communities, extractives operations generate significant revenue flows, yet this may not be invested in sustainable improvements. Further, they may give rise to disputes, inequality and other social and cultural problems. 'In-migration' to operations areas can lead to pressure on local social infrastructure (e.g. schools, health care), environmental health and social tensions.[80] The impacts of mining induced displacements of populations have also been noted with large, open pit mines such as Porgera and Ok Tedi requiring resettlement of many people away from the actual areas being mined.[81]

Even positive social contributions from operators may have unintended adverse consequences. For example, a company may set up good health care facilities for its local community, but this has the effect of drawing capacity away from government health care, thus weakening it.

The PNG EITI 2016 Work Plan[82] includes a project to undertake a scoping study to investigate the possibility of implementing the EITI Standard to sub-national governments (provincial and local level governments) and landowner associations. At the time this report was compiled, this project had not yet been implemented. We have been informed by the National Secretariat that it has been included again in the PNG EITI 2017 Work Plan and is expected to begin in the second quarter of 2017. 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.[83]

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[78] Wiltshire 2013, cited in PNG NHDR 2014
[79] PNG NHDR 2014
[80] ibid
[81] Bogumil Terminskill, 2012. 'A Mining-Induced Displacement and Resettlement: Social Problem and Human Rights Issue (A global perspective)' SSRN Electronic Journal. (ResearchGate)
[82] PNG EITI 2016 Work Plan, http://www.pngeiti.org.pg/download/png-eiti-2016-work-plan/ accessed 7 February 2016
[83] MSG Meeting minutes #4/2016 – Meeting held on 28 September, 2016

Chapter 4: Legal framework and fiscal regime

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.

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.'[84]

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.'[85]

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.[86] 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 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.

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[84] 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

[85] 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.

[86] 'Tax avoidance' generally refers to aggressive tax planning – for instance transfer pricing or treaty shopping; 'tax evasion' refers to fraudulent activity.

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) and goods and services tax as set out in the *Goods and Services Act 2003*. 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 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 minerals deposits in PNG (see further comments below). The OGA also governs the calculation of royalties and development levy.

The rates of income taxation on extractive industries in PNG are set out in Table 11 below.

Table 11: Rates of income taxation in PNG (%)

	Resident[87]	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	-

The taxation regime for extractive industries is designed such that all costs incurred in the exploration and development phases of a resource project are accumulated and then amortised once production commences. Generally exploration costs are amortised at the lesser of 25% or over the remaining life of the project. Generally development costs are classified as short-life or long-life. Short-life costs are amortised at the lesser of 25% or over the remaining life of the project, and long-life costs at the lesser of 10% or the remaining life of the project. However, for mining projects that commenced operations from 1 January 2003 onwards, there is no differentiation between long- and short-life asset on development costs. All development costs are pooled and 25% is deducted from the residual balance as a deduction against income from the operations.[88] 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.

[87] 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.

[88] Correspondence from IRC, 21 December 2016

Where a taxpayer has multiple resource projects, the tax regime operates to assess the taxpayer 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 reasonable basis. However, the regime does allow some concessions to ring fencing in respect to exploration expenditure and carried forward expenditure from discontinued projects.

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:

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.

Fiscal stability

A resource project has the option of adding 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.[89]

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.

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 (see also discussion of mining royalties p. 69). 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. Whilst royalties are for the benefit of the State, development levies are paid to the relevant local or provincial government. 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.

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[89] 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.'

Goods and services tax (GST)

Supplies to resource companies, 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.

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 for 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. Credits foregone due to spending less than the allowed may be carried forward two years, while overspending can be rolled forward indefinitely.

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

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.

A revised MA will be presented to Parliament after the next election in mid-2017. It is anticipated this will include 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.

Matters relating to the environment within mining and exploration tenements is 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*[90] (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. 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

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

- 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 of 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.

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 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.

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 p. 38 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.

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 further in chapter 7, p. 54)

Ramu Nico tax concessions

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. As discussed in Chapter 7, the royalties have so far been withheld pending disputes over calculation and beneficiaries.[91]

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,[92] 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.

Other stakeholder equity participation rights

Currently, the State has an established practice of granting free equity in resource projects to landowners from the area in which a project is located where it takes an equity participation interest. 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 and is equally distributed, 2.5% for landowners and 2.5% for provincial governments 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.

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:

- 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

[91] Direct communication from IRC, 11 October 2016; direct communication from Ramu Nico (MCC) Management Ltd, 8 December 2016

[92] 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.

- 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.

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 in 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.

The government indicated that there would be significant additional consultation prior to any recommendations being accepted and implemented. For further information, see http://taxreview.gov.pg.

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, may feel that agreement details would reveal their strategy, and would thus be more commercially sensitive.[93]

[93] MSG Meeting #2, 27 March 2015

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.[94] Where a company is publicly listed, the name of the stock exchange where they are listed is noted when referencing the beneficial owner.

The PNG Government does not require companies to disclose the ultimate 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.

For the purpose of this EITI report, the beneficial ownership arrangements of each of the operating mines and producing oil and gas licences have been established through direct enquiry, reference to corporate websites and annual reports, and the PNG Mining Cadastre Portal database, hosted by the MRA website.[95]

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 2014 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 includes a requirement to develop a roadmap defining all the actions that will need to be taken to address the requirements of the Standard. The Standard requires that by 2020, EITI reporting will need to include information relating to the beneficial ownership for corporate entities that bid for, operate or invest in extractive assets.

Following a workshop in May 2016, the MSG commissioned a scoping study to highlight issues and constraints to implementing the beneficial ownership requirements of the Standard.[96] The PNG EITI Beneficial Ownership Roadmap was published in December 2016.[97] A Report on the Scoping Study on Beneficial Ownership has also been drafted in February 2017. [98]

The MSG will determine all milestones and deadlines in the roadmap, and then evaluate implementation of the roadmap as part of their annual progress report.

Relevant legislation and agreements

Most key pieces of legislation 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 12: Relevant legislation with hyperlinks (valid as at 10 February 2017)

Legislation
Environment Act 2000
Goods and Services Act 2003
Income Tax Act 1959
Mineral Resources Authority Act 2005
Mining (Royalties) Act 1992 - not found online

[94] The EITI Standard, 2016 – Requirement 2.5 Beneficial Ownership

[95] PNG Mining Cadastre Portal - http://portal.mra.gov.pg/Map/

[96] MSG Meeting #2/2016, 8 July 2016

[97] PNG EITI, http://www.pngeiti.org.pg/download/2016-pngeiti-beneficial-ownership-roadmap/, accessed 3 February 2017

[98] PNG EITI, KPMG, Report on Outcome of the Scoping Study on Beneficial Ownership Draft v2 17 February 2017, http://www.pngeiti.org.pg/stakeholders/beneficial-ownership/.

Legislation
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

Chapter 5: Management and distribution of revenues

Budget process

The budget process is led by the Department of Treasury, which publishes:

- An annual Budget Strategy Paper, to assist the understanding of the fiscal situation, the fiscal parameters, the government's proposed budget strategies and key focus areas
- A Mid-year Economic and Fiscal Outlook (MYEFO) report, released by the end of July each year, 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
- A Final Budget Outcome report, released within three months of the end of the financial year, which includes annual expenditure.

The formulation of national government budgets in past years has been through a public consultative process. Early in the first quarter of every year, the Department of Treasury calls for policy submissions from the public. Treasury also sends out a circular to all spending agencies of government, including provincial governments, to submit their budget requirements for the following year. This leads to a budget screening and consultation with spending agencies that takes place around August to September, which enables Treasury to set ceilings and allocate resources largely dictated by the Budget Strategy Paper, the Medium Term Fiscal Strategy and the Debt Strategy.

Several committees are established to assist in steering the budget process and supporting fiscal decision-making. At the bureaucratic level, this includes the Strategic Budget Committee (SBC) and a Central Agencies Coordinating Committee. At the political level, a Senior Ministerial Budget Committee (introduced in 2012) and a Ministerial Economic Committee comprising the Prime Minister, the Treasurer, Minister for Planning, Minister for Finance and other key economic Ministers has been established to drive budget strategy setting and to advise the National Executive Council (NEC) on the budget.

The following information was provided directly by the Treasury of PNG, in the absence of clear publicly available information on PNG's budget process.[99]

The above basic elements of PNG's budget process have been in place for almost 20 years. The 2016 and 2017 budgets involved a two-stage approach for the first time, as well as setting ceilings for both the operational and capital components. The first stage calls for new activities in order of priority. The second stage covers ongoing operating costs and projects.

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 Financial Management Act* and the more recent legislation for establishment of a 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* contains a debt limit of 35% of the GDP for the years 2013, 2014 and 2015 (increased from 30% via an amendment in 2013) but should return to 30% of GDP in 2016.

A strategic element has been introduced to the process through the Budget Strategy Paper, which sets out high-level fiscal parameters and broad policy strategy for the coming budget. This is required to be released by 31 August each year, once the Mid-year Economic and Fiscal Outlook for the current year is completed.

[99] information provided directly by Treasury, email 3 December 2015

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.[100] Another influence on spending priorities has been the Alotau Accord platform for action, agreed by the coalition government following the 2012 elections. In an effort to have the budget reflect development goals, the budget process has historically been split, where the Department of National Planning and Monitoring assesses and advises Cabinet on development projects proposed in the budget, and Treasury assesses the operational side of the budget. In 2014, a reform process commenced to merge the two budgets with the aim of producing more consistent outcomes, mitigating misalignments between capital and operational spending. There is currently no new reformed process or approach in place.

Government revenues from the extractive sector are subject to fluctuations in quantities produced and global commodity prices. Current 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 ITCs.[101]

PNG formulates its budget on a calendar year basis. Expenditure ceilings are guided by revenue projections which set the overall budget framework. While there are forward estimates (future projections) of expenditures in the budget, the main focus is on the first year's estimates, which become the budget appropriations once approved by Parliament. As the budget reforms progress, the forward estimates will increasingly play a role in formulating the subsequent budget.

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

Budget process timeline

The figures below outline the key stages in the budget process and their intended timing.

Figure 16: Old budget process (simplified)

[100] http://www.planning.gov.pg/images/dnpm/pdf/MTDP2.pdf

[101] Treasury EITI Reporting Template, provided 14 November 2016

Figure 17: New budget process in place for 2014 reporting period (simplified)

The budget process commences around March of each year, called the 'consultation period', at which time Treasury obtains submissions from the public and undertakes forecasting of key economic indicators and revenues.

A Budget Circular is issued in May or June, providing agencies with instructions for preparing budget submissions, including expenditure ceilings for each agency. The process for setting ceilings includes:

- Treasury determines an aggregate expenditure ceiling having regard to 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.

In 2014, agencies prepared separate budget submissions for the operational and capital components. Since 2015, agencies are required to make a single submission including both capital and operational items, with greater detail on the linkages between operational and capital costs.

A Budget Screening Committee holds meetings with agencies during late August and September 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.

Recent reforms to the budget process[102]

In 2012, the government introduced a major public financial management reform to enhance the budget process. The major areas of focus of the budget reforms to date have been:

Integrated budget

- Treasury requested agencies to submit their capital and operational budgets as one. Integrating the development and operational budgets into two forms of expenditure under one budget is intended to curb duplication of work, and to ensure funding for both activities are aligned to complement each other.
- Agencies were also requested to have Ministerial sign off on their budget submissions to ensure connection between the agencies and their Minister's direction.

Sector budgeting

- The sector budget is to focus funding allocations to related service responsibilities and evenly distribute funding to the government's priority areas. The sector budget was implemented through increasing four sectors to the current nine sectors in the 2015 budget.
- This would enable sector agencies to align their functions and priorities for a more focused outcome which would alleviate disconnections between sector programs and operations.
- Allocating funding by sectors also allows for efficiency in resource allocation and mitigates duplication of responsibilities.

Forward year estimates

- Since 2014, the budget includes four-year forward estimates, to assist with planning and provide clarity on project funding implementation into the forward years.

Ministerial Lead Budget

- The Ministerial Lead Budget seeks to bring greater ministerial engagement and leadership in the budget process. This ensures that Ministers set the platform for the make-up of the budget and to ensure that bureaucratic planning, budgeting and direction is in line with Ministerial priorities.

In addition, the supporting processes and systems such as the Integrated Financial Management System have been continually developed to support budget reforms. Classifications of the State budget and public accounts have been updated to the *Government Financial Statistics Manual 2014*.

PNG Sovereign Wealth Fund[103]

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 and the fund came into operation in 2016. 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, according to the SWF Organic Law.

[102] information provided directly by Treasury, email 3 December 2015
[103] ibid

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 SWF Board will invest these funds offshore to diversify risk and, over time, build up financial assets. The government plans to appoint an experienced and well-qualified board in the first quarter of 2017, and set up a secretariat to support the board. The government will provide an investment mandate to the board, expressing the government's expectations for the management of the funds.[104]

Current budget priorities

The government's current areas of focus can be seen in the 2016 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 aims at 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 refining and broadening the tax system to promote efficiency and a sustainable revenue base, in order to promote budget reform and the effectiveness and transparency of the budget management process. Key components include:

- Pursuing structural reforms of SOEs and streamlining the public sector
- Potentially significant amendments to 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.

How extractive industry revenues are recorded

Table 13 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 corporate income tax and dividends.

Table 13: Public records of extractive industry revenues

Revenue Stream	Where recorded	Available online?
Mining		
Mine closure bond	Financial reports of Department of Environment	No
Production levy	Financial reports of the MRA	No
Application, renewal, renewal penalty and transfer fees	Financial reports of MRA	No
Data sales fees	Financial reports of MRA	No
Licence fees	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

[104] Direct communication from Treasury, 25 November 2016

Revenue Stream	Where recorded	Available online?
Petroleum		
Decommissioning bonds	Financial reports of Department of Environment	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
Licence fees	Paid to MRA and DPE for mining and petroleum respectively	No
Sundry fees	Financial reports of DPE	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	NPCP (No report Found) MRDC (No report found) Petromin[105]
Shares of sales	Relevant annual reports	Yes
Mining and Petroleum		
Import taxes	Customs annual report	Yes[106]
Goods and services tax	IRC annual report	Yes[107]
Mandatory social expenditure	Some annual reports	
Voluntary social expenditure	Some annual reports	
Dividends	National budget (listed under non-tax revenue)	Yes
Dividends from NPCP	recorded by the IPBC, as trustee of the GBT	No
Group taxes (taxes withheld on employees' salaries)	IRC annual report	Yes
Mining and petroleum tax (corporate income tax)	National budget	Yes
Business payments tax	IRC annual report	Yes
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

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

[105] *Petromin Annual Report 2014,* Petromin PNG Holdings Limited, http://www.petrominpng.com.pg/about/Petromin%202014%20Annual%20Report.pdf accessed 16 November 2016

[106] 2010 Annual Report, Customs, http://www.customs.gov.pg/06_legislation_and_publications/4_Publications/01_PNG_Customs_Annual_Report_2010.pdf, accessed 16 November 2016

[107] 2012 Annual Report, Internal Revenue Commission, http://www.irc.gov.pg/PDF_files/2012_IRC_AnnualReport.pdf, accessed 16 November 2016

Sub-national payments and transfers

As per the Memorandum of Agreement (MOA) for each mining and petroleum project, the National Government allocates 0.5% for mining and 2% for petroleum projects to provinces that host these projects, by means of Special Support Grants (SSG). The SSG is shared between the Provincial Governments and Special Purpose Authority (SPA) based on negotiations of the MOA. The provinces with mining and petroleum projects that received SSG during 2014 include:

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

The allocation of SSGs is published within the 2014 National Budget[108] under the Public Investment Program (PIP) section for each Province mentioned above. Actual figures are provided in the 2016 Budget Papers.[109]

Royalties, development levy and equity share of State (held by SOEs) are not recorded in the budget and Treasury does not administer sub-national transfers of these revenue streams to provincial/local level governments and landowners.[110]

Information relating to sub-national transfers and payments is difficult to obtain. Some relevant information is to be found in the *NEFC 2013 Budget and Fiscal Report*, but does not always align to the EITI reporting requirements. 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 on a case-by-case basis. However, these agreements are in most cases not public, and accountability mechanisms vary significantly.

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.[111] Additionally, trust account spending has not been incorporated into State Budget Expenditure. Again, this situation leaves significant scope for abuse.

Auditing of government accounts is challenging due to under-resourcing and lack of capacity both of the Auditor-General's office itself and the entities reporting to it. Recent audit reports indicate serious gaps and inconsistencies, particularly with respect to provincial and local-level governments.[112]

Outlined below are sub-national 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.

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[108] 'National Budget 2014', *Department of Treasury*, www.treasury.gov.pg/html/national_budget/files/2014/budget_html/vol2_part2c.html, accessed 23 December 2016

[109] National Budget, Volume 2; 2016 Budget estimates for statutory authorities' debt services and trust accounts. *Department of Treasury*, www.treasury.gov.pg/html/national_budget/files/2016/Volume2d-StatAuth&Prov&Debt&Trusts.pdf, accessed 23 December 2016

[110] information provided directly by Treasury, email 22 December 2016

[111] http://www.ago.gov.pg/; accessed 15 December 2016

[112] ibid

Mining

The National Economic and Fiscal Commission Provincial Government Budget Reports outline the revenues that provincial governments received on page 11 of its 2013 report (2014 report not available at the time of writing):[113]

The most significant regional allocations are for:

1. **Royalty**: A royalty benefit of 2% is provided by the State to landowners, affected provincial governments and local level governments.

2. **Equity:** Landowners have equity stakes in mining projects such as Porgera and Ok Tedi.

3. **Dividends:** Western Province government receives dividends from Ok Tedi.

4. **Compensation Payments:** Landowners such as those on the Fly River receive a percentage of dividends from Ok Tedi.

5. **Special Support Grant** is appropriated by the national government to the mine host provincial government(s) to be used on approved social and economic infrastructure development projects. The grant shall be equivalent to 0.25% of net sales value of mine products from the project;[114] a minimum of 20% of which must be spent in the 'mine affected areas'. The administration and implementation of the grant is conducted in accordance with the Special Support Grant Guideline, through the Department of National Planning and Monitoring.

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.

Public Investment Program

The Public Investment Program (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.[115] It is administered by the Department of National Planning and Monitoring (DNPM). This is discussed further in Chapter 7, p. 54.

[113] http://www.nefc.gov.pg/assets/publications/fiscalReports/2013_Budget_Fiscal_Report.pdf

[114] 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)

[115] 2014 Annual Public Investment Program Implementation Report, Department of National Planning and Monitoring, http://www.planning.gov.pg/images/dnpm/pdf/pip/PublicInvestmentProgramAnnualReport2014.pdf accessed 26 October 2016

Oil and Gas

The *Oil and Gas Act 1998* sets out the process for benefits sharing, including payments earmarked for specific regions. An example is the arrangements for the new PNG LNG project:[116]

1. **Royalty**: A royalty benefit of 2% of 'wellhead value' is provided by the State to landowners, affected provincial governments and local level governments.

2. **Equity:** 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.

3. **Development levy:** A development levy of 2% of the wellhead value, calculated per the provision of the OGA and the LNG Gas Agreement, is available to the provincial governments and the local level governments.

4. **Infrastructure development grants:** 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.

5. **Business development grants:** The State has provided PGK120m to assist landowner companies in business development activities under the PNG LNG project.

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.[117]

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

Part 1	Public accounts of Papua New Guinea (last report 2011)
Part 2	National government departments and agencies (last report 2013)
Part 3	Provincial governments and local-level governments (last report 2013)
Part 4	Public bodies and their subsidiaries, government owned companies, national government shareholdings in other companies (last report 2013)

[116] ExxonMobil, 2015, http://pnglng.com/commitment/hot-topics/benefits-sharing.html
[117] http://www.ago.gov.pg/about-the-ago

The report on provincial governments for 2011–13[118] notes that the report was significantly delayed due to a range of issues such as resource constraints of the Auditor-General's own organisation and of those reporting to them, lack of capacity, inadequate systems and inaccurate data. The report's conclusion on the financial statements of provincial and local-level governments was that 'material errors, uncertainties and lack of adequate records resulted in the overall financial position and results of operations that were not reliable.'

The report cites a range of problems in the financial management of sub-national governments, including an absence of adequate monitoring, coordination and communication between national and sub-national governments, and 'considerable abuse and diversion of government money that has gone unpunished for a long period of time.'[119]

The most recent audit report of the national accounts relates to 2011. It cites similar delays and issues, and the following 'significant non-compliance with Legislation and Accounting Principles:

- The Public Account of the Government of PNG, the records and their transactions were not kept in the manner as provided for in the Finance Instructions
- The receipts, payments, investment of moneys, the acquisition and disposal of assets during the period covered by the financial statements have not been in accordance with the Public Financial Management Act (PFMA) requirements
- The Directions from the Secretary for Treasury for budget transfers under all the Appropriations Acts for 2010 were not published in the National Gazette and therefore the legitimacy of the transfers could not be validated in accordance with the requirements of the Appropriation Acts.'

[118] Auditor General's Office, 2013, http://www.ago.gov.pg/images/Annual_Reports/Part_3/Part_III_2011-2013.pdf

[119] Part III, Report of the Auditor-General, 2011–13, On the accounts of provincial and local-level governments and associated entities, http://www.ago.gov.pg/images/Annual_Reports/Part_3/Part_III_2011-2013.pdf

Chapter 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 voluntary, or mandated through legislation or through contracts with the government.

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

The EITI Standard does not define 'social', but various guidance documents provide the following descriptions:

- The EITI's 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.'[120]
- The World Bank guide to EITI reporting refers to 'projects', and 'local communities'[121]
- The Natural Resources Governance Institute refers to 'projects' and to infrastructure examples.[122]

The completed data templates and discussion with reporting entities revealed 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.

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, 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 cost
3. Infrastructure Development
   - Other infrastructure development programs (as per MOA)
4. Community Development Programs
5. Business Development Programs
6. Health Programs
7. Township Development[123]

[120] 'Guidance note 17 on social expenditures', *EITI*, https://eiti.org/sites/default/files/documents/GN/Guidance_note_17_social_expenditure_EN.pdf
[121] Options for data reporting – EITI standard, 2016, http://documents.worldbank.org/curated/en/793601469102170609/pdf/107171-WP-P152662-PUBLIC.pdf
[122] http://www.resourcegovernance.org/eitiguide/#!social-impact
[123] Scoping study

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 social payments.

As an example, Ok Tedi's disclosure of mandatory social payments included compensation payments, land lease and infrastructure payments as well as payments to the Ok Tedi Development Foundation and to the local township. Simberi disclosed a payment for the relocation of houses following the redirection of a creek.

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.

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.

Use of tax infrastructure credits

As outlined in Chapter 4, Infrastructure Tax Credits (ITCs) are a mechanism for companies to receive a tax credit for approved investments in infrastructure. This typically relates to infrastructure that serves the needs of the extractive operation, but which also benefits 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. In future reporting periods, the MSG could consider asking reporting entities to disclose which social expenditure was funded through ITCs.

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 2014 reporting period no companies disclosed quasi-fiscal expenditures. However, some of the mandatory social expenditures disclosed by Ok Tedi might be considered as quasi-fiscal. The definition of quasi-fiscal is complex,[124] and a determination could not be made based on the available information. We were advised by Treasury[125] that the Government has adopted the new International Monetary Fund 2014 Government Finance Statistics Manual[126] reporting of government finance in the 2016 Budget. This new reporting requirement covers transactions of extra-budgetary units and the SOEs in the medium to long term. Treasury is updating the 2014 governance finance statistics to cover these transactions, to enable better visibility and control of quasi-fiscal expenditures by SOEs.

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[124] See, for example, *Manual on Fiscal Transparency,* International Monetary Fund, 2007, http://www.imf.org/external/np/pp/2007/eng/051507m.pdf

[125] Treasury EITI Reporting Template, 14 November 2016

[126] https://www.imf.org/external/np/sta/gfsm/, accessed 23 December 2016

Mandatory and discretionary social expenditure reported for the 2014 reporting period

Table 14: Summary of social expenditure by company and sector

Sector	Mandatory social expenditure (PGK)	Discretionary social expenditure (PGK)
Mining		
Ok Tedi	156,525,311	8,900,444
Lihir	57,041,453*	105,460,934*
Porgera (Barrick)	38,958,881	267,264
Hidden Valley (Newcrest and Harmony)	744,226	1,567,126
Ramu (MCC Ramu NiCo Ltd)	2,409,660	692,617
Simberi	52,790	0
Sinivit (New Guinea Gold)	Data template not completed	
Tolukuma (Petromin)	0	1,000,000
Edie Creek (Niuminco)	Data template not completed	
Oil and gas		
Oil Search	0	355,477,075
ExxonMobil	0	181,715,107
Cue Energy (acquired by NPCP, now KPH)	0	0
JX Nippon	0	0
Santos	0	0
State-owned enterprises*		
Independent Public Business Corporation (IPBC) – now KCH	0	0
Mineral Resources Development Company Limited (MRDC)	0	1,634,174^
National Petroleum Company of Papua New Guinea (NPCP) – now KPH	0	0

*see also Ok Tedi and Petromin, under Mining
^'PR expenses and donations'

For a detailed breakdown, see Appendix C.

Chapter 7: Mining

PNG is rich in minerals, ranking in the top 20 world gold and copper producers, and also producing silver, nickel and cobalt.

Mining in PNG began in 1888 with the discovery of gold on Sudest Island in Milne Bay. Thirty years of small-scale alluvial gold mining spread into the mainland, with a gold rush in the 1920s and 1930s. Miners, largely from the Australian goldfields brought social changes through contact with westerners and technology. Large-scale interests entered gold mining from 1932. Profits often flowed offshore, with limited enduring local economic impact apart from some infrastructure, and the development of other industries such as forestry.

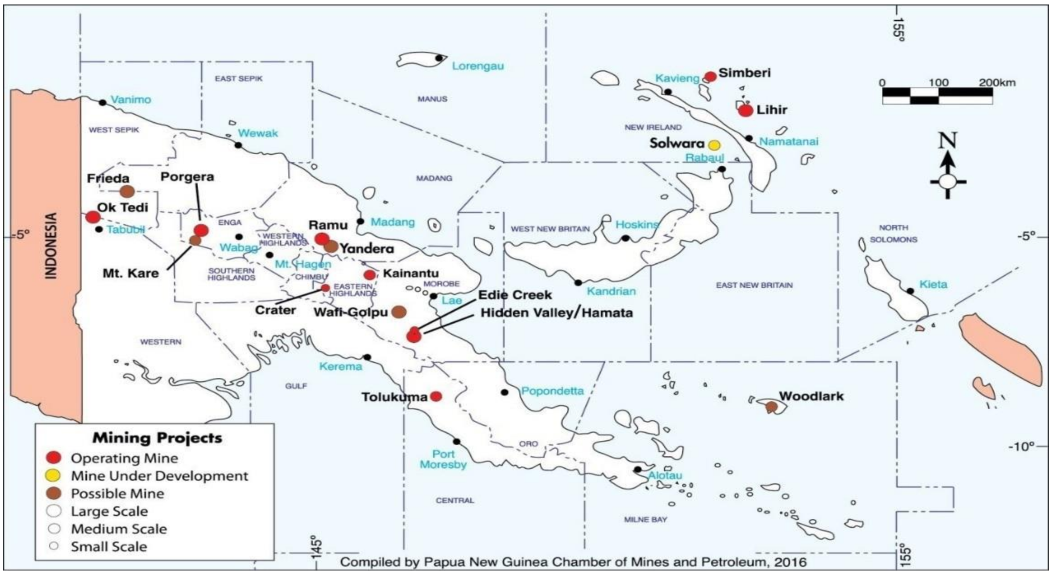
The modern mining industry began with the discovery of the large copper/gold porphyry deposit on Bougainville in 1963, followed by discoveries at Ok Tedi, Porgera, Misima,[127] Hidden Valley, Simberi and Lihir. These mines, together with the Ramu nickel and cobalt mine, continue to form the core of the current minerals extractive industry. The industry has had a significant economic impact on PNG; with both positive and negative social impacts; and sometimes controversial and even significant environmental impacts.[128] These are discussed further in Chapter 3: Contribution to the economy.

The past decade has seen an unprecedented level of exploration and development activity in PNG. Exports of nickel and cobalt began in March 2012,[129] and there are several major new projects in development, outlined below on p. 61.

Overview of mining operations in 2014

During the reporting period, nine mines were operating in PNG, including operations owned by the PNG Government, and others by international resources companies. These mines are distributed over a number of provinces, as shown in Figure 18 below.

Figure 18: Mining projects in PNG[130]



[127] A former gold mine on Misima Island, which closed in 2004, but is again under active exploration.

[128] 'Papua New Guinea Baseline Study', http://pubs.iied.org/pdfs/G01003.pdf accessed 18 January 2016.

[129] 'Mining in PNG,' *PNG Chamber of Mines and Petroleum,* http://pngchamberminpet.com.pg/mining-in-png/ accessed 7 February 2017

[130] Map provided by Papua New Guinea Chamber of Mines and Petroleum, November 2016. Note that MRA states that Woodlark was approved as a ML in 2014 and should be shown as a mine under development in Figure 18.

Figure 19 below provide an overview of the export value of mineral commodities from PNG during the reporting period. Commodity price fluctuations have a more significant impact on smaller operations, and both Tolukuma and Sinivit have experienced partial (or total) shutdown for periods of time.

Figure 19: Overview of export value by mine site[131]

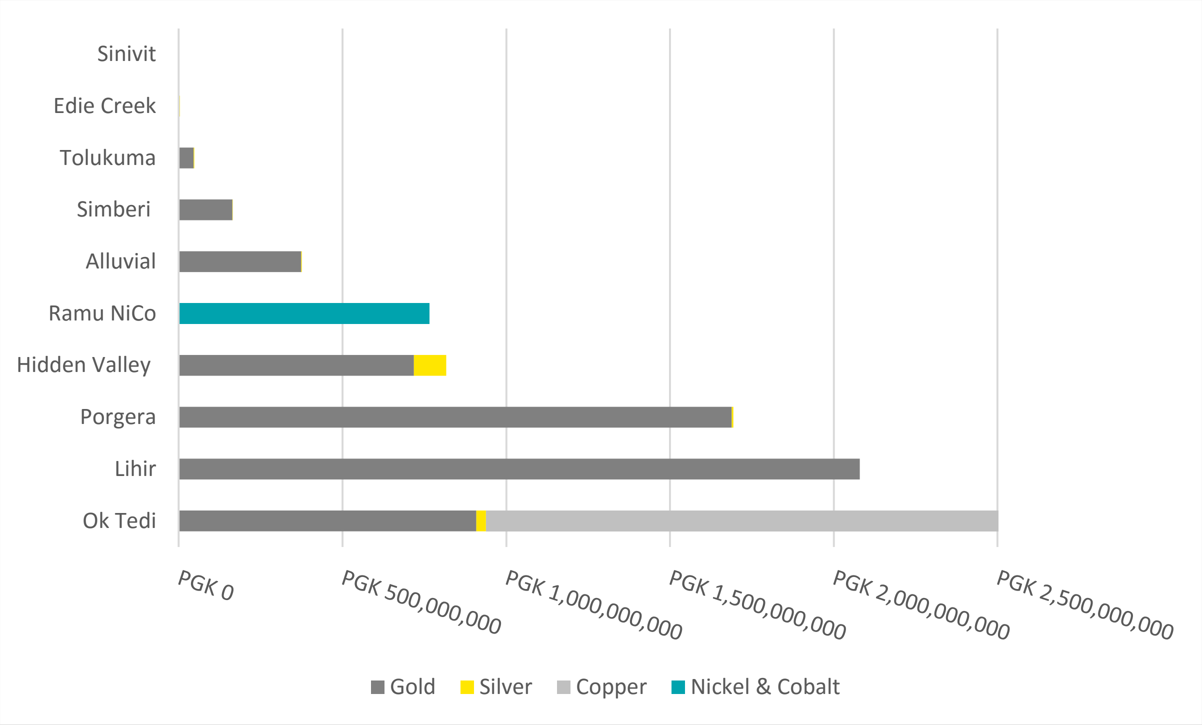
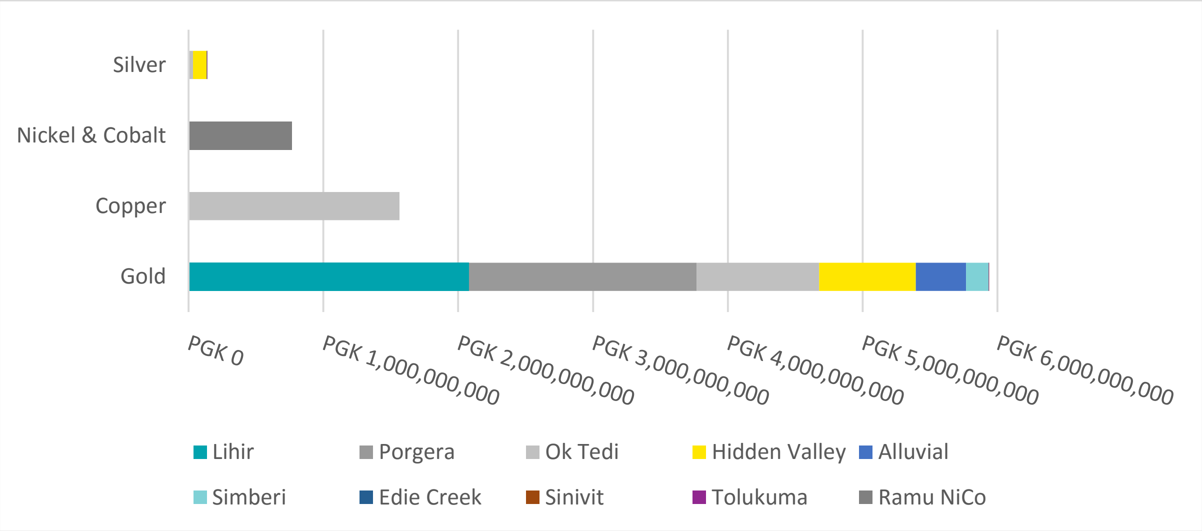


Figure 20: Overview of export value by commodity[132]



[131] Based on MRA data on FOB sales
[132] ibid

Mining companies active in PNG

Mining companies active in PNG include large international companies and a large number of junior companies, together with many small-scale miners. Some of these companies are listed below.[133]

- Anglo American*
- Barrick
- BHP*
- Crater Gold Mining
- Era Resources*
- Harmony Gold
- Highlands Pacific
- Katana Iron
- Kula Gold
- Marengo Mining
- MCC Ramu NiCo
- Nautilus Minerals
- Newcrest Mining
- Newmont
- Niuminco
- Ok Tedi Mining
- PanAust
- Petromin PNG
- Rio Tinto
- St Barbara
- Vale
- Xstrata*
- Zijin*

*may not have been operating in PNG during the reporting period

There are also more than 20 junior resource entities engaged in exploration in all 19 provinces and offshore, and estimates of around 80,000 small-scale miners.

[133] Information from MSG & 'Mining in PNG,' *PNG Chamber of Mines and Petroleum*, http://pngchamberminpet.com.pg/mining-in-png/ accessed 7 February 2017

Mines operating in 2014

Ok Tedi

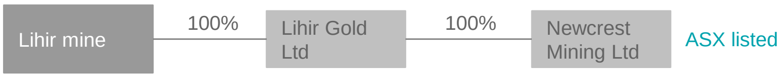
Minerals	Gold, silver and copper
Province	Western
Mine opened	1984
Mine life	to 2026
2014 production	233,504oz Au; 577,332oz Ag; 75,907t Cu[134]
2014 export value	PGK2,502m

See further information, including ownership, in Chapter 9: State-owned Enterprises, p.87.

Lihir

Minerals	Gold and silver
Province	New Ireland
Mine opened	1997
Mine life (years)	30+
2014 production	653,589oz Au
2014 export value	PGK2,080m

Figure 21: Lihir ownership structure (beneficial owners in blue)

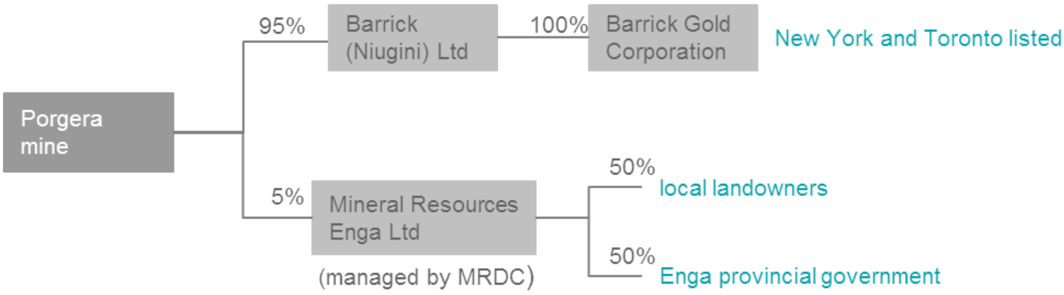


[134] All volumes and values in this section based on MRA records

Porgera

Minerals	gold and silver
Province	Enga
Mine opened	1989
Mine life (years)	30+
2014 production	463,504oz AU; 96712oz Ag
2014 export value	PGK1,693m

Figure 22: Porgera ownership structure (beneficial owners in blue)

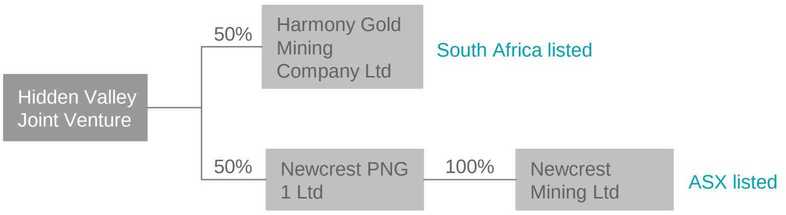


In 2015 Barrick sold 50% of its holding to Hong Kong/Shanghai listed Zijin Mining Group Co. Ltd.

Hidden Valley

Minerals	Gold and silver
Province	Morobe
Mine opened	2009 (commenced production)
Mine life (years)	15
2014 production	203,137oz Au; 1,853,086oz Ag
2014 export value	PGK817m

Figure 23: Hidden Valley Joint Venture ownership structure (beneficial owners in blue)



In 2016, Harmony purchased Newcrest's shares in the joint venture.[135]

[135] https://www.harmony.co.za/investors/news-and-events/company-announcements-2/announcements-2016/960-harmony-acquires-full-ownership-of-the-hidden-valley-mine-in-papua-new-guinea, accessed 16/11/16

Ramu Nickel

Minerals	Nickel and cobalt
Province	Madang
Mine opened	2012 (commenced production)
Mine life	20+ [136]
2014 production	20,987t Ni, 2,135t Co
2014 export value	PGK766m

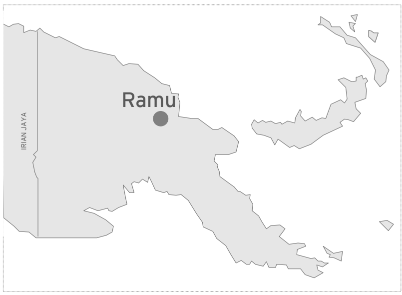
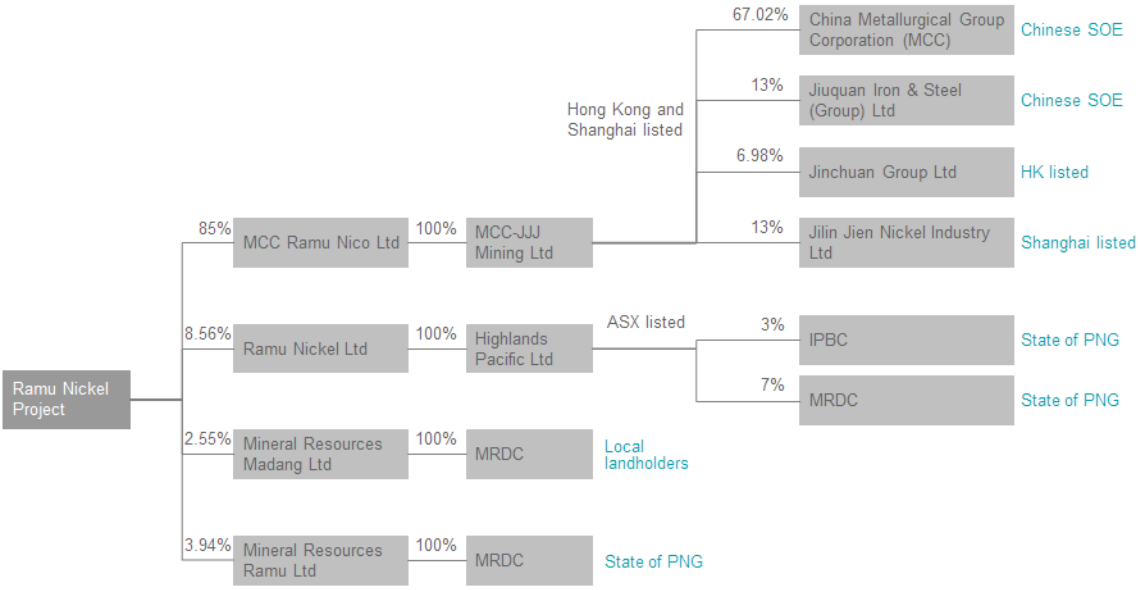


Figure 24: Ramu ownership structure (beneficial owners in blue)



Simberi

Minerals	Gold and silver
Province	New Ireland
Mine opened	2008 (commenced production)
Mine life (years)	20
2014 production	53,084oz Au; 10,585oz Ag
2014 export value	PGK165m

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

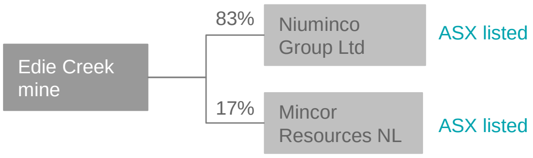
136 'Mining in PNG,' *PNG Chamber of Mines and Petroleum*, http://pngchamberminpet.com.pg/mining-in-png/, accessed 16 November 2016

Edie Creek

Minerals	Gold and silver
Province	Morobe
Mine opened	2014^
Mine life (years)	20 (estimated)
2014 production	713oz Au, 607oz Ag
2014 export value	PGK2m

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

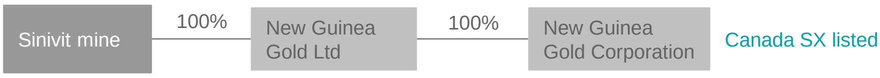
Figure 26: Edie Creek Mine ownership structure (beneficial owners in blue)



Sinivit

Minerals	Gold and silver
Province	East New Britain
Mine opened	2007 (commenced production)
Mine life (years)	No data available
2014 production	228oz Au; 142oz Ag
2014 export value	PGK737,068

Figure 27: Sinivit ownership structure (beneficial owners in blue)



New Guinea Gold Ltd abandoned the Sinivit mine in 2014 and have not provided any information for the 2013 or 2014 EITI report. (See also case study p. 71)

Tolukuma

Minerals	Gold and silver
Province	Central
Mine opened	1995 (commenced production)[137]
Mine life (years)	No data available
2014 production	14,400oz Au; 26,449oz Ag
2014 export value	PGK47m

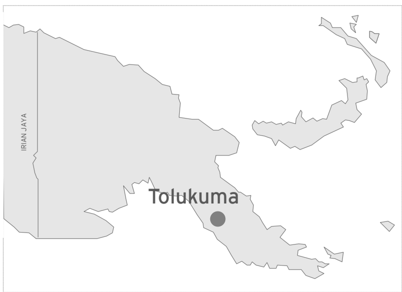
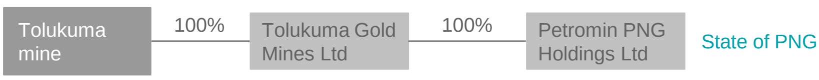


Figure 28: Tolukuma ownership structure, 2014 (beneficial owners in blue)



[137] 'Tolukuma Gold Mines Limited', http://www.petrominpng.com.pg/assets.html, accessed 22 December 2016

Further information on Petromin can be found in Chapter 9: State-owned Enterprises, p.87. Tolukuma was sold to Asidokona Mining Resources in December 2015.[138]

Alluvial mining sector

The *Mining Act 1992* allows people to mine for alluvial minerals on their own land by non-mechanical means without the need for a mining licence. Ninety percent of alluvial miners in PNG use rudimentary sluice boxes and gold panning dishes.[139] This sector is therefore largely unregulated, and there is limited information about its size. The MRA estimates that there are up to 80,000 small-scale miners in this category.[140] To date, over 4,000 of these have completed training at the MRA's small-scale mining centre in Wau.[141]

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 60km^2. There is a requirement for a minimum 51% ownership by PNG nationals. In 2014 there were 183 current Alluvial Mining Leases and 136 Mining Leases (for alluvial purposes).[142]

In 2014, alluvial mining accounted for 120,000 ounces of gold, representing around 6% of the total gold mined in PNG and PGK373.4 million in export revenue.[143] Some 49,000 ounces of silver was also produced, to the value of PGK2.3 million.

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. The MRA felt that levels of illegal export were low, but other estimates have suggested this could be as high as to be an equivalent volume to the official quantity recorded.[144]

New mining projects

As at November 2016, the country had 185 exploration licences and 37 applications for exploration licences.[145] By 2012, almost 80–90% of the country was under tenements compared with less than 5% in 2006, just prior to the establishment of MRA.[146]

Major new projects with approved mining leases, which were in development in 2014 are outlined below.

[138] '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

[139] https://pngjscitech.files.wordpress.com/2011/05/artisanal-small-scale-alluvial-gold-mining-in-papua-new-guinea.pdf

[140] MRA, interview 28 November 2016

[141] ibid

[142] Data supplied by MRA, 28 November 2014

[143] 'PNG to get around k400 Million in revenue from Alluvial Gold,' *Papua New Guinea Mine Watch*, https://ramumine.wordpress.com/2014/09/30/png-to-get-around-k400-million-in-revenue-from-alluvial-gold/, accessed 7 February 2017

[144] MRA, interview 28 November 2016; UNDP, PNG National Human Development Report 2014, p.17

[145] Direct communication from MRA, 13 December 2016

[146] MRA Mining and Exploration Bulletin for January to June 2012, in 'Mining in PNG,' *PNG Chamber of Mines and Petroleum*, http://pngchamberminpet.com.pg/mining-in-png/ accessed 7 February 2017

Solwara 1

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.[147]

Woodlark Island

The mining lease for Woodlark Island was granted in July 2014 to Kula Gold. The Woodlark Island Gold Project is estimated to be developed as a 1.8Mtpa gold mining operation. [148]

Other major projects that were in an advanced exploration phase during the 2014 reporting period are outlined below.

Frieda River

The Frieda River project, on the border of the Sanduan and East Sepik Provinces, is one of the largest undeveloped copper-gold deposits in the world, estimated to contain 13 million tonnes of copper and 20 million ounces of gold. Highlands Pacific holds a 20% interest in the project, with 80% held by PanAust Ltd, a wholly owned subsidiary of Guangdong Rising Assets Management Co. Ltd of China. The PNG Government has the right to acquire up to a 30% interest in the project. If the Government exercises its right to full extent, Highlands' holding would reduce to 15% and PanAust's to 55%. PanAust, on behalf of the Frieda River Joint Venture, submitted an application for a Special Mining Lease in June 2016. If granted, construction is expected to take six years, leading to potential production by 2024/25.[149]

Wafi-Golpu

The Wafi-Golpu project is located in the Morobe Province, approximately 65 km inland from the port city of Lae, PNG's industrial hub and second largest city. The project is owned by the Wafi-Golpu Joint Venture (WGJV) between Newcrest (50%) and Harmony Gold (50%).The project is estimated to contain 26 million ounces of gold, 8.8 million tonnes of copper and 48 million ounces of silver. The project applied for a Special Mining Lease in September 2016 and if granted, pending the results of feasibility studies, production is expected to commence five years after approval (as early as 2023/24).

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

[148] Kula Gold Website http://www.kulagold.com.au/woodlark-island-gold-project/production-pathway/, accessed 20 February 2017.

[149] 'Frieda River Copper-Gold', http://www.highlandspacific.com/current-projects/frieda-copper, accessed 21 October 2016.

Mining production data

Mining companies provide production data to the MRA on a monthly basis as a requirement of their reporting obligations under the MA. 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*. During the reporting period, MRA was implementing a project funded by the World Bank that included 'Improvement of revenue collection and audits of the mining sector'.[150]

The MRA's records of production data for 2014, below, is shown alongside data reported by companies to the Independent Administrator. The percentage difference between the reported data by the MRA and the reported data from the company is calculated by taking the difference between the MRA and company data and dividing by the MRA data, which implies that the MRA data is taken as the most reliable.

It is noted that Treasury cites Bank of PNG as its source of production data. The MRA speculated that BPNG may receive final sales data i.e. refined gold prices, as opposed to export prices based on assay and current exchange rates.

Table 15: Production by mine site 2014

		Production quantity reported from different sources				
Mine/commodity		Publically reported by company	Reported by MRA based on submissions from companies[151]	Reported by company to EITI	Units	Difference between MRA data and company data
Ok Tedi[152]						
Gold	produced	241,039	233,504	241,034	oz	-3.22%
	shipped	291,873	282,342	319,098	oz	-13.02%
	FOB value		908,727,967	919,271,797	PGK	-1.16%
Silver	produced	594,932	577,332	650,429	oz	-12.66%
	shipped	700,189	677,382	765,512	oz	-13.01%
	FOB value		29,370,834	28,831,804	PGK	1.84%
Copper	produced	75,901	75,907	75,901	tonnes	0.01%
	shipped	93,760	93,766	93,760	tonnes	0.01%
	FOB value		1,563,965,665	1,521,841,821	PGK	2.69%
Lihir[153]						
Gold	produced		653,589	653,589	oz	0.00%
	shipped		665,406	665,406	oz	0.00%
	FOB value		2,079,784,064	2,075,988,141	PGK	0.18%

[150] World Bank Group, 'Papua New Guinea Second Mining Sector Institutional Strengthening Technical Assistance Project', http://documents.worldbank.org/curated/en/844731468289828438/pdf/934930BRI0P1020ct0APPROVED00P102396.pdf, accessed 19 December 2016
[151] Data provided by email from MRA on 28 November, 2016
[152] 'Ok Tedi Mining Limited Historical Statistics', 2014, – http://www.oktedi.com/media-items/reports/corporate/historical-statistics/370-2014-historical-statistics/file
[153] Publically reported production data available for financial years only, therefore cannot determine the production quantity for reporting year

		Production quantity reported from different sources				
Mine/commodity		Publically reported by company	Reported by MRA based on submissions from companies[151]	Reported by company to EITI	Units	Difference between MRA data and company data
Porgera[154]						
Gold	produced	493,000[155]	463,504	492,946	oz	-6.35%
	shipped	507,000	516,186	496,023	oz	3.91%
	FOB value		1,688,109,751	1,603,704,263	PGK	5.00%
Silver	produced	-[156]	96,712	93,955	oz	2.85%
	shipped	-	98,080	93,955	oz	4.21%
	FOB value	-	4,833,702	4,592,017	PGK	5.00%
Hidden Valley[157]						
Gold	produced		203,137	209,920	oz	-3.34%
	shipped		211,255	218,347	oz	-3.36%
	FOB value		717,632,691	717,631,990	PGK	0.00%
Silver	produced		1,853,085	1,915,328	oz	-3.36%
	shipped		1,941,886	2,007,170	oz	-3.36%
	FOB value		99,492,305	99,493,010	PGK	0.00%
Ramu NiCo[158]						
Mixed hydroxide precipitate*	produced	57,360			tonnes/Kg	-
	shipped				tonnes/Kg	-
	FOB value		766,155,986		PGK	-
Nickel	produced	20,988	20,987	20,987	tonnes	0.00%
	shipped		19,600	20,745	tonnes	-5.84%
	FOB value		N/A	761,899,260	PGK	-
Cobalt	produced	2,134	2,135	2,134	tonnes	0.07%
	shipped		2,006	2,113	tonnes	-5.35%
	FOB value		N/A	761,899,260	PGK	-

[154] Barrick annual report used for publically available production data – http://www.barrick.com/files/annual-report/Barrick-Annual-Report-2014.pdf
[155] Represents Barrick's 95% share only
[156] No production of silver reported from Porgera
[157] Publically reported production data available for financial years only, therefore cannot determine the production quantity for reporting year
[158] MCC 2014 annual report – http://www.mcc.com.cn/mccen/resource/cms/2015/11/2015110203215021599.pdf

		Production quantity reported from different sources				
Mine/commodity		Publically reported by company	Reported by MRA based on submissions from companies[151]	Reported by company to EITI	Units	Difference between MRA data and company data
Simberi[159]						
Gold	produced		53,084	53,536	oz	-0.85%
	shipped		52,441	51,742	oz	1.33%
	FOB value		164,275,878	163,736,379	PGK	0.33%
Silver	produced		10,585	10,696	oz	-1.05%
	shipped		10,585	10,696	oz	-1.05%
	FOB value		494,866	509,045	PGK	-2.87%
Sinivit						
Gold	produced	No data available	228		oz	-
	shipped		228		oz	-
	FOB value		730,317		PGK	-
Silver	produced		142		oz	-
	shipped		142		oz	-
	FOB value		6,751		PGK	-
Tolukuma[160]						
Gold	produced	No data available	14,400	14,402	oz	-0.01%
	shipped		14,173	14,902	oz	-5.14%
	FOB value		45,896,186	48,547,172.01	PGK	-5.78%
Silver	produced		26,449	29,937	oz	-13.19%
	shipped		27,850	30,855	oz	-10.79%
	FOB value		1,372,631	1,478,621.95	PGK	-7.72%
Edie Creek[161]						
Gold	produced		713		oz	-
	shipped		713		oz	-
	FOB value		2,209,823		PGK	-
Silver	produced		607		oz	-
	shipped		607		oz	-
	FOB value		26,846		PGK	-

[159] Publically reported production data available for financial years only, therefore cannot determine the production quantity for reporting year

[160] Report available but no production data available - *Petromin Annual Report 2014,* Petromin PNG Holdings Limited, http://www.petrominpng.com.pg/about/Petromin%202014%20Annual%20Report.pdf

[161] Publically reported production data available for financial years only, therefore cannot determine the production quantity for reporting year

		Production quantity reported from different sources				
Mine/commodity		Publically reported by company	Reported by MRA based on submissions from companies[151]	Reported by company to EITI	Units	Difference between MRA data and company data
Alluvial						
Gold	shipped		120,000	n/a	oz	
	FOB value		373,400,000	n/a	PGK	
Silver	shipped		49,000	n/a	oz	
	FOB value		2,300,000	n/a	PGK	

* Ramu mine previously reported on mixed hydroxide precipitate. For the reporting period, the percentage content of nickel and cobalt were reported instead of mixed hydroxide precipitate.

We identified a number of discrepancies between the production quantities reported by the MRA and the production quantities reported by companies directly to the Independent Administrator. In most cases the discrepancies are within 5%, but there are instances of larger discrepancies.

In a majority of cases, the amount shipped exceeds the amount produced, suggesting that companies had stockpiled ore from 2013. Figures from the 2013 PNG EITI (or publically available reported values) support this observation, showing higher production volumes than shipping volumes.

Table 16: Total production by commodity 2014

Commodity		From MRA reports[162]	Reported by company to EITI	Units of measurement	Difference between MRA data and company data
Gold	produced	1,622,159	1,665,427	oz	-2.67%
	Value*	5,219,379,857	5,215,436,038	PGK	0.08%
	shipped	1,742,744	1,765,518	oz	-1.31%
	FOB value	5,607,366,677	5,528,879,742	PGK	1.40%
Silver	produced	2,564,912	2,700,345	oz	-5.28%
	Value*	126,171,870	125,263,102	PGK	0.72%
	shipped	2,756,532	2,908,188	oz	-5.50%
	FOB value	135,597,935	134,904,498	PGK	0.51%
Copper	produced	75,907	75,901	tonnes	0.01%
	Value*	1,266,087,300	1,231,967,961	PGK	2.69%
	shipped	93,766	93,760	tonnes	0.01%
	FOB value	1,563,965,665	1,521,841,821	PGK	2.69%
Nickel	produced	20,987	20,987	tonnes	0.00%
	Value*	820,373,249	770,809,366	PGK	6.04%
	shipped	19,600	20,745	tonnes	-5.84%
	FOB value^	766,155,986	761,899,260	PGK	0.56%

[162] Data provided by email from MRA on 28 November 2016

Commodity		From MRA reports[162]	Reported by company to EITI	Units of measurement	Difference between MRA data and company data
Cobalt	produced	2,135	2,134	tonnes	0.07%
	Value*	815,425,239	769,192,838	PGK	5.67%
	shipped	2,006	2,113	tonnes	-5.35%
	FOB value^	766,155,986	761,899,260	PGK	0.56%

* Value of production has been calculated by the IA at the same rate as FOB value

^ FOB value is for mixed hydroxide precipitate rather than for nickel and cobalt separately

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. Like many other PNG institutions, it struggles with resource constraints and capacity, including a shortage of suitably qualified staff and limited internet access.

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

Register of tenements[163]

The official register of tenements is maintained in hand-written ledgers at the MRA office, as required by the *Mining Act 1992*. The MRA has also established an online mineral tenement management system (Flexicadastre) which is updated in real time as administrative actions are closed. Fleixcadastre can be accessed via an interactive online map, please refer to link here. Flexicadastre 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 15. The MRA advised that they did not plan to add this information to the cadastre.

Allocation of tenements

Mining tenements in PNG are administered by the MRA. 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, including:

- Exploration Licence
- Mining Lease
- Alluvial Mining Lease
- Lease for Mining Purpose
- Mining Easement.

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.[164]

[163] 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.
[164] 'Licence,' Mining Resources Authority, http://www.mra.gov.pg/Licence.aspx, accessed 7 February 2016

The Regulatory Operations Division of the MRA is responsible for the assessment of tenement applications in accordance with the *Mining Act 1992*. 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,[165] 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
- 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 Independent Administrator the submission forms and assessment processes for tenement applications, which indicate that clear, detailed and consistent criteria are applied.

A mining tenement will not be granted until CEPA grants environmental approval.

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. We understand that the agreement between RamuNico mine and the State includes significant tax concessions.[166]

The process for transferring tenements is described in the MA s.118-19.

Tenements awarded in 2014 are shown in Table 17.

Table 17: New licences awarded in 2014

Licence number	Licence holder	Area in PNG
AML 715	David Dakopnak (50%), Joel Asek (50%)	Tabubil
EL 2316	Harmony Gold (PNG) Exploration Limited (100%)	Wanama Town
EL 2325	Aus PNG Mining Limited (100%)	Rambusa-Sudest Island
EL 2326	Malaudeley Resources Limited (100%)	Kimbe
EL 2327	Malaudeley Resources Limited (100%)	Doe Village
EL 2330	Apollo Mineral Resources Limited (100%)	Ningerum
EL 2341	Terra Resources Limited (100%)	Bitoi
ML 510	Anomaly Limited (100%)	Mt. Crater

[165] Investment Promotion Authority, http://www.ipa.gov.pg/

[166] Communication from Treasury, 10 October 2016

Community benefits

There are four principal channels by which communities benefit economically from mining projects:

- Royalties – see discussion below, p. 69
- Infrastructure Development Grants – a fixed amount applied in projects where the State does not take up equity. The grant is specified in a Memorandum of Agreement, with oversight from the Department of National Planning and Monitoring (DNPM)
- Special Support Grant – A grant of 0.25% of net sales, paid to the relevant provincial government to be applied to approved social and economic infrastructure development projects. A minimum of 20% of the grant is required to be spent in mine affected areas. The grants are overseen by the DNPM
- Public Investment Program – see discussion below, p. 69.

The benefits for a particular project will be 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 (MoA).

Royalties

The *Mining Act 1992* was intended to be supplemented by a Royalty Act, but this did not eventuate. Instead, the Act refers back to the 1977 Act, which specified a royalty of 1.25% of the value of:

a. The FOB revenue applicable to deliveries of mine products by the miner pursuant to sales or other dispositions where the mine products are directly or indirectly for export from the country; and

b. The net smelter returns applicable to deliveries of mine products where the mine products are smelted or smelted and refined in the country.[167]

The government made a decision to raise the royalty to 2% but it was never passed into legislation. However, the MRA stated that all companies except for RamuNico met this increased royalty payment.

Once an MoA is agreed, royalties are paid directly by mine operators to beneficiaries, but should also be reported to the MRA. Reporting, however, has been historically poor, but MRA has actively pursued companies to ensure compliance with their reporting requirements and the data is now regularly received.

Public Investment Program

The Public Investment Program (PIP) is a vehicle through which the PNG Government implements development policies aimed at improving the livelihood and wellbeing of PNG citizens.[168] It is administered by the Department of National Planning and Monitoring (DNPM).

In relation to the mining sector, funds may be linked to a Mining Development Contract or MoA, with financial contributions from both the operating company and the government. The funds are generally linked to major infrastructure projects such as roads. The process is:

1. MRA submits application for funding for PIP projects to DNPM
2. DNPM allocates funds

[167] *Mining Act 1992*, section 173(5) (provided by MRA)

[168] 2014 Annual Public Investment Program Implementation Report, Department of National Planning and Monitoring, http://www.planning.gov.pg/images/dnpm/pdf/pip/PublicInvestmentProgramAnnualReport2014.pdf accessed 26 October 2016

3. MRA implements project, following government process (eg. Projects over PGK300,000 must be tendered, other agencies (eg health department for a hospital project) engaged as required.
4. MRA submits quarterly and annual reports to DNPM. [169]

The flow of funds is illustrated below:

The 2014 report on the program from DNPM states that the MRA was allocated funding through the program for five projects totaling PGK3.1 million, of which PGK1.8 million was disbursed:[170]

Treasury figures, meanwhile, seem to indicate aggregate project expenditure of PGK11.7 million for 2014 (listed as actual). However, this figure does not equal the sum of the projects outlined on the following pages (which differ from the DNPM list) and add to PGK1.2 million.[171]

Table 18: PIP funds received and disbursed by MRA in 2014

Project	DNPM: Total funding allocation (PGK '000)[172]	DNPM: Actual expenditure (PGK '000)[173]	Treasury: Actual expenditure (PGK '000)
Ok Tedi MOA	300	200	100
Lihir laison	1,000	1,000	700[174]
Women in mining (outside MoA)	500	200	200
Advance mining projects (outside MoA)	500	200	200
MOA reviews (allowance included in each project)	800	200	n/a
Hidden Valley MOA	n/a	n/a	0
Ramu Nickel MOA	n/a	n/a	0
Mining Agreement - Porgera	n/a	n/a	0
Human resource training for the mining sector	n/a	n/a	0
Total	**3,100**	**1,800**	**1,200**

In 2015 the MRA was allocated PGK48.3 million for eight projects.[175]

[169] Interview with MRA, 29 November 2016
[170] 2014 Annual Public Investment Program Implementation Report, Department of National Planning and Monitoring http://www.planning.gov.pg/images/dnpm/pdf/pip/PublicInvestmentProgramAnnualReport2014.pdf accessed 26 October 2016
[171] National Budget, Volume 3: Public Investment Program 2016-2020, pp.459-478, http://www.treasury.gov.pg/html/national_budget/files/2016/Volume3-PIP%202016-2020.pdf, accessed 26 October 2016
[172] 2014 Annual Public Investment Program Implementation Report, Department of National Planning and Monitoring http://www.planning.gov.pg/images/dnpm/pdf/pip/PublicInvestmentProgramAnnualReport2014.pdf accessed 26 October 2016
[173] ibid
[174] Listed as 'Lihir Outstanding MOA – PGK700' and 'Lihir MOA (Outstanding) – PGK0'
[175] 2015 First Quarter Public Investment Program Implementation Report, Department of National Planning and Monitoring, http://www.planning.gov.pg/images/dnpm/pdf/pip/PublicInvestmentProgram1stQuarterReport2015.pdf

The program has been subject to some controversy. The MRA represented that it had not received the full allocation of funds from Treasury, and flagged concerns about the accuracy of Treasury figures.[176] The DNPM report, meanwhile, outlines various issues with funding to MRA.[177]

Planning for mine end of life[178]

When mines reach the end of their productive life, there can be social and environmental ramifications. Mechanisms such as the Future Generations Trust Fund and the new Sovereign Wealth Fund aim to smooth the economic impact when mines cease to provide revenues and employment.

The proposed revisions to the *Mining Act 1992* specifically introduce sections on mine closure and rehabilitation of environmental impacts, including a Financial Assurance Fund that would sit with Treasury and be independently assured for adequacy. To date, reliance has been placed on the Decommissioning Code section of the *Ok Tedi Act* as a template.

Companies are currently required to pay a security, which may be found to be an inadequate value when considered against the potential for significant, ongoing, environmental or other impacts. As an example, the Sinivit mine was abandoned in 2014 and the managing tenement holder, New Guinea Gold Ltd was placed in liquidation in July 2015. There has since been lack of required maintenance of the cyanide vat heaps and, without security, there has been vandalism of the site.

When the Mining Lease was granted, a security of PGK46,000 was put in place through the Department of Mining, but this would be grossly inadequate to remedy the issues at the mine site. Furthermore, the security has not been made available to MRA as required by the MRA Act in 2007. Inquiries made with the relevant departments regarding the historic security payments (or other acceptable financial arrangements) have not elicited any payments.

CEPA has more modern assurance options under the *Environment Act 2000*.[179]

[176] Interview with MRA, 29 November 2016.

[177] 2014 Annual Public Investment Program Implementation Report, Department of National Planning and Monitoring http://www.planning.gov.pg/images/dnpm/pdf/pip/PublicInvestmentProgramAnnualReport2014.pdf accessed 26 October 2016

[178] Information from MRA, interview 28 November 2016

[179] Information from MRA, 12 December 2016

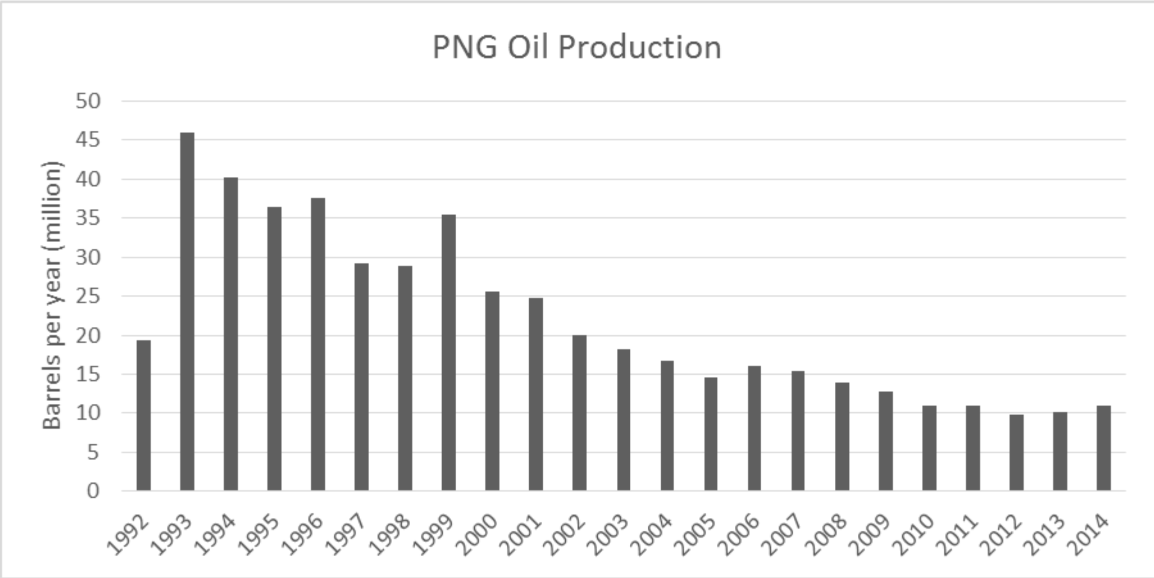
Chapter 8: Oil and gas

PNG's proven crude oil reserves are estimated at 2.53 million barrels, placing it at 99 out of 103 countries with proven reserves. However, the country's location close to Asia Pacific buyers, and its relatively low production costs,[180] provides the industry with strategic advantages.[181]

Oil exploration in PNG commenced in the 1920s. The oil and gas industry emerged in the late 1980s, with an abundance of gas discoveries, including the large Hides gas field. PNG's first commercial oil field, the Kutubu field, went into production in 1992.[182]

Oil production has been in slow but steady decline since the mid-1990s, with approximately 11 million barrels of oil produced in 2014, down from a peak of 46 million barrels in 1993.[183]

Figure 29: PNG Oil Production, 1992-2014[184]



Gas production, by contrast, is increasing due to the PNG LNG project (see p. 74) exporting its first shipment of liquefied natural gas (LNG) in May 2014.[185] The project has design capacity of 6.9 million tonnes of LNG per annum,[186] 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 a domestic gas project for the sale of natural gas from the Hides field to Porgera.

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[180] 'PNG projects in lowest quartile for costs globally' http://www.oilsearch.com/Media/docs/160919%20CLSA%20Investors'%20Forum%20Hong%20Kong%20-%20presentation-Update-85eecba7-f7cd-4aea-9764-217eaca5d2ca-0.pdf

[181] http://www.eia.gov/cfapps/ipdbproject/iedindex3.cfm?tid=5&pid=57&aid=6

[182] 'PNG Gas Finds Push LNG Plans' http://www.aapg.org/publications/news/explorer/column/articleid/2257/png-gas-finds-push-lng-plans#sthash.fARVMzb3.dpuf, accessed 21 October 2016.

[183] 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, accessed 21 October 2016.

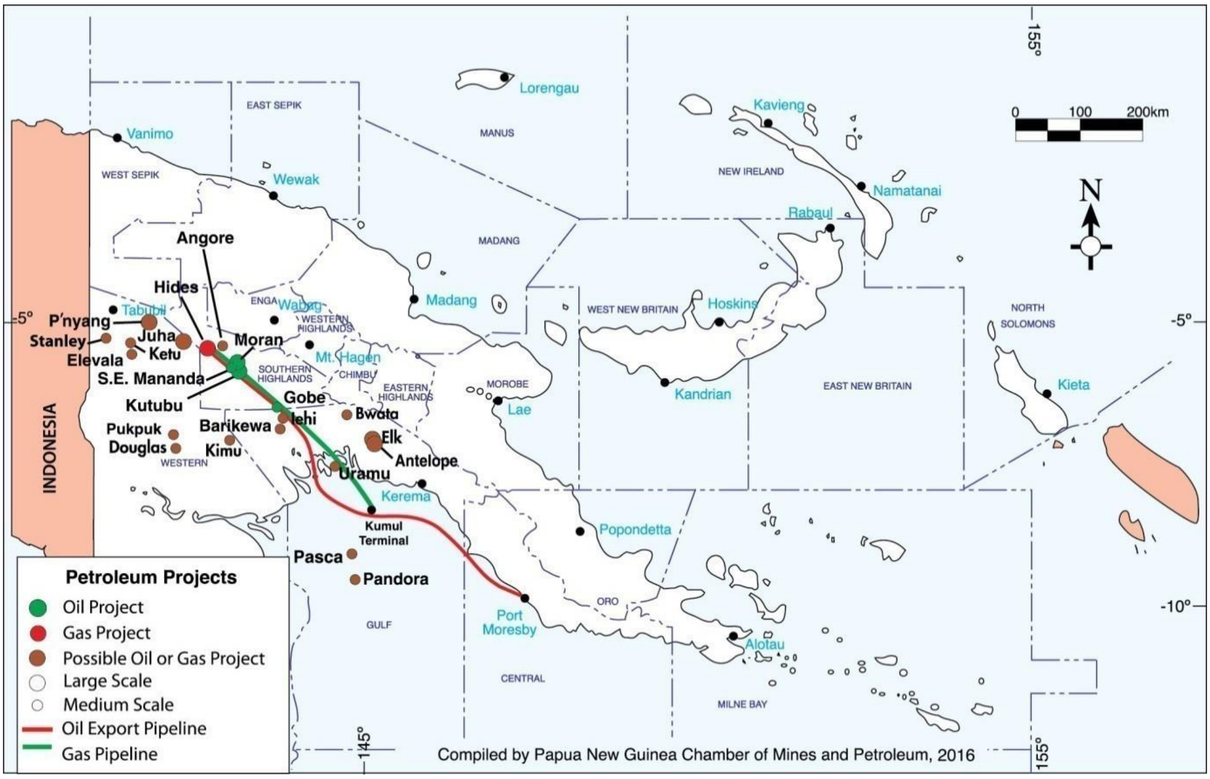
[184] *Adapted from* United States Energy Information Administration, cited in http://www.indexmundi.com/energy/?country=pg&product=oil&graph=production

[185] http://pnglng.com/news/png_lng_ships_first_lng_cargo.html

[186] http://pnglng.com/project/index.html

The physical distribution of oil and gas resources is shown in Figure 30 below.

Figure 30: Oil and gas projects in PNG[187]



Oil and gas companies active in PNG [188]

Both national and multinational oil and gas companies are actively engaged in exploration and production in PNG. Talisman (since acquired by Repsol) and its joint venture partners have been very active in the southwest of the country, focused on a group of licences covering large parts of Western Province. ExxonMobil and Oil Search are focused on the Fold Belt, which follows a northwest-southeast trend in the central part of the mainland, incorporating the existing oilfields and the Hides/Angore/Juha gas fields, while InterOil is active in the Gulf region. Key players in the petroleum sector are:

- ExxonMobil
- Sasol
- Oil Search
- Mitsubishi
- Talisman/Repsol
- InterOil
- Mitsui
- Nippon Oil
- Petromin PNG
- Santos
- Horizon Oil
- Total

Ten additional oil and gas juniors are engaged in exploration both onshore and offshore.

[187] Provided by PNG Chamber of Mines & Petroleum
[188] ibid

Overview of producing operations in 2014

Oil production

Oil Search operates all of the oil fields that are currently producing oil in PNG. Oil Search took over the operation of the five oil fields in 2003: 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 Iagifu-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.[189]

Gas production

Hides Gas to Electricity Project

The Hides Gas to Electricity Project is fully owned and operated by Oil Search. 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 2014, Oil Search delivered 5,675 mmscf natural gas to the Porgera Gold Mine.

PNG LNG Project

This major new project, led by ExxonMobil PNG Limited (ExxonMobil), is the largest investment made in PNG to date; at US$19 billion, it is worth more than all other existing extractive projects in PNG combined. The relative interests of each partner in the PNG LNG project for the 2014 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%)

The integrated development includes gas production and processing facilities in the Southern Highlands, Hela, Western, Gulf and Central Provinces of PNG. The project extracts gas resources from reserves located at Hides, Angore, Juha and South East Hedinia, as well as taking the associated gas produced from oil fields at Kutubu, Gobe, Agogo and Moran. Over 700 kilometres of pipelines connect the facilities, which include a gas conditioning plant in Hides and liquefaction and storage facilities near Port Moresby with capacity of 6.9 million tonnes of LNG per year.

Construction began in 2010, with production beginning in May 2014. The project will provide a long-term supply of liquefied natural gas (LNG) to major customers in the Asia region, with the remaining volumes being sold on the spot market. An overview of the key project details is provided in Table 19.

[189] 'Operated PNG Overview', *OilSearch*, http://oilsearch.com/Our-Activities/Operated-PNG-Production-Overview.html, accessed 7 February 2017

Table 19: PNG LNG key project details[190]

Production

Production over project life
>9 tcf gas >200 mmbbl condensate

Cargo loads per year
>90

Sales contracts
6.6 m tonnes per annum (MTPA) contracted to the following buyers:
- Sinopec (China) 2.0 MTPA
- TEPCO (Japan) 1.8 MTPA
- Osaka Gas (Japan) 1.5 MTPA
- CPC (Taiwan) 1.2 MPTPA

Workforce

Peak construction workforce
21,200 (4Q 2012), with 40% PNG citizens

Construction workforce during reporting period
2,178 (4Q, 2014), with 70.65% PNG citizens

Operational workforce
Around 2,400, with over 80% PNG citizens

Drilling

Wells (field life)
13 production wells (9 Hides, 2 Angore, 2 Juha)

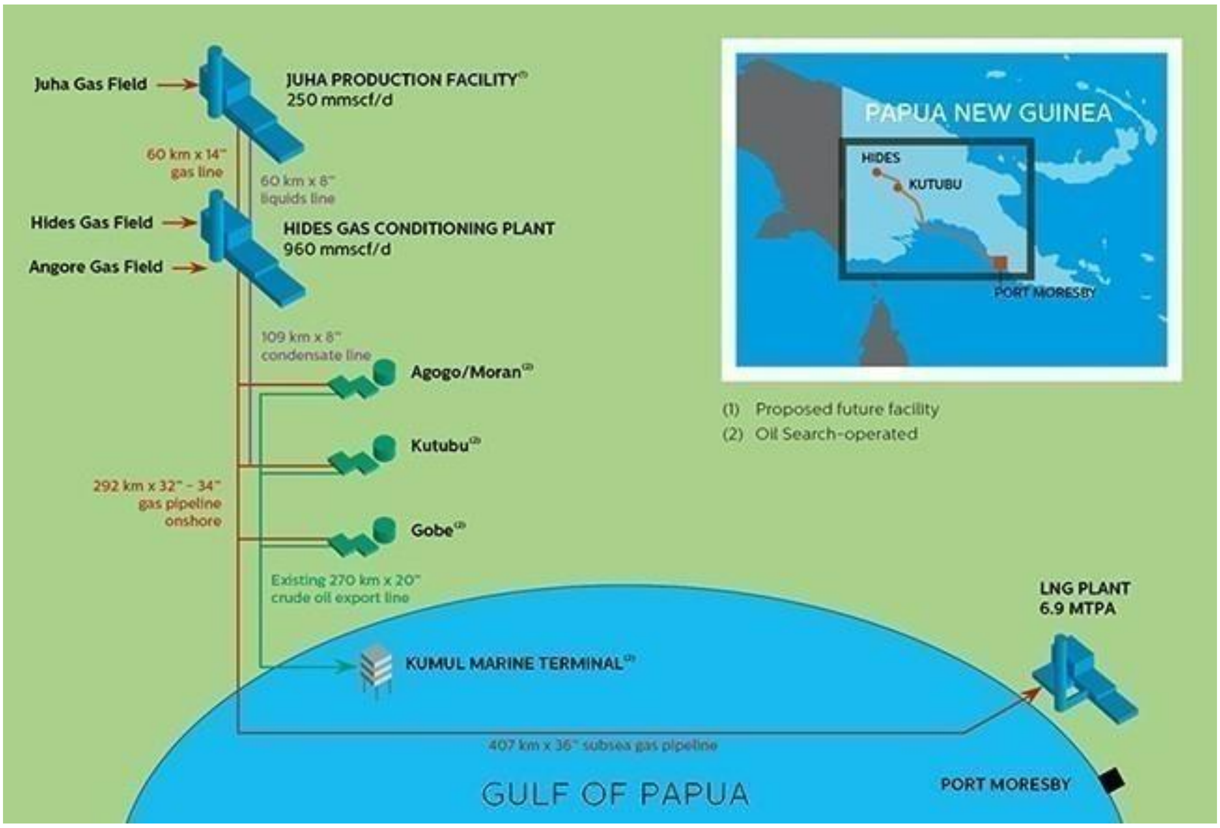
+ 1 Produce water disposal (PWD) well

Production well depth
Up to 3000 meters (excluding PWD)

Social engagement

Community engagements
>4500 engagements with >165,000 attendees (as of 4Q 2014)

Figure 31: PNG LNG Project Map[191]



[190] Sources: PNG LNG Quarterly Environmental and Social Reports 2014 http://pnglng.com/images/environmental_pdfs/Q4_2014_ES_Report_FINAL_27-02-2015_FULL_(ENG-WEB).pdf; Oilsearch website http://www.oilsearch.com/Our-Activities/PNG-LNG-Project.html
[191] 'Petroleum in PNG,' *PNG Chamber of Mines and Petroleum*, http://pngchamberminpet.com.pg/petroleum-in-png/, accessed 7 February 2017

The PNG LNG project is expected to deliver social and economic benefits to PNG due to its scale and coverage. Direct benefits include revenue streams for national and provincial governments and landowners through taxes, royalty payments, levies, and through equity participation in the project. The PNG Government is predicted to benefit from taxation revenue totaling approximately PGK67 billion over the 30-year life of the project, in addition to dividend revenues from its equity shareholding. However, falling global LNG prices have already negatively impacted project returns, with some commentators suggesting that the potential shortfall in revenue from the PNG LNG project could have adverse impacts on the government's financial position.[192]

The project has had positive and negative impacts on affected communities. While employment at the plant has been seen as a positive impact, communities have expressed concern over its sustainability, wages and the associated changes it brings to community life. There is also evidence to suggest that the project has led to tension over land, and exacerbated community divisions in some instances.[193]

The distribution of benefits from the project was negotiated through a development forum with stakeholders, and the PNG LNG Project Umbrella Benefits Sharing Agreement (UBSA) was signed in May 2009. The agreement encompasses the distribution of royalties, equity, development levy, infrastructure development grants and business development grants. Licence-based benefits sharing agreements (LBBSA) were completed in early December 2009, and outline how landowners within each licence area will allocate their share of the project's benefits.[194]

The commercial arrangements between the various commercial co-venture partners are captured in the Coordinated Development and Operating Agreement (CDOA), executed in March 2008. Many key transactions relating to the 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.

Stanley project

This new project was initiated during the reporting period, with the Stanley Gas Agreement being approved in April 2014. The Stanley gas-condensate field is located in PDL 10 and is operated by Repsol.[195] 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, but the project owners have yet to decide a clear future strategy.[196]

Beneficial owners of oil and gas projects

The PNG LNG project started production in 2014 and had a number of licences under operation. Each production licence is comprised of a number of joint venture partners who collectively assign an operating partner to lead the project. The respective interest of each part is determined commercially in accordance with their contribution. A detailed breakdown of the ownership structure for each licence is presented in Table 20, below.

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

[193] 'Listening to the impact of the PNG LNG Project', Oxfam, 2011

[194] 'Benefits sharing', *PNGLNG*, https://pnglng.com/About/Our-Operations/Benefits-sharing, accessed 9 December 2016

[195] http://horizonoil.com.au/projects-operations/papua-new-guinea/ppl-4/

[196] http://energy-pubs.com.au/png-resources/repsol-considers-options-for-stanley-development/

Table 20: Beneficial ownership data for oil and gas projects operating during the 2014 calendar year

Permit	% Interest	Operator(*)/partners	Parent organisation	Ownership structure
PDL 1 Hides	36.81	*Esso Highlands Ltd[197]	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%[198]	JX Nippon Oil and Gas Exploration Corporation[199] (Tokyko listed) Privately held, Australia [200] Tokyo listed[201]
	2.91	Merlin Pacific Oil Co. NL	ExxonMobil	NYSE listed
	6.75	Petroleum Resources Kutubu Ltd	MRDC	SOE
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

[197] Esso Highlands was renamed ExxonMobil PNG Limited in early 2014
[198] http://www.nex.jx-group.co.jp/english/activity/oceania/png.html, accessed 9 December 2016
[199] http://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=128311971, accessed 9 December 2016
[200] http://www.abr.business.gov.au/SearchByAbn.aspx?SearchText=69134179810, accessed 9 December 2016
[201] https://www.marubeni.com/company/profile/

Permit	% Interest	Operator(*)/partners	Parent organisation	Ownership structure
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[202]	Tokyo listed
	5.57	Cue PNG Oil Co. P/L	Kumul Petroleum Holdings Ltd[203]	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

[202] '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

[203] Kumul Petroleum purchased Cue PNG OIL Company Pty Ltd on 20 November 2016, http://kumulpetroleum.com/press-release/npcp-increases-petroleum-assets-with-major-purchase/

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 Limited	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[204] 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

New oil and gas projects

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 are:

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.[205]

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.[206]

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.[207]

[204] http://horizonoil.com.au/projects-operations/papua-new-guinea/ppl-4/, accessed 19 November 2016
[205] CSLA Investors Forum Hong Kong Presentation, Oilsearch, 2016 http://www.oilsearch.com/Investor-Centre/ASX-Releases/Presentations-and-Webcasts.html, accessed 21 October 2016
[206] Information from MSG & 'Petroleum in PNG,' *PNG Chamber of Mines and Petroleum*, http://pngchamberminpet.com.pg/petroleum-in-png/, accessed 7 February 2017
[207] ibid

Oil and gas production data

Oil and gas companies report production data to DPE on a monthly basis. DPE is not currently performing detailed reviews or audits of the data due to resourcing constraints.[208]

Liquids produced during the 2014 reporting period are quantified in Table 21, below. Oil Search produced oil and condensate from its fields, and production quantities disclosed to us by Oil Search and DPE reconciled with each other. Liquids were also produced by the PNG LNG project, but a corresponding production volume was not supplied to us by DPE.

Table 21: Oil and condensate production 2014

Field	Data from Oil Search Annual Report[209] (converted to BOPY)	Data from DPE	Variance	Variance (%)
Total Oil	10,989,055	10,962,491	26,564	0%
Condensate (Hides Liquids)	120,815	120,819	-4	0%
PNG LNG Project Liquids	6,759,800	Not supplied	n/a	n/a

ExxonMobil advised that the total quantity of LNG produced during the 2014 calendar year, from the commencement of production in May 2014, was more than 3.79 million tonnes. Data provided by DPE stated total quantity of LNG production for 2014 at just over 6 million cubic metres. When converted to tonnes (as shown in the table below), we identified a variance of approximately 1 million tonnes between these two figures. We could not reconcile the ExxonMobil figure against DPE data, as DPE was unable to locate the relevant documentation.

Table 22: Gas production 2014

Field	Operator	Data from Operator	Data from DPE	Variance	Variance (%)	Remarks
Hides Gas Production (mmscf)	Oil Search	5,675	5,568	107	2%	A
PNG LNG Project LNG (tonnes)	ExxonMobil	3,790,000	2,734,000*	1,055,729	-39%	B

Remarks

A. Figure from DPE was provided as 5,568,561 mmscf, however we have assumed this to be an error and restated the data as shown in the table.
B. We found that the figure stated by ExxonMobil reconciled with other data published in the Petromin 2014 annual report[210] and believe that the figure provided by DPE is incorrect.

[208] ibid p.153
[209] 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, accessed 9 December 2016
[210] Petromin 2014 Annual Report, http://www.petrominpng.com.pg/about/Petromin%202014%20Annual%20Report.pdf

Regulation of the oil and gas sector

Oil and gas regulation in PNG is overseen by DPE, a government department. The department is chronically under-resourced, operating from a ramshackle collection of buildings with limited internet access. The department has no website, and has not produced an annual report for past four years.

DPE informed us that there are plans to reconstitute DPE as an independent authority (as is the case with the MRA) but this is proceeding at a very slow pace.

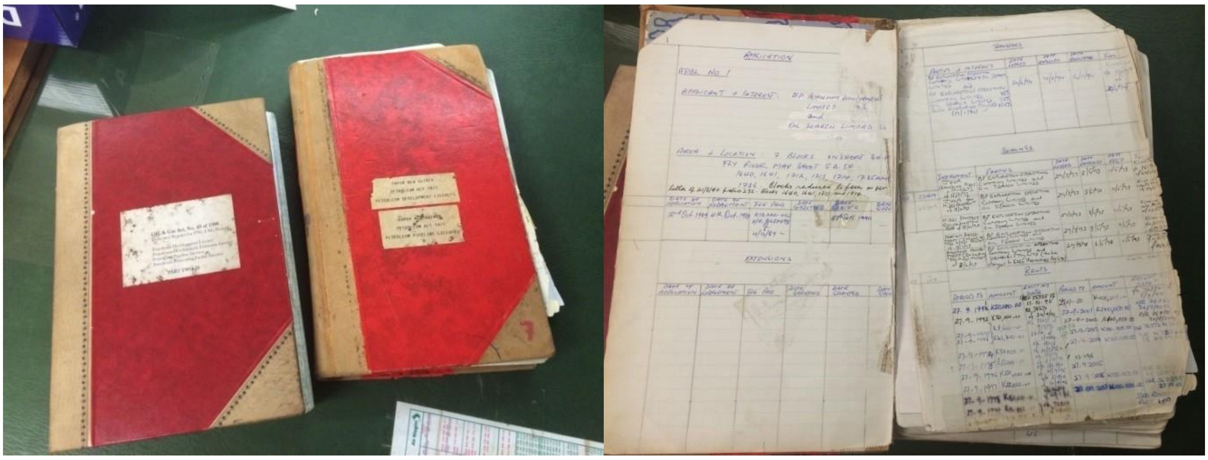
DPE was the subject of a number of priority recommendations in the PNG EITI Report2013, but at the time of writing, there was no sign of progress towards addressing these recommendations.

Information about the OGA and other relevant legislation can be found in Chapter 4.

Register of licences

The official register of oil and gas licences is maintained by the DPE in handwritten ledgers (see Figure 32 below). 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 32: Oil and gas licence registers



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 informed us that the licence register has now been scanned so that there is a digital copy. They further informed us that they were working with Kumul Petroleum Holdings to move to a cadastre system.

Table 23 shows the different types of licences and the number of licence applications by type as at November 2013. The complete register of petroleum development licences held as at November 2013 appears as an Appendix to the [PNG EITI Report 2013.]

Table 23: DPE licence statistics (as at 30 November 2013)[211]

Licence type	Abbreviation	Number of applications
Petroleum Development Licence	PDL	9
Application for PDL	APDL	2
Petroleum Retention Licence	PRL	10
Application for PRL	APRL	1
Petroleum Prospecting Licence	PPL	72
Application for PPL	APPL	49
Petroleum Processing Facility Licence	PPFL	2
Application for PPFL	APPFL	1

DPE provided the information in Table 24 as an update to the 2013 licence register. They advised that this information is based on the last update from March 2014, prior to a major in-house review and updating of the Petroleum Licences Registry.

Table 24: 2014 Petroleum licence data, provided by DPE (as at March 2014)[212]

Licence types	Quantity	Remarks
Application for Petroleum Prospecting Licence (APPL)	5	
Petroleum Prospecting Licence (PPL)	94	
Petroleum Retention Licence (PRL)	12	
Pipeline Licence (PL)	7	
Petroleum Development Licence (PDL)	10	9 producing PDLs plus Stanley PDL (May 2014).
Petroleum Processing Facility Licence (PPFL)	2	Napa Napa Refinery & PNG LNG Plant

A review was recently undertaken 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.

Early work on the compliance review indicated that 50% of all licences did not comply with the *OGA*. DPE informed us that they are in the process of requesting further information from companies that were found to be non-compliant. They also informed us that some PPLs had been cancelled for non-compliance.

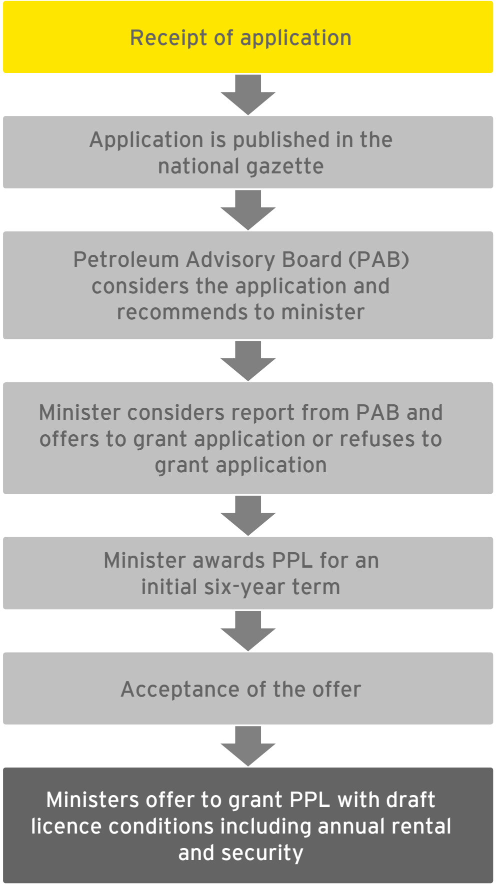
[211] Provided by DPE, 30 November 2016

[212] Direct communication from DPE, 6 February 2017.

Allocation of licences

Oil and gas licences are allocated by DPE, according to the process illustrated in Figure 33 below.

Figure 33: Process for DPE licence allocation[213]



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: [214]

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:

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

[213] Petroleum division - an overview, p. 21
[214] Petroleum policy handbook, pp. 8 and 9, 2003

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.

There is no evidence that licences are awarded in a competitive bidding process.

DPE informed us that, 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’.[215]

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.

DPE informed us there had not been any non-trivial deviations from the applicable regulatory regime in awarding licences.

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

Transfer processes are outlined in the *OGA*.[216] 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.

Royalties

The OGA states that a royalty of 2% of the wellhead value is payable to ‘the State’. The royalty benefit is then paid ‘by the Minister’, and is ‘shared between the project area landowners the affected Local-level Governments and the affected Provincial Governments of the project in proportions agreed by them in a development agreement.’ The Act specifies that royalties are to be received by a trustee which is a wholly owned subsidiary of the MRDC. The structure and administration of these trusts is discussed further on p. 101. DPE advised us that each PDL has its own separate royalty and development levy trust. [217]

In practice, we found two different payment systems. Oil Search pay royalties to DPE by cheque; DPE stated that they receive royalties only from Oil Search. ExxonMobil advised that they make electronic payments direct to accounts nominated by the Department of Finance. ExxonMobil provide royalty statements on a monthly basis to DPE, the Bank of PNG and Treasury, and have transmittal letters to confirm receipt. DPE confirmed informally that they have been receiving these statements, but could not produce them for this report.

[215] Oil and Gas Act 1998 s.54
[216] Section 97
[217] Interview with DPE, 29 September 2016

Figure 34: Royalty payments[218]

Oil and gas royalties paid to landowners

Oil and gas royalties paid to provincial and local governments

Development levy

According to the OGA, a development levy of 2% of the wellhead value is payable to the affected provincial or local-level government. The OGA specifies that this is paid directly to a trust fund. Monies are disbursed from the trust account only in accordance with an appropriation approved by Parliament.[219]

As with royalties, DPE advised us that they receive the development levy from Oil Search by cheque. ExxonMobil, meanwhile, disclosed that no development levy was payable during the 2014 reporting period, as the payment wasn't due until 2015 under the *OGA*.

[218] Scoping study p. 99
[219] Oil and Gas Act 1998, section 160.

Chapter 9: State-owned enterprises

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. Further information on the State's equity participation rights is provided in Chapter 4.

The state-owned enterprises (SOEs) in PNG during the reporting period were:

- Independent Public Business Corporation
- Mineral Resources Development Company Limited
- National Petroleum Company of PNG Limited
- Ok Tedi Mining Limited
- Petromin PNG Holdings Limited.

In April 2013 the PNG Government announced plans for a significant restructuring of all state-owned assets into three new companies:

- Kumul Petroleum Holdings Limited (previously National Petroleum Company of Papua New Guinea Limited) is a special purpose vehicle with a mandate to hold and manage the State's 16.57% interest in the ExxonMobil-led PNG LNG project and will now hold all hydrocarbon assets, including those held by another SOE, Petromin.
- Kumul Minerals Holdings Limited will hold all state-owned mining assets, including those held by Petromin, the Ok Tedi mine and the State's interests in Nautilus Minerals' future Solwara 1 project.
- Kumul Consolidated Holdings (previously Independent Public Business Corporation) holds a portfolio of state-owned enterprises including Air Niugini, PNG Power, Telikom PNG and PNG Ports.

Previously, various government departments, including Treasury, were holding shares on behalf of the State. The restructure was intended to establish active, independent management of these State assets.

The Independent Public Business Corporation

Creation, ownership and structure

The Independent Public Business Corporation (IPBC) of Papua New Guinea, a 100% state-owned corporation, was formed under an act of parliament (2002, amended in 2012).[220] Most state-owned enterprises (SOEs) in PNG are not owned directly by the State, but by the General Business Trust (GBT). During the reporting period, the IPBC was the trustee of the GBT. Its role in monitoring and managing the SOEs owned by the Trust was to:

- Appoint the board of directors (can alternatively be appointed by the National Executive Council)
- Approve the annual business plan
- Approve capital expenditure

[220] 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

- 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 the reporting period, the GBT was the owner of the National Petroleum Company of PNG (NPCP), discussed in more detail below (p.89).[221] The IPBC also directly held a 3% share in Highlands Pacific.

In 2015, the IPBC was renamed Kumul Consolidated Holdings and restructured under a new act of parliament, the *Independent Public Business Corporation of Papua New Guinea (Kumul Consolidated Holdings) (Amendment) Act* (2015). Kumul Consolidated Holdings 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.

As part of the restructure, the IPBC's interests in the oil and gas sector (i.e. NPCP) were transferred to Kumul Petroleum Holdings. Kumul Consolidated Holdings no longer plays a role in the extractives sector, but remains the owner of 11 other SOEs, such as Air Niugini, Post PNG, and PNG Power.

IPBC's projects and fiscal arrangements

In 2008, the NEC (Decision No. 223/2008) approved the State's acquisition of a 19.6% share in the PNG LNG Project, comprising:

- 16.6% held by NPCP, which was established as a special-purpose venture to hold the State's interests in the PNG LNG project
- 0.24% held by Eda Oil, a subsidiary of Petromin
- 2.8% managed by MRDC on behalf of landowners and local level governments.

The acquisition was funded by an exchangeable bond agreement between IPBC and the International Petroleum Investment Company of Abu Dhabi (IPIC), the terms and conditions of which were also approved in NEC Decision No. 223/2008. In March 2009, IPBC issued IPIC with 3,362 exchangeable bonds valued at AUD500,000 each, which raised AUD1,681 million. On maturity at 5 March 2014 the bonds were subject to mandatory exchange into 196,604,177 ordinary shares in Oil Search Ltd, with an additional cash amount payable to IPIC if the current market value of the shares was less that the principal amount of the bonds plus accrued interest. The valuation of the shares was disputed, but following a court decision, IPBC paid AUD14.75 million to IPIC on 24 June 2016 as final settlement.

The IPBC was appointed as State Nominee[222] in the PNG LNG Project. It coordinated payments, managed the project and carried operating costs (i.e. cash calls for the construction of the project), and had a team liaising with ExxonMobil. The project reached final completion on 5 February 2015. In the IPBC's 2014 accounts, the NPCP was valued at PGK3,836,172,150.

The costs of the landowner interests held by MRDC were borne by the State. By agreement between the State and IPBC, IPBC paid these costs on behalf of MRDC, and these payments were classified as a 'deemed dividend paid to the State'. In 2014 these costs amounted to PGK27,507,541.[223] The IPBC did not make any payments on behalf of Eda Oil.

As part of the 2015 restructure, the IPBC was required to transfer its 100% holding in NPCP to the new Kumul Petroleum Holdings (KPH), free of debt and at no cost to KPH. At the time of writing the transfer had not yet legally been completed.

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[221] The other SOEs in the extractives industry – Ok Tedi, Petromin and the MRDC – are not owned by the GBT, but are directly held by the state.
[222] a person or company, not the owner, in whose name a stock, bond, or company is registered
[223] GBT accounts

The IPBC's 3% share in Highlands Pacific had a carrying value of PGK4,523,823 in the 2014 accounts. The shares will now be transferred to Kumul Mineral Holdings.

During the reporting period, the IPBC did not make any loans or loan guarantees.

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 for its operations. The monthly budgetary allocation is disclosed in the IPBC's operating budget, which is approved by the NEC.

Dividends from NPCP would normally be paid to the IPBC, who informed us they would then seek to pass it, in its entirety, to Treasury. In 2014, NPCP generated a dividend of PGK414,263,303, which appears in the IPBC's audited accounts. However, the IPBC informed us that this dividend was paid directly to Treasury rather than to the IPBC.

IPBC informed us that the 3% share in Highlands Pacific has not generated any dividends to date.

The IPBC told us they did not receive any physical share of production during the reporting period, and did not make any sub-national payments or transfers.

IPBC's social and quasi-fiscal expenditure

The IPBC is the implementing agency for a number of key infrastructure projects in the areas of water, power and ports.[224] Apart from this role, the IPBC told us that it did not make any mandatory or voluntary social expenditure, or any quasi-fiscal expenditure, during the reporting period.

National Petroleum Company of Papua New Guinea

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 Limited. In 2010 the name was changed to National Petroleum Company of PNG (Kroton) Limited (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 the Department of Treasury, 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.

The *Kumul Petroleum Holdings Limited 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.[225] As this entity was called NPCP during the 2014 reporting period, we have retained that company name in further discussions below.

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[224] http://www.kch.com.pg/key-impact-projects/

[225] Direct communication from Kumul Petroleum, 20 November 2015; http://kumulpetroleum.com/about-us/history/

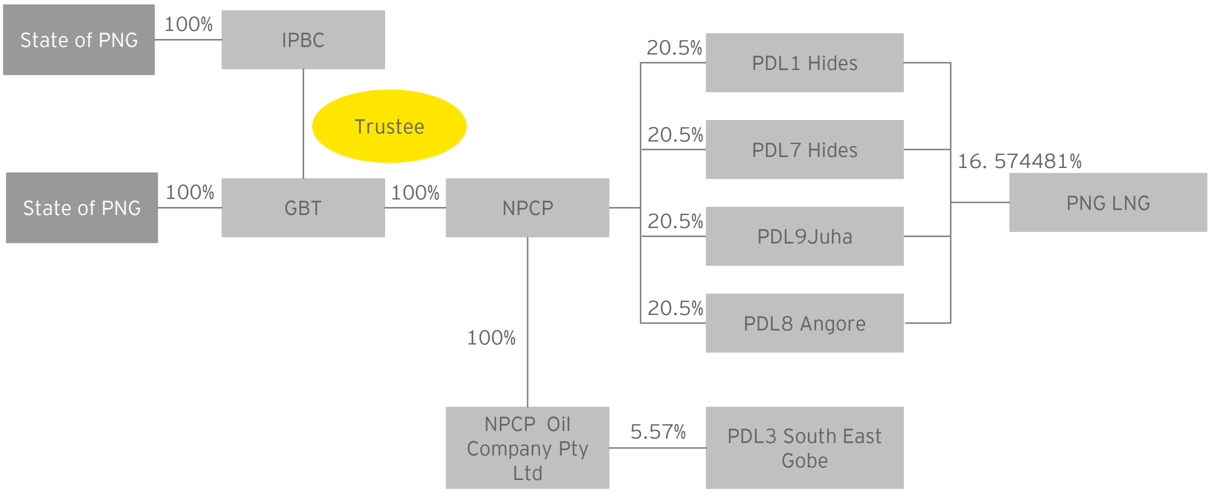
NPCP's projects and fiscal arrangements

In the reporting year, NPCP, as the State nominee, held a 20.5% interest in four petroleum development licences: PDL 1 Hides, PDL 7 Hides, PDL 8 Angore and PDL 9 Juha.[226] Together, these equate to a 16.574481% interest in the PNG LNG project. NPCP's participating interest is determined by the amount of gas committed to the project from a defined area within each of the four PDLs. NPCP participates in the management of the PNG LNG project through representation on the operating, technical, and sales and marketing committees.[227] NPCP has not made any loans to the project.

NPCP 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.

In December 2014, NPCP purchased Cue PNG Oil Company Pty Ltd, and subsequently renamed it NPCP Oil Company Pty Ltd. The company has a 5.57% interest in PDL 3 (South East Gobe), a joint venture with Santos (as operator), Oil Search Ltd, MRDC and Southern Highlands Petroleum Ltd.[228]

Figure 35: Structure of NPCP, 2014



Smaller interests acquired since 2013 include:[229]

- Petroleum Retention Licence 9 (Barikewa): 14.89%
- Petroleum Retention Licence 14 (Cobra, Iehi & Bilip): 10.94%

NPCP confirmed verbally that they had no loan agreements with the government.

Since July 2016, the new entity, KPH, also holds Eda Oil Ltd (including subsidiary Kumul LNG Ltd) and Eda LNG Ltd, transferred from Petromin.

KPH informed us that no sub-national payments were made.

NPCP's social and quasi-fiscal expenditure

Kumul Petroleum informed us that they had no mandatory social expenditures, but had made some voluntary social payments. The MSG (meeting #2, held 27 March 2015) implied that NPCP made no quasi-fiscal expenditures during the reporting period.

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[226] 'PNG LNG Project,' Kumul Petroleum Holdings Limited, http://kumulpetroleum.com/pnglng-project/ accessed 7 February 2017
[227] Direct communication from Kumul Petroleum, 20 November 2015
[228] ibid
[229] ibid

Petromin

Creation, ownership and structure

Petromin PNG Holdings Limited (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.[230]

Petromin's 2014 Annual Report lists six operating subsidiaries as at 31 December 2014, all wholly owned: [231]

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.[232]
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.[233]
Eda LNG Ltd	Elk/Antelope LNG project Holds a 20.5% interest in the Elk/Antelope fields
Eda Minerals Ltd	mining and exploration interests other than Tolukuma
Eda Energy Ltd	petroleum exploration
Tolukuma Gold Mines Ltd	Tolukuma mine

Petromin has other subsidiaries that are special purpose vehicles incorporated to facilitate participation in emerging mining and petroleum projects, but which are not yet operational. The 'Petromin Heritage Book' lists 25 subsidiaries as at 23 October 2012.[234]

An example is Eda Kopa (Solwara) Ltd, which holds the State's 15% interest in the Solwara 1 project in New Ireland Province. On 9 May 2014, Eda Kopa (Solwara) Ltd placed US$113,000,000 into escrow, as the balance of funding for its share of the capital required to complete the development phase of the Solwara Project up to first production.[235]

Tolukuma Gold Mines Ltd was sold to Asidokona Mining Resources Pte Ltd of Singapore on 7 October 2015.[236]

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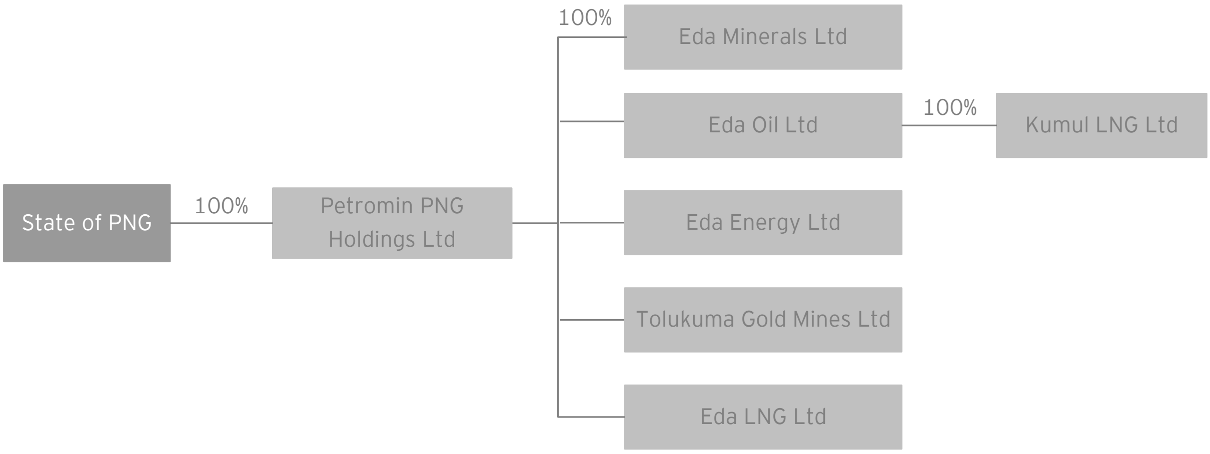
[230] *Petromin Annual Report 2013,* Petromin PNG Holdings Ltd, pp. 12, 13 & 14, http://www.petrominpng.com.pg/about/Petromin%202013%20Annual%20Report.pdf accessed 7 February 2016
[231] *Petromin Annual Report 2014,* Petromin PNG Holdings Ltd, pp. 24, 75 & 77, http://www.petrominpng.com.pg/about/Petromin%202014%20Annual%20Report.pdf, accessed 21 October 2016
[232] 'Petromin Group of Companies,' *Petromin PNG Holdings Ltd,* http://www.petrominpng.com.pg/assets.html, accessed 21 October 2016
[233] ibid
[234] Petromin Heritage Book, p.45 http://www.petrominpng.com.pg/about/Petromin%20Heritage%20Book.pdf, accessed 24 October 2016
[235] http://www.nautilusminerals.com/irm/company/showpage.aspx/PDFs/1145-78506451/StateofPNGpays24113Mintoescrow, accessed 24 October 2016
[236] '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

With the 'Kumul consolidation agenda', Petromin's remaining assets have now been divided between Kumul Petroleum Holdings and Kumul Mineral Holdings, and the company has been wound up.

Kumul Mineral Holdings was launched on 1 July 2016,[237] following the *Kumul Minerals Holdings Authorization Act* 2015. Its mandate is to hold and manage the State's equity in mining projects in the country and to maximise return on investment for the benefit of the people of PNG.[238] Petromin's mineral assets have been transferred to this entity.

Eda Oil Ltd was transferred to Kumul Petroleum Holdings on 30 June 2016.[239]

Figure 36: Ownership structure of Petromin



Petromin dividends were paid to an account maintained by a professional trust manager acting on behalf of the State. The trust manager forwards the declared dividends to the Department of Finance, and they are administered as an in-flow to the national budget income.[240]

Petromin's projects and fiscal arrangements

The *Petromin Heritage Book* provides a detailed overview of projects as at 2012, including finance arrangements.[241] As a mine operator, Petromin received a share of production – the volumes and value can be seen in Chapter 7, p. 65.

Petromin's social and quasi-fiscal expenditure

The 2014 annual report lists PGK 1,276,000 in 'sponsorships and donations'.[242]

[237] http://news.pngfacts.com/2016/10/pm-oneill-announces-peter-graham-as.html#ixzz4NgSol6yM, accessed 21 October 2016
[238] ibid
[239] http://kumulpetroleum.com/press-release/petromin-oil-and-gas-asset-transfer/ accessed 21 October 2016
[240] Direct communication from Petromin, 22 December 2015
[241] Petromin Heritage Book, http://www.petrominpng.com.pg/about/Petromin%20Heritage%20Book.pdf accessed 24 October 2016
[242] *Petromin Annual Report 2014, p.69*, Petromin PNG Holdings Limited, http://www.petrominpng.com.pg/about/Petromin%202014%20Annual%20Report.pdf accessed 24 October 2016

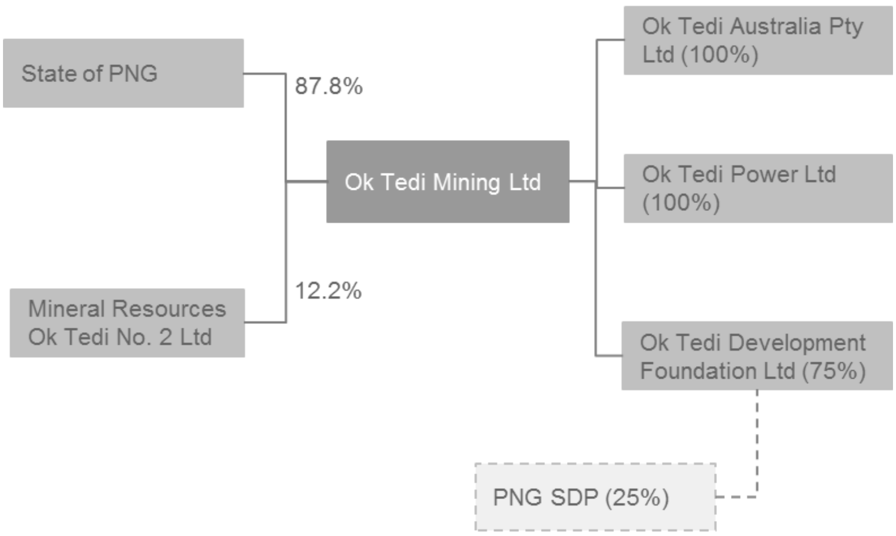
Ok Tedi Mining Limited

Creation, ownership and structure

Ok Tedi Mining Limited (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.[243] 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.[244] 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.'[245] The agreement that formed the PNGSDP has since been the subject of litigation, both during the 2014 reporting period 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.[246]

The ownership structure of OTML during the 2014 reporting period is summarised in Figure 37 below. [247]

Figure 37: Ownership structure of OTML



The State of PNG's holding is set to be further reduced with an announcement that the Fly River Provincial Government and specific purpose community entities will move to hold 33% direct equity. At the time of writing, the new ownership structure had been approved by National Executive Council (NEC) but until the Fly River Provincial Government and the communities can decide how to distribute the holding, it will be managed by the MRDC.[248] This will reduce the State of PNG's holding in OTML to 67%.

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243 http://www.supremecourt.gov.sg/docs/default-source/module-document/judgement/-2016-sghc-19-(amended-26-feb)-pdf.pdf

244 'History', *Ok Tedi Mining*, http://www.oktedi.com/about-us/history, accessed 7 February 2017

245 http://www.parliament.gov.pg/uploads/acts/13A_09.pdf

246 http://www.pm.gov.pg/sdp-should-not-be-treated-as-a-retirement-fund-by-sir-mekere/

247 Ok Tedi Mining Limited Annual Review 2013, p.18, http://www.oktedi.com/media-items/publications/annual-review/220-2013-annual-review/file

248 Direct communication with OTML 05 October 2016

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)

A fourth wholly owned subsidiary, Shares in Success Ltd, ceased on 31 December 2013. It was the Trustee of Ok Tedi Shares in Success Scheme, established to provide rewards to company employees for their individual and collective contributions to improving the productivity and profitability of the company. The last fund distribution was paid during 2014.[249]

Ok Tedi's projects and fiscal arrangements

Ok Tedi holds a large portfolio of exploration leases in the vicinity of its Mt Fubilan mining operations in the Star Mountains of Western Province and was actively undertaking near-mine exploration during the reporting period.[250]

The OTML 2014 Annual Review[251] outlined the following distribution of dividends for OTML:

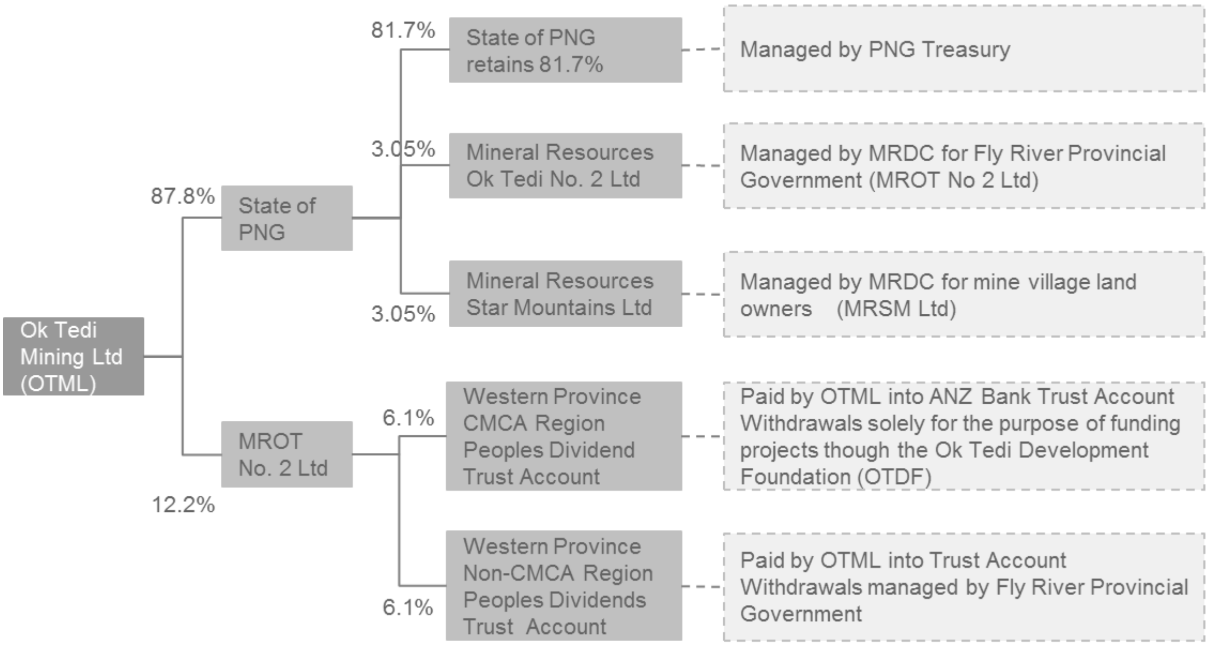
- The Memorandum of Agreement (MOA) between the State of PNG and Fly River Provincial Government outlines that dividends equal to 3.05% be directed to Fly River Provincial Government (MROT No. 2 Ltd) and 3.05% to the Mine Village Land Owners (Mineral Resources Star Mountains Ltd)
- NEC decision 29/11/06 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.

[249] Ok Tedi Mining Limited, Annual Review, 2014, p.114 http://www.oktedi.com/media-items/publications/annual-review/373-2014-annual-review/file

[250] Ok Tedi Mining Limited, http://www.oktedi.com/, accessed 7 February 2017

[251] Ok Tedi Mining Limited, Annual Review, 2014, p.18 http://www.oktedi.com/media-items/publications/annual-review/373-2014-annual-review/file

Figure 38: 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.97.

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.[252] 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.

For the 2014 reporting year, OTML informed the IA that the payment to the non-CMCA account was not made due to a court order for Bank of South Pacific (BSP) to transfer funds to the court account. Due to ongoing litigation, both the CMCA and non-CMCA accounts have been frozen. However, payments were still able to be made into the CMCA account for the 2014 reporting period.[253]

[252] Ok Tedi Mining Limited, Annual Review, 2014, p.69 http://www.oktedi.com/media-items/publications/annual-review/373-2014-annual-review/file
[253] Independent Administrator correspondence with Musje Werror, OTML dated 10 October 2016

OTML social and quasi-fiscal expenditure

OTML supports community development through social payments implemented 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: PGK27,073,000. The individual projects are funded by the CMCA trusts.
- Other CMCA payments (see Table 25).
- Funding social infrastructure projects through the tax credit scheme (TCS) (see Table 25).
- Providing subsidised power and health services to Fly River Provincial Government
- Deferring royalties, using taxes payable to the State of PNG to directly fund infrastructure upgrades.
- Goods purchased in PNG (including contractors)
- Voluntary donations: PGK1,089,168 (including PGK1 million donation to the Pacific Games)

Table 25: Quasi-fiscal payments/ social contributions[254]

Types of social services, public infrastructure, fuel subsidies and national debt servicing provided				
Health	Education	Roads, Bridges, Airports & Buildings	Utilities	CMCA Payments
Tax Credit Projects: Balimo Hospital - redevelopment (Stage 2) - PGK1.433m Pumakos Sub Health Centre-Enga Province - PGK 0.981m Rumginae Hospital-solar installation - PGK 0.219m Tabubil Hospital projects - PGK 1.634 m	Tax Credit Projects: Oksapin High School development project - PGK0.561m Telefomin High School refurbishment - PGK0.093m Montfort Primary School infrastructure - PGK 1.927m Pumakos Primary School development - PGK 2.968m	Tax Credit Projects: Kiunga Town housing project - PGK 0.722m Fly River jetty projects - PGK 0.318m South and Middle Fly Districts jetties rehabilitation - PGK 0.137m Olsobip road project - PGK 0.144m	Tax Credit Projects: Kiunga Town water and sewerage supply - PGK6.438m	Mine landowners (six village communities) - PGK3.42m Development Fund - PGK15.96m Women & Children's Fund - PGK 5.12m Investment Fund - PGK7.56m Special compensation - PGK22.73m Logi, Kawok, Komokpin villages - PGK1.83m **Total** PGK56.60m

OTML confirmed verbally that they had no loan agreements with the government.

[254] Ok Tedi Mining Limited, Annual Review, 2014, p.77 & 78, http://www.oktedi.com/media-items/publications/annual-review/373-2014-annual-review/file

Mineral Resources Development Company

Creation, ownership and structure

The Mineral Resources Development Company Limited (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.[255]

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.'[256] An NEC decision in 2009 gave MRDC the mandate to manage and implement Memorandum of Agreement (MoA) funds associated with petroleum projects.[257]

The *Mining Act 1992* allows for the MRDC to hold the State's interest, but does not mandate it;[258] 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.[259]
- Direct equity in resource projects, including the following:
  - 7% interest in Highlands Pacific Limited
  - 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.[260]

[255] '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
[256] Oil and Gas Act s.176
[257] Company Profile document emailed from MRDC, p. 5
[258] Mining Act 1992 s.16A
[259] We believe only Mineral Resources Enga comes into this category, but are awaiting confirmation from MRDC
[260] 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

Table 26: MRDC subsidiaries and interests: calendar year 2014

Company	Ownership structure	Underlying asset	% ownership of asset	Beneficiary	Notes
MRDC	Equity held directly by MRDC	Highlands Pacific Ltd	7.0	MRDC	no dividends paid to date
Petroleum Resources Kutubu Ltd (PRK)	Wholly owned subsidiary of MRDC	PDL 2	6.75	Southern Highlands Provincial Government (1.1575%) Gulf Provincial Government (1.125%) Southern Highlands landowners: Fasu (1.1553%) and Foe (0.696%) Gulf landowners (Kikori (1.8%)	Petroleum Resources Kutubu (PRK) is entitled 6.75% of oil production, and also liable for 6.75% of operating costs. MRDC manages cash calls. PRK dividends are declared net of costs and distributed to beneficiaries as outlined
Petroleum Resources Gobe Ltd (PRG)	Wholly owned subsidiary of MRDC	PDL3 and PDL 4 Gobe Oil fields	2.0	Landowners in the Southern Highlands Province and Gulf Province – Erave and Kikori	Unitised development – holding is 2% across both PDLs
Petroleum Resources Moran Ltd (PRM)	Wholly owned subsidiary of MRDC	PDL 5	2.0	Landowners in the Southern Highlands Province – Moran Huli (90%), Moran Fasu (10%)	
Mineral Resources Star Mountains Ltd (MRSM)	Wholly owned subsidiary of MRDC	Ok Tedi	3.05	10 Ok Tedi landowning communities	Passive interests that receive dividends from Ok Tedi Mining Ltd. MRSM running costs and investments are deducted before distribution to beneficiaries. Board comprises: Managing Director of MRDC; Secretary of the Department of Mineral Policy and Geohazard Management (DMPGM); Landowner Representatives (one of whom is chairperson) Landowner directors make decisions about how to reinvest money. No dividend has been paid for five years due to mine closure. The distribution of funds between the 10 landowner groups is set out in the mining agreement.

Company	Ownership structure	Underlying asset	% ownership of asset	Beneficiary	Notes
Mineral Resource Ok Tedi No. 2 Ltd (MROT)	Wholly owned subsidiary of MRDC	Ok Tedi	3.05	Fly River Provincial Government	Direct shareholding in Ok Tedi Mining Ltd. Dividend is paid directly to the provincial government. Board comprises: Managing Director of MRDC; Secretary of DMPGM; Governor of the province (currently in prison); administrator of the provincial government
Mineral Resource Enga Ltd (MRE)	Managed by MRDC on behalf of the shareholders	Porgera	5.0	Porgera Landowners and Enga Provincial Government	MRE is direct participating member of the Porgera joint venture. MRE is entitled to 5% of gold production, and liable for 5% of operating costs. MRDC organises contract sales and manages cash calls.
Mineral Resources Ramu Ltd	Equity held directly by MRDC	Ramu Nickel Project	3.94	MRDC	
Mineral Resource Madang Ltd (MRM)	Wholly owned subsidiary of MRDC	Ramu Nickel Project	2.5	Ramu landowners	

Table 27: MRDC interests in the PNG LNG project 2014

PNG LNG holdings		PDL interest	Share of PDL	% of PNG LNG[261]	Beneficiaries
Gas Resources Kutubu Ltd	Wholly owned subsidiary of Petroleum Resources Kutubu	PDL2	6.75% (Same holding as Petroleum Resources Kutubu)	1.14395	Southern Highlands Provincial Government (1.1575%) Gulf Provincial Government (1.125%) Southern Highlands landowners: Fasu (1.1553%) and Foe (0.696%); Gulf landowners (Kikori (1.8%)
Gas Resources Gobe Ltd	Wholly owned subsidiary of Petroleum Resources Gobe	PDL 3 & 4	2% (Same holding as Petroleum Resources Gobe)	0.023671	Landowners in the Southern Highlands Province and Gulf Province - Erave and Kikori
Gas Resources Moran Ltd	Wholly owned subsidiary of Petroleum Resources Moran	PDL 5	2% (Same holding as Petroleum Resources Moran)	0.019874	Landowners in the Hela Province (formerly part of Southern Highlands Province) - Moran Huli, Moran Fasu
Gas Resources Gigira Ltd	Wholly owned subsidiary of MRDC	PDL 1	2%[262]	1.126503	LNG pipeline and plant landowners This and the entities below were created by MRDC to manage interests in the Hides gas fields under the Umbrella Benefit Sharing Agreement (UBSA). However, the beneficiaries are yet to be correctly identified, and meanwhile the benefits are held in trust by MRDC.
Gas Resources Juha Ltd	Wholly owned subsidiary of MRDC	PDL 9	2%	0.132419	LNG pipeline and plant landowners (see above)
Gas Resources Angore Ltd	Wholly owned subsidiary of MRDC	PDL 8	2%	0.13274	LNG pipeline and plant landowners (see above)
Gas Resources Hides 4 Ltd	Wholly owned subsidiary of MRDC	PDL 7	2%	0.225353	LNG pipeline and plant landowners (see above)
Gas Resources North West Moran Ltd	Wholly owned subsidiary of MRDC	PDL6	unknown	0.0005 [263]	LNG pipeline and plant landowners (see above)

[261] Most details in this table from: http://www.pnginvestment.com/files/9414/1844/7993/MS3155MANO.pdf, confirmed by the MRDC in a meeting 28 November 2016
[262] http://kumulpetroleum.com/commercial-activities/
[263] http://www.ipa.gov.pg/wp-content/uploads/Booklet-for-Trade-Mission-Paris-France.pdf confirmed by MRDC 28 November 2016

MRDC's 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.[264]

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 of 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 we were unable to obtain a clear explanation of the fee arrangements.

Royalty payments from oil and gas projects go from extractive industry companies to DPE and/or the Department of Finance,[265] 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'.[266] 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.[267] This is intended to ensure that 'some of the revenue is invested in infrastructure for the whole community to improve quality of life'.[268] Decisions on when and how to allocate these funds are made by the board of the subsidiary company

- 40% is paid as cash to landowners (Incorporated Land Groups). Benefit Sharing Agreements may also specify payments to relevant provincial and local governments.

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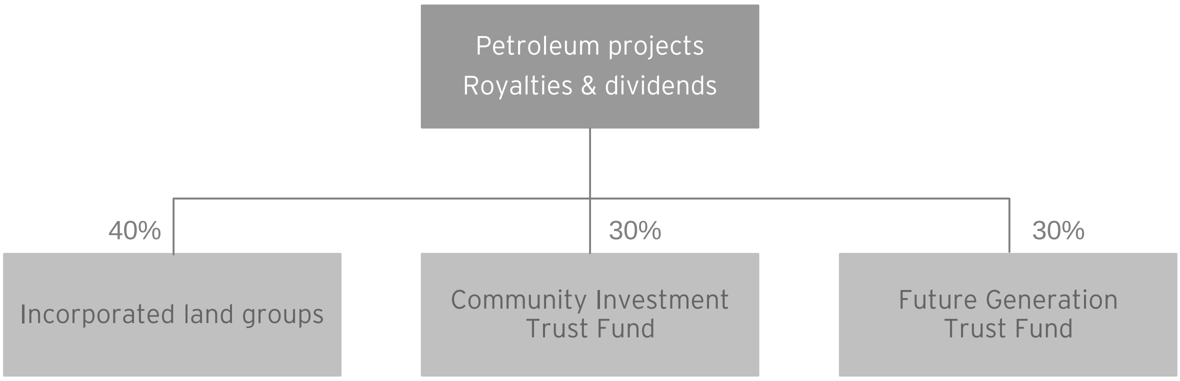
[264] ibid

[265] See discussion in Oil and Gas chapter re ExxonMobil payments.

[266] Oil and Gas Act p. 147

[267] Oil and Gas Act p. 147

[268] '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



MRDC informed us that all trust accounts have been audited through to 2015, and that they are currently working on publication of the 2010-12 accounts. MRDC informed us 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.

MRDC provided the information in Table 28 , below, in relation to their subsidiary entities and the associated trusts for the year 2014.

Social and quasi-fiscal expenditure

MRDC manages social infrastructure projects as a direct contribution to its communities, many of which it highlights in its *Tokaut* newsletter. Examples include building classrooms in Ok Tedi and health centres in Moran. MRDC supported the Bank of South Pacific to establish a sub-branch in the Kikori District, facilitating payments to beneficiaries in Gulf Province.[269]

[269] http://www.bsp.com.pg/Media-Centre/News--Announcements/2014/BSP-opens-sub-branch-in-remote-Kikori-District.aspx, accessed 6 December 2016

Table 28: Financial details of MRDC subsidiaries, 2014[270]

	Receipts (PGK)			Payments (PGK)		
Subsidiary/trust entity	Royalty	Equity distribution	Incorporated land groups	Community Investment Trust Fund	Future Generations Trust Fund	Sub-national governments
Mineral Resources Ramu Ltd	0	0	0	0	0	
Mineral Resource Enga Ltd (MRE)	1,573,164	-	0	0	0	
Petroleum Resources Kutubu Ltd (PRK)	2,542,597	40,000,000	10,617,039	7,962,779	7,962,779	* 16,000,000
Petroleum Resources Gobe Ltd (PRG)	77,504	0	31,002	23,251	23,251	
Petroleum Resources Moran Ltd (PRM)	157,354	0	62,942	47,206	47,206	
Mineral Resources Star Mountains Ltd (MRSM)	0	0	0	0	0	
Mineral Resource Ok Tedi No. 2 Ltd (MROT)	0	0	0	0	0	
Mineral Resource Madang Ltd (MRM)	0	0	0	0	0	
Gas Resources Gigira	805,233	0^	322,093	241,570	241,570	
Gas Resources Gobe	16,860	0	6,744	5,058	5,058	
Gas Resources Angore	95,025	0	38,010	28,508	28,508	
Gas Resources Hides	160,928	0	64,371	48,278	48,278	
Gas Resources Juha	94,801	0	37,920	28,440	28,440	
Gas Resources Kutubu	817,781	0	327,112	245,334	245,334	
Gas Resources Moran	14,027	0	5,611	4,208	4,208	
Gas Resources North West Moran	0	0	0	-	-	

* paid to Southern Highlands and Gobe Provincial Governments
^ all LNG funds held in trust but not yet distributed

[270] MRDC reporting template, 31 January 2017

Chapter 10: Reconciliation of revenue streams

This report covers all mining and oil and gas companies who had interests in operations that were producing saleable commodities during 2014, together with all SOEs and government entities that received payments from them.

The reporting process

The IA emailed each reporting entity with a tailored reporting template, which set out the revenue/payment streams to be reported, together with relevant questions on non-financial information. The IA arranged meetings with most entities to walk through the reporting templates, provide guidance on the information provided, and answer any questions. In some instances, it proved difficult to identify suitable contacts, or our communications went unanswered. We followed up on these entities, but nevertheless there remain gaps in the Report.

As agreed with the MSG, we adopted one of two approaches 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, we attempted to obtain data from both the paying and receiving entity, so the amounts could be reconciled. In some instances, the MSG agreed that data would be collected unilaterally:

- Group Tax (collected by IRC)
- Mandatory and voluntary social expenditure (received by multiple government and non-government entities – see also discussion of definition p. 51)
- Payments to sub-national entities
- Quasi-fiscal payments
- Transfers between SOEs and other government agencies
- Licence fees received by DPE, MRA and CEPA

Each of the mining companies, oil and gas companies, and SOEs was also issued with a Tax Waiver Letter (TWL), which they were asked to sign and return to the IRC. 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 completeness of information received from each of the reporting entities is summarised in the table below:

Table 29: Summary of information provided by reporting entities

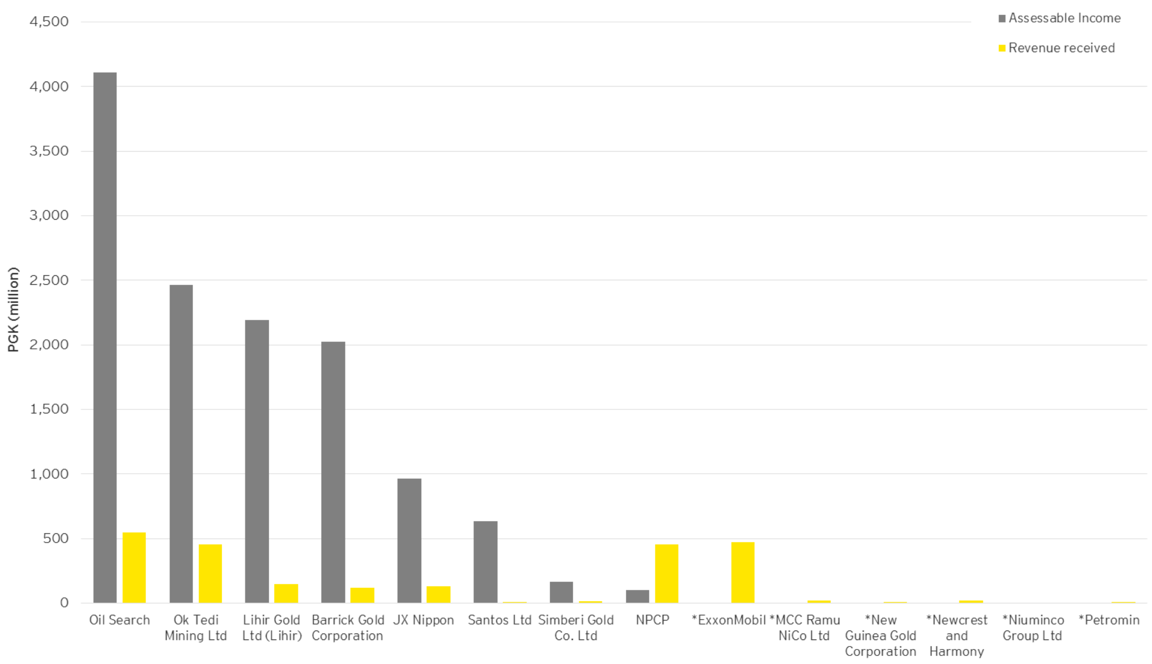
	Reporting template		Signed tax waiver
	Draft	Signed	
Mining			
Ok Tedi Mining Ltd	Yes	No	Yes
Barrick Gold	Yes	No	Yes
Lihir Gold Ltd (Newcrest)	Yes	Yes	Yes
Newcrest and Harmony (Morobe Mining JV)	Yes	Yes	Yes
MCC Ramu NiCo Ltd	Yes	Yes	Yes
Petromin	Yes	Yes	Yes
Simberi Gold Co. Ltd	Yes	Yes	Yes
New Guinea Gold	No	No	No
Edie Creek (Niuminco)	No	No	No
Oil and gas			
ExxonMobil	Yes	Yes	Yes
Oil Search	Yes	Yes	Yes
Santos	Yes	Yes	Yes
JX Nippon (Merlin)	Yes	Yes	Yes
JX Nippon (Southern Highlands Petroleum)	Yes	Yes	Yes
Cue Energy (equity sold to NPCP in 2014)	Yes	Yes	Yes
Government			
Internal Revenue Commission (IRC)	Yes	Yes	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)	Partially provided	No	N/A
Department of National Planning and Monitoring	No	No	N/A
SOEs			
IPBC	Yes	Yes	Yes
NPCP Holdings Ltd	Yes	Yes	N/A
MRDC	Yes	Yes	Yes

Reconciliation

In this section, the data received from each of the reporting entities is reconciled (where data is available) which the data provided by the receiving entity.

To put these revenue streams in context, the chart below highlights a comparison of assessable income (where this data was provided by IRC or reporting entity) with 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 company withholding tax, infrastructure tax credits, production levies and royalties. Note that mandatory and voluntary social expenditure has not been included here.

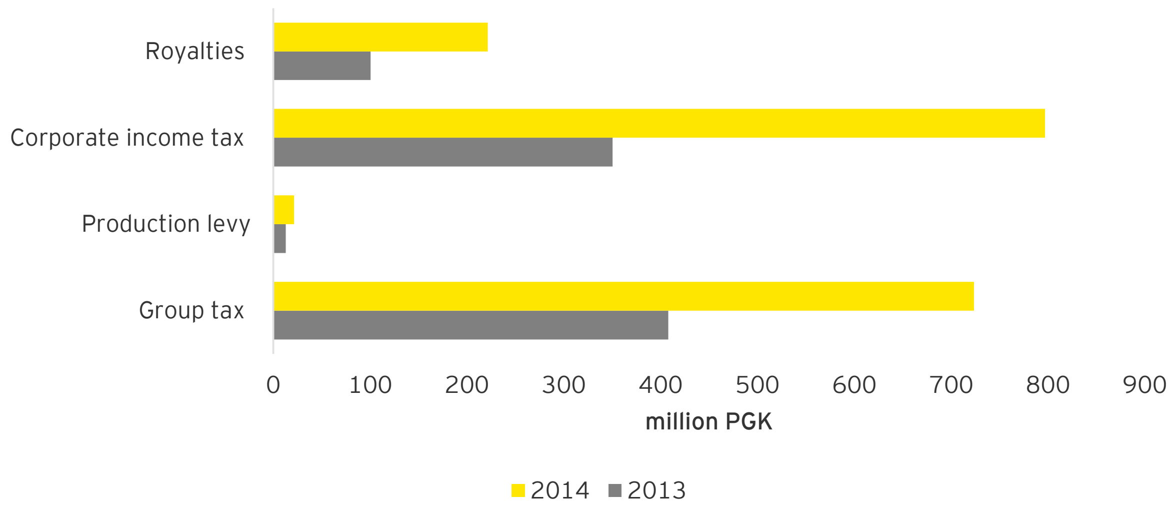
Figure 39: Comparison of assessable income and State revenue received



*No assessable income information received from these entities

Several key revenue streams, such as corporate income tax, doubled in 2014 compared with 2013. Much of this is attributable to the PNG LNG project.

Figure 40: Comparison of key revenue streams 2013 and 2014 (as reported by receiving entity)



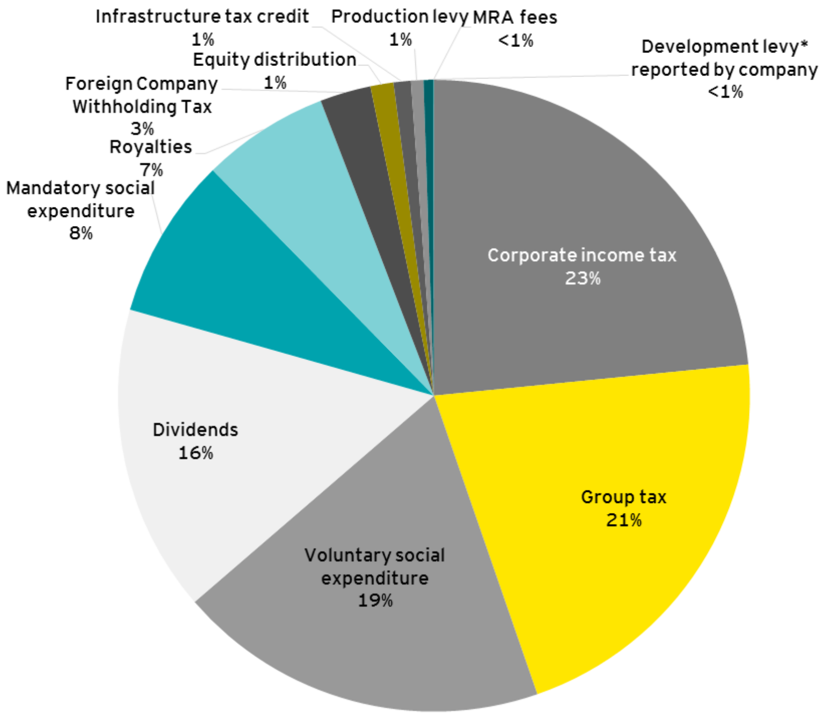
Overview

The table below presents an overview of the total amounts reported by reporting and receiving entities for each of the material revenue streams identified and reported on.

	Revenue stream	Reconciled?	Receiving entity	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)
Mining	Production levy	Y	MRA	22,573,313	21,173,907	885,127	(4.08%)
Mining	MRA fees	Unilaterally declared (MRA)	MRA	n/a	1,329,638	n/a	n/a
Oil & gas	Development levy	Partial	Finance (via DPE)	16,672,575	16,369,437	16,672,575	1.82%
Oil & gas	Licence fees	Unilaterally declared (DPE)	DPE	n/a	None reported	n/a	n/a
Oil & gas	Additional profits tax	Unilaterally declared (IRC)	IRC	0	0	n/a	n/a
Oil & gas	Equity distributions	Partial	MRDC, Petromin	1,249,875	None reported	1,249,875	(100%)
Oil & gas	Share of sales	N/A	State partners in PNG LNG	No payments made in 2014	No payments reported by State Partners	n/a	n/a
Mining and petroleum	Mandatory social expenditure	Unilaterally declared (companies)	See further comments in Chapter6	281,160,039	n/a	n/a	n/a
Mining and petroleum	Voluntary social expenditure	Unilaterally declared (companies)	See further comments in Chapter6	645,912,859	n/a	n/a	n/a
Mining and petroleum	Dividends	Partial	IPBC, Treasury, Ok Tedi	See discussion in chapter			
Mining and petroleum	Group tax	Unilaterally declared (IRC)	IRC	n/a	723,650,131	n/a	n/a
Mining and petroleum	Corporate income tax	Y	IRC	756,231,918	796,917,438	-40,685,521	(5.11%)
Mining and petroleum	Infrastructure tax credits	Partial	IRC	See discussion in chapter			
Mining and petroleum	Foreign company withholding tax	Unilaterally declared (IRC)	IRC	n/a	88,799,868	n/a	n/a
Mining and petroleum	Royalties	Y	Landowners and sub-national governments	238,198,522	221,374,350	16824,173	(7.6%)

The chart below sets out the relative size of each of the revenue streams included in the data reporting and reconciliation for 2014. Corporate income tax and group tax remain the largest contributions to State revenue from the extractive industries in PNG.

Figure 41: Summary of revenue stream amounts reported in 2014



Mining payments

Production levy

The production levy applicable to mining projects is calculated at 0.25 per cent (or up to 0.5 per cent at the Mining Minister's discretion) of Free on Board (FOB) production sales. The production levy is paid by mining companies to the MRA.

The results of the reconciliation of the production levy data from mining companies and the MRA are summarised below.

Table 30: Reconciliation of production levy from mining companies and MRA

Company	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Barrick (Niugini) Ltd (Porgera)	3,938,740	3,683,705	255,035	6.92%	
Lihir Gold Ltd (Lihir)	6,025,264	6,205,264	-180,000	-2.90%	
MCC Ramu NiCo Ltd (Ramu)	1,806,581	996,491	810,090	81.29%	A
New Guinea Gold (Sinivit)					B

Company	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Newcrest and Harmony (Hidden Valley)	3,960,955	3,960,955	0	0.00%	C
Niuminco (Edie Creek)					D
Ok Tedi Mining Ltd (Ok Tedi)	5,990,345	5,990,345	0	0.00%	
Petromin (Tolukuma) (ML 104)	588,895	588,894	1	0.00%	
Simberi Gold Co. Ltd (Simberi)	262,533	262,532	1	0.00%	
Total	**22,573,313**	**21,688,186**	**885,127**	**(4.08%)**	

Remarks

A. It appears the figure reported by MCC Ramu Nico Ltd relates to the figure accrued in 2014 that was paid in 2015. At the time this report was finalised, MCC Ramu Nico had not confirmed this.

B. Data not available, company in receivership

C. The production levy figure paid in 2014 reported for Hidden Valley by the MRA included an outstanding payment of PGK2,290,182 for the 2011 production year as well as the payment of PGK1,670,773 for the 2013 production year. Newcrest and Harmony confirmed that there were two amounts paid to MRA in 2014. The first relating to the 2013 production year and a second payment made in December 2014. At the time this report was finalised, the purpose of the second payment had not been confirmed by the company but they identified it was similar to the 2011 production levy amount.

D. No data template completed or tax waiver signed by Niuminco

Although the overall difference between the production levy amounts reported by companies and the MRA is only 4.08%, there is a large amount of variation between the individual entities. After following up discrepancies with the MRA, it appears that a number of the companies reported amounts that pertained to accrual for the 2014 calendar year production levy which were settled in 2015, while the MRA information pertained to amounts paid in 2014.

MRA fees

Fees collected from mining companies by the MRA have been reported in the table below. These amounts were unilaterally disclosed by the MRA.

Table 31: Fees paid to MRA (unilaterally disclosed)

Fee reported	Amount reported paid (PGK)
Alluvial levies	933,385
Applications, renewal, renewal penalty, transfer and dealings fees (only related to mining - SML, ML, AML)	9,200
Data sale fees	54,133
Mine security fees (SML, ML, AML)	96,000
Mining lease fees (SML, ML, AML Rentals)	236,920
Total	**1,329,638**

Oil & gas payments

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 extent of the development levy information that was made available throughout the reconciliation process for the 2014 reporting period.

Table 32: Reconciliation of development levy

Company	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
ExxonMobil	0	0	0	0%	A
Oil Search	16,672,575	16,369,437	16,672,575	1.82%	
Total	**16,672,575**	**16,369,437**	**16,672,575**	**1.82%**	

Remarks

A. There was no development levy payable by ExxonMobil in relation to the PNG LNG project during the 2014 reporting period. The development levy calculated for the 2014 production was reported by Treasury as PGK 69,841,500[271] however, this was not required to be paid until 2015.

Licence fees

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)

We requested that DPE provide us with amounts for fees paid from the oil and gas industry during 2014. At the time of finalising this report, we had not received this information.

[271] Direct communication from Treasury, 3 February 2017

Additional profits tax

The additional profits tax is applicable to gas projects only. It represents a tax of 7.5% on positive cash flows exceeding a 17.5% accumulation rate, and 10% on positive cash flows exceeding a 20% accumulation rate.

No companies reported paying an additional profits tax in 2014. This was confirmed by the IRC data received. This revenue stream may be activated by the PNG LNG project in the 2015 reporting period.

Share of sales

These are the sales proceeds derived from the joint marketing of LNG by venture partners in the PNG LNG project.

We were informed by ExxonMobil that the financial completion of the project did not occur until 2015 and until this time, in accordance with the financial arrangement, there were no cash distributions to any co-venture partners.[272] It is therefore expected that share of sales will be reported in the PNG EITI Report 2015.

A share of sales figure totaling PGK 855,565,677 was reported by PNG LNG co venture partner JX Nippon in their reporting template. It is our understanding that figure related to sales accrued in 2014 but not actually paid until the 2015 calendar year. This will need to be followed up in the 2015 PNG EITI reporting process when these figures will be able to be reconciled.

Mining and oil & gas payments

Equity Distributions and Dividends

Equity distributions are payments received by SOEs as a percentage of profits received from joint ventures, in proportion to ownership stake.

Dividends 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. State Dividends from SOEs to the State are either managed through SOEs such as the MRDC and IPBC, or directly deposited with Treasury.

The information provided by reporting entities in relation to equity distributions and dividend payments in 2014 are summarised below.

[272] Direct communication from ExxonMobil, 6 February 2017

Table 33: Partial reconciliation of equity distributions and dividends

Paying Entity	Reported recipient	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Oil Search	N/A	1,249,875	n/a	n/a	n/a	A
(Petroleum Resources Kutubu Ltd (PRK)	MRDC	-	40,000,000	40,000,000	100%	B
Ok Tedi Mining Ltd[273]	Treasury	101,404,452	92,900,000	8,504,452	9.15%	
Ok Tedi Mining Ltd	MRSM (managed by MRDC)	3,774,383	0	3,774,383	100.00%	C
Ok Tedi Mining Ltd	FRPG (MROT - managed by MRDC)	3,774,383	0	3,774,383	100.00%	C
Ok Tedi Mining Ltd	MROT No.2	7,548,765	0	7,548,765	100.00%	D
NPCP	Treasury	-	414,260,000	414,260,000	100.00%	E
MRDC	IPBC	-	27,507,541	27,507,541	100.00%	F
Total			**574,667,541**			

Remarks

A. Oil Search reported an equity distribution payment for 2014. No recipient was noted in the reporting template. KCH/IPBC confirmed that no payment were received from Oil Search during 2014.[274]

B. The only equity distribution receipt included in the MRDC template related to this dividend declared by PRK upon sale of its crude oil.

C. The MRDC data template stated that no dividends had been received from Ok Tedi for Mineral Resources Star Mountains Ltd (MRSM) or Mineral Resource Ok Tedi No. 2 Ltd (MROT) for the 2014 reporting period.

D. Ok Tedi reports that this dividend payment is made by Ok Tedi Mining Ltd into the Western Province Non-CMCA Region Peoples Dividends Trust account. Ok Tedi Mining Ltd advised that a second PGK7,548,765 dividend payment for the Western Province CMCA Region Peoples Dividends Trust account was withheld by Ok Tedi Mining Ltd after the National Court had ordered BSP to transfer all the funds in the account to the Court Trust Account. This court case is still pending.

E. IPBC and Treasury both reported that NPCP declared dividends amounting to PGK414.26 million and these were paid directly to the Department of Treasury. This data was not included in the NPCP reporting template.

F. IPBC also reported a dividend payment received from MRDC

[273] See Chapter 9 for an overview of Ok Tedi's dividend revenue stream

[274] Correspondence from Kumul Consolidated Holdings, 20 Feb 2017.

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.

Group tax for the 2014 calendar year, reported by the IRC for companies who provided signed tax waiver letters is stated below.

Table 34: Group tax (not reconciled)

Company	Amount reported paid (PGK)	Remarks
Barrick Gold Corporation	77,240,387	
ExxonMobil	223,215,872	
JX Nippon	0	A
MCC Ramu NiCo Ltd	17,104,161	
Newcrest and Harmony	1,793,859	
Lihir Gold Ltd (Lihir)	93,742,490	
NPCP	2,928,107	
Oil Search	97,926,942	
Ok Tedi Mining Ltd	200,732,382	
Santos Ltd	0	A
Simberi Gold Co. Ltd	8,965,932	
Total	**723,650,131**	

Remarks

A. The IRC reported that JX Nippon, Santos Ltd paid no Group tax in 2014.

Corporate income tax

As defined by the Income Tax Act 1959. The rates of income taxation on extractive industries in PNG range from 30% to 50% of assessable income. Corporate income tax is paid to the IRC

Corporate income tax reported by companies is reconciled with data reported by the IRC in the table below.

Table 35: Reconciliation of corporate income tax

Company	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Barrick Gold Corporation	0	8,121,734	-8,121,734	-100.00%	A
ExxonMobil	159,448,599	156,648,539	2,800,060	1.79%	
JX Nippon	110,921,856	129,876,375	-18,954,519	-14.59%	
MCC Ramu NiCo Ltd	0	0	0	0.00%	
Mineral Resources Development Company (MRDC)	0	22,759,507	-22,759,507	-100.00%	
New Guinea Gold Corporation					B
Newcrest and Harmony	0	0	0	0.00%	
Lihir Gold Ltd (Lihir)	0	0	0	0.00%	
Niuminco Group Ltd					B
NPCP	21,893,179	38,509,899	-16,616,720	-43.15%	C
Oil Search	322,274,237	314,724,768	7,549,469	2.40%	
Ok Tedi Mining Ltd	125,199,794	125,256,932	-57,138	-0.05%	
Petromin	15,459,155		15,459,155	100.00%	C
Santos Ltd	1,035,098	1,019,685	15,413	1.51%	
Simberi Gold Co. Ltd	0	0	0	0.00%	
Total	**756,231,918**	**796,917,439**	**-40,685,521**	**-5.11%**	

Remarks

A. Barrick Gold Corporation noted that their 2014 tax payable was offset by infrastructure tax credits and foreign tax offset during 2014.

B. New Guinea Gold and Niuminco did not provide data or tax waivers to the IA.

C. The figures reported paid for NPCP and Petromin may both be included in the NPCP amount reported received by the IRC. At the time this report was finalised, this had not been clarified by the IRC but it would account for the large variance in these reported figures.

Although the total corporate income tax paid reconciles to within a 5% variance, there is considerable variation between payments stated by individual reporting entities with those stated by the IRC. In the case of Barrick, the variances appear to be due to a difference in the way corporate income tax and infrastructure tax credits are being reported. This issue is discussed further below.

Infrastructure tax credits

Expenditure by mining and oil and gas companies on prescribed infrastructure developments can be claimed 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 for two years while unused credits can be carried forward to succeeding years of income until fully utilised[275].

Eligible infrastructure projects approved by DNPM

Companies claim ITCs for approved projects

Corporate income tax reduced accordingly

Net tax owing paid to IRC

During the reconciliation process for 2014 we requested infrastructure tax credit (ITC) information from the reporting companies and the IRC.

Although the ITC data is included on the tax returns and Advance Payments Tax estimates submitted by reporting entities to the IRC, this information is not retained electronically by the IRC. The data would need to be manually extracted from hard copy returns, and we were advised by the IRC that this would be very difficult or impossible. Instead, we requested that ITC data be provided to us by the Economic Section within DNPM. However, at the time of finalising this report we were awaiting the data to be approved for release to us by DNPM senior management.

Foreign company withholding tax

This tax applies when a non-resident contractor is engaged by a PNG resident to perform a contract for prescribed purposes. The foreign contractor is liable for tax on 25% of the gross contract value at the non-resident tax rate of 48%. The effective tax rate is 12% in such circumstances.

Companies

IRC

The companies where the IRC has reported a payment of foreign company withholding tax are identified below.

Table 36: Foreign company withholding tax reported by IRC (unilaterally reported)

Company	Amount reported paid (PGK)	Remarks
ExxonMobil	41,479,222	
Lihir Gold Ltd (Lihir)	6,913,309	
MCC Ramu NiCo Ltd	3,337	
Oil Search	40,403,999	
Total	**88,799,868**	

[275] We were advised that resource companies can negotiate alternative arrangements. For example, ExxonMobil advised that they can claim credits to 1.25% of assessable income, carried forward for 20 years.

Royalties

Royalty for petroleum companies is calculated at 2% of well-head value. For mining it is calculated at 2% of the net proceeds of sale of minerals (net smelter return or FOB export value, whichever is appropriate). The royalty payments reported by companies, and receiving entities for the 2014 calendar year are outlined below.

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 via the monthly Form 25.

Companies	Landowner/landowner association/MRA (if in dispute)/Ok Tedi Landowners Trust/provincial and local governments/Future Generations and Infrastructure Trust Accounts

Although we have seen improvements with data reporting compliance, there are still some discrepancies in the available data as outlined in the reconciliation table below.

Table 37: Reconciliation of mining royalties (company data reconciled with data reported by MRA)

Company	Reported recipients	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Ok Tedi Mining Ltd	Fly River Provincial Government Ok Tedi Landowners (MOA) Admin Trust Ok Tedi Landowners Royalty Trust Direct landowner payments	45,080,994	31,661,777	13,419,217	42.38%	A
Petromin (Tolukuma) (ML 104)	Yulai Trust & Yulai Landowners	585,903	485,947	99,956	20.57%	
Barrick Gold Corporation	State of PNG	32,576,697	29,070,366	3,506,331	12.06%	B
Lihir Gold Ltd (Lihir)	State - New Ireland Provincial Government and imamar Local Level Government Landowners	42,555,835	42,130,277	425,558	1.01%	
MCC Ramu NiCo Ltd	N/A	0	0	0		C
New Guinea Gold Corporation	N/A		14,004	-14,004	100%	D
Newcrest and Harmony	State Landowners	14,389,622	15,605,700	-1,216,078	-7.79%	E
Niuminco Group Ltd	N/A		0			D
Simberi Gold Co. Ltd	Simberi Mining Area Association Big Tabar Landowners Association Tatau Landowners Association Local Level Government - Sentral Niu Ailan	3,272,730	3,035,420	237,310	7.82%	
Total		**138,461,781**	**122,003,491**	**16,458,291**	**13.49%**	

Remarks

A. Ok Tedi reported royalty payments of PGK 13,524,298 made directly to landholders. These were not reported by MRA and accounts for the large variance in these reported values.
B. Barrick Gold Corporation also reported a royalty payment of PGK 8,547,961 to the Barrick Gold Corporation. This figure was not included in the reconciliation.
C. MCC Ramu stated '0' for royalty payments made during 2014 and MRA reported 'N/A'.
D. No data relating to royalty payments was provided from these companies. MRA stated that there was no record for Niuminco Group and they needed to verify the recipient of the Royalty amount noted for New Guinea Gold.
E. Newcrest and Harmony also report a payment of PGK 1,567,126 under a Trust Deed for the Benefit Sharing Agreement (BSA). They have defined this payment as voluntary social expenditure, not a royalty. It has not been included in this reconciliation but may account for a portion of the variance with the data reported by MRA.

Oil and gas royalties

Royalty payments are calculated based on production figures and paid on a monthly basis to landowners and provincial and local governments through the State.

Oil and gas royalties paid to landowners

Oil and gas royalties paid to provincial and local governments

For the 2014 reporting period, DPE was able to provide records of royalty payment calculations relating to PDL's operated by Oil Search as well as for the Hides Gas to Electricity (GTE) PDL1 project also operated by Oil Search.

DPE was unable to provide us with any royalty data relating to production from the PNG LNG project. We were informed that DPE Management had not granted approval to release the data.[276] To address this, we were able to obtain copies of signed transmittal letters from Treasury and the operator ExxonMobil. These letters state the royalty amount as calculated by the operator based on wellhead value. Wellhead value is defined as revenues less operating and capital costs. The letters state that one payment per month will be made by the operator on behalf of the PNG LNG project, as prescribed by the PNG LNG Gas Agreement. The royalty payments are remitted within two months after the completion of the relevant accounting period, deposited in the Bank of PNG, PNG LNG Project Royalty Trust Account #4356-6432.

The reporting template received from the MRDC stated that PNG LNG funds were held in trust but not yet distributed to beneficiaries.

The total royalty values reported for Oil Search and ExxonMobil are reconciled with DPE data below.

Table 38: Reconciliation of oil and gas royalties (company data reconciled with data reported by DPE)

Company	Reported recipients	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Oil Search	DPE	53,454,250	51,984,696	1,469,554	2.83%	
ExxonMobil	DPE	46,282,491	47,386,162	-1,103,671	-2.33%	A
Total		**99,736,741**	**99,370,859**	**365,882**	**0.37%**	

[276] Direct communication with DPE 6 February 2017

Remarks

A. The ‘amount reported received’ figures for PNG LNG was sourced from copies of signed transmittal letters from Treasury and the operator, ExxonMobil detailing the royalty payment calculations for the months that the PNG LNG was operating in 2014.

Amounts reported received in the royalty reconciliation are the calculated royalty payments relating to production of crude oil, condensate, natural gas and LNG during 2014. However, payments relating to the final two months were likely not paid until the 2015 calendar year. We have not seen information relating to the PNG LNG Project Royalty Trust Account in order to verify this.

Mandatory and voluntary social expenditure

These revenue streams are discussed in detail in Chapter 6.

Audit of financial statements

Table 39 below provides an overview of the status of financial audits for each of the EITI reporting entities for the 2014 period. Where a financial statement audit was not conducted during 2014, the most recent audit report available is listed.

Table 39: Auditing of reporting entities

Parent Company	Mine operator in PNG	Year audited	Qualifications/comments	Source[277]
Mining				
	Ok Tedi Mining Ltd	2014	Audit by PwC. No qualifications noted.	http://www.oktedi.com/media-items/publications/annual-review/373-2014-annual-review/file
Barrick (Niugini) Ltd	Barrick Gold	2014	Audit by PwC. No qualifications noted.	http://www.barrick.com/files/annual-report/Barrick-Annual-Report-2014.pdf
Newcrest and Harmony	Lihir Gold Ltd	2014	Audit by EY. No qualifications noted.	http://www.newcrest.com.au/media/annual_reports/FINAL_Annual_Report_2014_72dpi_web.pdf
	MCC Ramu NiCo Ltd	2014?	Audit by Deloitte. No qualifications noted.	http://www.mcc.com.cn/mccen/resource/cms/2015/11/201511020321502 1599.pdf
Newcrest	Harmony Gold Mining Ltd	2014	Audit by EY. No qualifications noted.	http://www.newcrest.com.au/media/annual_reports/FINAL_AR_2013_72dpi_web.pdf
Newcrest	Harmony Gold Mining Ltd	2014	Audit by PwC. No qualifications noted.	http://www.har.co.za/14/
Petromin PNG Holdings	Tolukuma Gold Mines Limited	2014	Audit by PwC. No qualifications noted.	http://www.petrominpng.com.pg/about/Petromin%202014%20Annual%20Report.pdf

[277] All links valid as at 6 September 2016. At the time of publication, the Auditor-General’s website was no longer available.

Parent Company	Mine operator in PNG	Year audited	Qualifications/comments	Source[277]
St Barbara Ltd	Simberi Gold Co. Ltd	2014	Audit by KPMG. No qualifications noted. FY14 audited - FY15 not available yet	http://www.stbarbara.com.au/fileadmin/user_upload/documents/annual-reports/St_Barbara_Limited_Annual_Report_2014__web_.pdf
New Guinea Gold		not found	Audit by Lawler Hacketts Audit	http://www.newguineagold.ca/
Niuminco Group Limited	Niuminco Edie Creek Ltd	2013 FY 2015 FY	Audit by PwC. No qualifications noted.	http://www.niuminco.com.au/docs/NIU%20Annual%20Report%202013.pdf http://www.niuminco.com.au/docs/NIU%20Annual%20Report%202015_FINAL.pdf
Oil and gas				
ExxonMobil	ExxonMobil PNG LTD	2014	Audit by PwC. No qualifications noted.	http://cdn.exxonmobil.com/~/media/Global/Files/Investor-Reports/2015/2014-Financials.pdf
Santos		2014	Audit by EY. No qualifications noted.	https://www.santos.com/media/2496/2014_annual_report.pdf
JX Nippon		2014	Audit by EY. No qualifications noted.	http://www.hd.jx-group.co.jp/english/ir/library/annual/2013/pdf/jx_en_ar_fy2013.pdf
Cue Energy	Oil Search (PNG) Limited	2014	Audit by BDO. No qualifications noted.	http://www.cuenrg.com.au/irm/content/annualreport/2014/ar2014.pdf
Cue Energy	Oil Search (PNG) Limited	2014	Audit by Deloitte. No qualifications noted.	http://oilsearch.com/Media/docs/7807_OSH_AR14_FINAL%20(Final%20for%20ASX%20Release)-84df74aa-04d5-4794-8bce-bf9e3dd09bfc-0.pdf
Petromin	Eda Oil Ltd	2014	Audit by Deloitte. No qualifications noted.	http://www.petrominpng.com.pg/about/Petromin%202014%20Annual%20Report.pdf
State-owned enterprises: audits by the Auditor-General's Office of Papua New Guinea				
Independent Public Business Corporation		2012*	Qualification and several issues raised: 2013 accounts have been submitted for audit	http://www.ago.gov.pg/images/Annual_Reports/Part_4/Part_IV_2013.pdf
Mineral Resources Development Company Limited		2010	Qualification and several issues raised: 2011 accounts were completed but not submitted for audit 2012 accounts are in progress	http://www.ago.gov.pg/images/Annual_Reports/Part_4/Part_IV_2013.pdf

Parent Company	Mine operator in PNG	Year audited	Qualifications/comments	Source[277]
National Petroleum Company of Papua New Guinea		2010*	Qualification and several issues raised; 2011 accounts had been submitted for audit; more recent accounts had not been submitted 'despite repeated reminders'	http://www.ago.gov.pg/images/Annual_Reports/Part_4/Part_IV_2013.pdf
Ok Tedi Mining Limited		2014	See above	
Petromin		2014	See above	
Government departments and statutory authorities: audits by the Auditor-General's Office of Papua New Guinea				
Internal Revenue Commission		2012*	'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/Annual_Reports/Part_2/Part_II_2012-2013.pdf p. 151
Minerals Resource Authority		2010	'Because of the significance of the matters described in the basis for Disclaimer of Opinion, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.'	http://www.ago.gov.pg/images/Annual_Reports/Part_2/Part_II_2012-2013.pdf p. 57
Department of Treasury		2012-13*	'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/Annual_Reports/Part_2/Part_II_2012-2013.pdf p. 90
Department of Finance		2012*	'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.'	http://www.ago.gov.pg/images/Annual_Reports/Part_2/Part_II_2012-2013.pdf p. 141

Parent Company	Mine operator in PNG	Year audited	Qualifications/comments	Source[277]
Department of Petroleum and Energy		2012*	'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 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/Annual_Reports/Part_2/Part_II_2012-2013.pdf p. 197
Department of National Planning and Monitoring		2012*	'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/Annual_Reports/Part_2/Part_II_2012-2013.pdf p. 163
PNG Customs		2012*	'my audit indicated that there were weaknesses noted in the control framework'	http://www.ago.gov.pg/images/Annual_Reports/Part_2/Part_II_2012-2013.pdf p. 226

*No update since publication of the PNG EITI Report 2013

Chapter 11: Findings and recommendations

Through the research and analysis we have conducted over the past two years, for the purpose of preparing the 2013 and 2014 EITI Reports for PNG, we have observed 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 the EITI Reports. Findings and recommendations in relation to these areas were included within the PNG EITI Report 2013.[278] Varying degrees of progress have been made by the MSG in responding to each of these recommendations since the publication of PNG's first EITI report in February 2016.

At the time that this second EITI report for the 2014 calendar year was prepared, we encountered many of the same problems as during the 2013 data collection process. We believe that this was due primarily to planned actions not taking effect prior to the data collection phase for the 2014 reporting process. Progress against the 2013 Report findings is described in detail in Table 40 on the following pages. In summary, we noted the following progress:

- *Proposed NEC Policy Submission:* MSG meeting on 28 September, 2016[279] outlines that a Policy submission to the NEC is the most effective way to implement the report recommendations. The Submission, once endorsed by Cabinet will direct respective departments and agencies through their Ministers to take actions by including the tasks to be undertaken in their work plans to implement these recommendations
- *Increasing involvement of SOEs in EITI process:* The MSG meeting on 28 September, 2016[280] indicated that all SOEs were invited by the Chairman to be part of the MSG and that all relevant SOEs are now included on the MSG. The MoU is now being reviewed by the National Secretariat to reflect this
- *Increased level of quality assurance over data provided by reporting entities:* For the second 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. This represented an incremental shift in the level of assurance expected to be provided by the reporting entities over what was requested in the 2013 report. We would expect that over future reporting periods, these requirements will continue to increase the level of quality assurance expected from reporting entities.

In addition, we highlight the following observations and considerations for future reporting periods:

- *Importance of continued stakeholder engagement, particularly with reporting entities*: The MSG's increased focus on engaging with all reporting entities has delivered improvement in the level of participation in the 2014 Report, compared to the 2013 Report. This has flow-on benefits for transparency within government and the extractive sector. We encourage the MSG to continue to engage with reporting entities, and to encourage timely participation in the reporting process.
- *Implementation of Beneficial Ownership Roadmap*: A Beneficial Ownership Roadmap has been completed as required by the EITI Standard. Many of the activities included in the Roadmap such as embedding data collection procedures and generating awareness present opportunities to improve EITI reporting and awareness more broadly as well.
- *Continue progress against the Work Plan*: We have noted strong commitment from the MSG to implementation of projects in the EITI Work Plan. We encourage the MSG to continue to progress development and implementation of key supporting projects documented within the Work Plan, including the scoping study for subnational payments.

[278] Papua New Guinea Extractive Industries Transparency Initiative Report,, EITI National Secretariat, 2013 (accessed via http://www.mra.gov.pg/Portals/2/docs/PNG%20EITI%20Report%202013_PNGEIETI%20Website.pdf, 7 Feb 2017) Refer to Findings and Recommendations, Chapter 12.
[279] MSG Meeting minutes #4/2016 – Meeting held on 28 September, 2016
[280] ibid

- *Preparation for validation of the 2016 EITI Report:* The EITI Board has agreed that the first validation process for PNG will commence on 1 April, 2018, covering PNG's 2016 EITI Report. To meet this deadline, the MSG will need to ensure that barriers encountered to timely release of data for the 2014 Report are addressed early during the reporting period. These include capacity constraints, and authorisation from the senior management of reporting entities.

Progress against key 2013 report findings

Actions to address many of the recommendations made through the initial PNG EITI Report 2013 will result in increased transparency in PNG's extractive industry in the longer term. Although actions are being implemented to address these recommendations, which are outlined in the 2016 Work Plan,[281] the outcomes of these actions did not significantly impact the content of this report. The table below provides an overview of actions being taken by the MSG to address the key findings and recommendations of the 2013 report. The 2013 report recommended that actions be taken to address these areas as the highest priority, as they could potentially impact the validation of the 2016 report.[282]

[281] PNG EITI 2016 Work Plan, http://www.pngeiti.org.pg/download/png-eiti-2016-work-plan/ accessed 7 February 2017

[282] Note that the 2013 report findings were made against the previous version of the EITI Standard.

Table 40: Progress against high priority findings from the PNG EITI Report 2013

2013 Report Finding	Recommendation	Progress since 2013 reporting period	MSG Comments on progress against finding
The official register of oil and gas licences is maintained by the DPE in handwritten ledgers entered in date order. Further, the current storage facilities represent a fire hazard and a risk of loss of data within the register.	DPE must urgently implement a reliable electronic registry system, to supersede the current paper ledger system. The register should be designed to enable tracking of payments made by licence holders and their JV partners. The register should be available to the public online. DPE should establish a website and make public the process for allocating and transferring licences, and: ► Formalise the technical and financial criteria used for assessing licence applications (if not already formalised), and communicates these to the Independent Administrator for future reporting periods. ► Provide information to the Independent Administrator on non-trivial deviations from the regulatory regime applied in awarding licences.	No progress noted.	

2013 Report Finding	Recommendation	Progress since 2013 reporting period	MSG Comments on progress against finding
We had difficulty obtaining current and complete material on some entities. Information on the SOEs' websites was often incomplete or out of date, particularly for the IPBC, or non-existent in the case of the MRDC.	We recommend that measures are undertaken to engage SOEs in the EITI reporting process. This could include, for example, inviting representatives of the SOEs to participate in the MSG. Further, we recommend that the MSG conducts EITI training for the SOEs.	We noted an improved level of engagement by SOEs during the period, particularly with regard to the MRDC who were able to provide some revenue data for the 2014 report. We believe that this is due to an increased level of involvement by these SOEs in the MSG. MSG meeting on 28 September, 2016[284] indicated that all SOEs were invited by the Chairman to be part of the MSG and that all relevant SOEs are now included on the MSG. The MoU is now being reviewed by the National Secretariat to reflect this.	Minutes of MSG meeting #3 approved the membership of SOEs on the MSG, together with voting rights in the meetings. This has been reflected in the 2017 MoU.

[284] MSG Meeting minutes #4/2016 – Meeting held on 28 September, 2016

2013 Report Finding	Recommendation	Progress since 2013 reporting period	MSG Comments on progress against finding
The production data provided for the reporting period was both incomplete and inconsistent. Materially different data sets were provided by the MRA at different times, and both sets showed information gaps.	We recommend that the MRA: ► Adopts standard units of measurement for reporting of each mineral commodity ► Requires mining companies to provide data to them in consistent units of measurement, to mitigate any need for conversions to be applied ► Conducts a detailed review of data within the digital cadastre prior to the next EITI reporting process to identify and address risk areas. ► Considers implementing regular independent audits of production data and related payments, to ensure that regulatory compliance is being maintained.	We note that since July 2014, data has been captured in MRA's mining cadastre portal and the MRA considers this data to be reliable.[285] Earlier data, including that of the first half of the 2014 reporting period, had been captured in a manual system which was then added to the cadastre portal. Although there were still some gaps present in the data, overall, we noted improvement in the quality of the production data provided by MRA for the 2014 reporting period. Production data is now being captured directly into the MRA's digital cadastre however, we note that this is not publically available through the PNG Mining Cadastre Portal. [286] The EITI standard (2.3 - Register of licenses) requires that the commodity being produced be included in this publically available register.	The MRA has yet to disclose production data in the PNG mining cadastre portal website.

[285] Email communication from MRA, 4 December 2015
[286] http://portal.mra.gov.pg/Map/

2013 Report Finding	Recommendation	Progress since 2013 reporting period	MSG Comments on progress against finding
Over the past year, the DPE has been conducting a compliance review. Early findings from this review revealed a 50% rate of failure to comply with requirements including: ► Adherence to reporting requirements ► Validity of work programs being implemented ► Payment of licence fees. At the time of writing, it is unclear whether the compliance review has been finalised, and whether the DPE is in the process of implementing the recommendations provided.	We strongly recommend that the DPE finalises its compliance review, and commences implementing the recommendations as soon as possible, as the findings relate to key elements of a compliant EITI report.	The 2014 report was the first to record payments and receipts of revenue related to the PNG LNG project, operated by ExxonMobil. We observed a difference in the ability of representatives of DPE to provide data related to the PNG LNG project when compared with data from the projects operated by Oil Search. The Oil Search data had been provided by DPE previously for the 2013 report. While DPE were able to provide us with revenue payments and production figures relating to Oil Search operated projects, we were advised in some cases that it would be best to source information relating to the PNG LNG project from the operator, thus making reconciliation of the data problematic. We recommend that a more consistent approach be implemented in adherence to reporting requirements and managing information for all of the projects that DPE is responsible for.	MSG is aware of capacity issue within DPE and strongly believes that through a Cabinet decision from the policy submission, this will set the motion (give the necessary weight) to address DPE's issues in a significant way. MSG also believes that, if the government's proposal to transform DPE into an authority, this will greatly address all the capacity issues and performance and productivity of the Department.
Some agencies had few or absent controls over receipts from the extractive industries. We observed that payments were still often made via cash or cheque, with manual processes for issuing receipts. The absence of a robust system for managing payments leaves the system vulnerable to fraud, corruption, and human error.	We recommend that government entities engage in a project to modernize payment systems globally. This should include, for example: ► Payments being made by EFTPOS for all transactions ► Implementing segregation of duties, and management oversight of cash processes ► Implementing a rigorous audit program to regularly assess fraud risks.	In progress. A Policy Submission is before Cabinet to secure NEC Decision to implement this recommendation.	In progress.

2013 Report Finding	Recommendation	Progress since 2013 reporting period	MSG Comments on progress against finding
Reliable reporting on EITI requirements depends in turn on robust systems for collecting and sharing data; for example production data and export data as well as revenue streams. Data reported to us from different agencies – or in some cases even from the same agency at different times – did not match, which obscures whether correct payments have been made.	Systems should be established to enable productive sharing of information between government agencies. This should include establishing common units for measure, conversion factors and foreign exchange rates.	In progress. As noted above, this has been included in the Policy Submission for a NEC Decision and is still in progress as stated above.	In progress.
Information relating to sub-national transfers and payments was difficult to obtain. 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 on a case-by-case basis. However, these agreements are in most cases not public, and accountability mechanisms vary significantly.	We recommend that the MSG engages the Department of Finance in a detailed review of subnational payments and transfers prior to the next EITI reporting process. The review should specifically identify all recipients of payments, account details, nature of payments or transfers being received and itemised payments during the period. Importantly, details of the payer (whether national government or extractive industry company) should be noted. Further, we recommend that the NEFC considers amending future Budget and Fiscal Reports to collect information on subnational payments and transfers in line with the EITI requirements.	The project to undertake a scoping study to investigate the possibility of implementing the EITI Standard to sub-national governments (provincial and local level governments) and landowner associations was not implemented during 2016. We have been informed by the National Secretariat that this project has been included again in the PNG EITI 2017 Work Plan and is expected to begin in the second quarter of 2017. 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.	MSG has approved/direct Secretariat to engage a consultant to do scoping on the sub-national governments and land owner association payments and this will be procured by May this year depending on funding availability.
Due to limited time available for preparing this first report, the MSG and the Independent Administrator agreed that reporting entities would need to have submissions signed by an authorised company representative. This is a very low level of quality assurance, as no audit or review of the reported amounts was requested or obtained.	We would strongly encourage the MSG to implement the recommendations provided in this report. In order to do this, we suggest that the MSG integrates key actions into the PNG EITI work plan, allocates persons responsible, and tracks progress against these.	For the second EITI report covering the 2014 reporting period, 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, in case of companies, and 'a true and accurate record' in the case of government departments and SOEs whose statements were not yet audited.	This has been accomplished whereby data templates have been signed off by authorized company representatives as the case in the 2014 Report

2013 Report Finding	Recommendation	Progress since 2013 reporting period	MSG Comments on progress against finding
Members of the MSG are very keen to understand the issues identified through our research, and our recommendations and next steps.	We would strongly encourage the MSG to implement the recommendations provided in this report. In order to do this, we suggest that the MSG integrates key actions into the PNG EITI work plan, allocates persons responsible, and tracks progress against these.	The MSG has drafted an NEC Policy Submission signed by Minister for Treasury in December 2016. This is now before Cabinet for consideration and endorsement. The Policy Submission tasks all government entities to implement the 2013 EITI Report recommendations in their respective work plans. Once Cabinet has made a decision, the entities will be required to implement. The National Secretariat has informed the AI that an NEC Policy Decision is likely to be secured in the first quarter of 2017 for implementation.	As advised above, MSG is awaiting to secure Cabinet Decision that will provide the necessary backing to get entities to implement these recommendations.

Appendix A: PNG MSG Members and Alternates

Organisation	Voting member?	Type	Primary	Alternate 1	Alternate 2
Department of Treasury	Y	Government	Hon. Patrick Pruaitch, CMG, MP Treasurer, **PNGEITI MSG Chairman**	Dairi Vele Secretary, Department of Treasury	Manu Momo, Deputy Secretary Economic Policy Department of Treasury
Department of Petroleum and Energy	Y	Government	David Manau, Acting Secretary	Kepsy Puiye, Deputy Secretary	Herry Howard Manda, Manager – Petroleum Division
Internal Revenue Commission	Y	Government	Betty Palaso, Commissioner General	Dr Alois Daton, Commissioner Taxation	Ketty Masu- Director Resource Policy and Advice
Mineral Resources Authority	Y	Government	Philip Samar, Managing Director	Sean Ngansia, Executive Manager Coordination Division	Arnold Lakamanga- Manager - GIS Mineral Information
Auditor General's Office	N	Government	Philip Nauga, Auditor general	Andy Vui- Deputy Auditor -General	Lemeki Ila- Deputy Auditor -General
Conservation and Environment Protection Authority	N	Government	Gunther Joku, Managing Director	Michael Wau Deputy Director Environmental Regulation Division	Robert Sine, Manager, Mining Industry Compliance
Department of Finance	N	Government	Dr Ken Ngangan, Secretary	Samuel Penias, Deputy Secretary	Margaret Tenakanai, First Assistant Secretary, Non-Tax Revenue Division
Department of Mineral Policy and Geohazards Management	N	Government	Shadrick Himata, Secretary	Harry Kore, Director Mineral Policy and Legislative Division	Asavi Kendua, Assistant Director Policy Advisory Branch
Department of National Planning and Monitoring	N	Government	Harry Hakaua, Secretary	Sanja Pepae, Assistant Secretary – Economic Policy Branch	Langa Kopio, Senior Economist, Policy Division
Department of Prime Minister and NEC	N	Government	Bruce Java	Acting Director, Non-renewable Resources	
Office of Public Solicitor	N	Government			
Kumul Minerals Holdings Ltd	Y	SoE	Thomas Abe, Managing Director	Saki Ipata- Chief Financial Officer	Noreen Gugume – Manager Accounts
Kumul Petroleum Holdings Ltd	Y	SoE	Wapu Sonk- Managing Director	Ian Maru General Manager Stakeholder Relations	Brad Mitchel, General Manager, Corporate Services,
Mineral Resources Development Company	Y	SoE	Augustine Mano - Managing Director	Imbi Tagune, General Manager External Affairs	Steven Evekone, Manager External Affairs

Organisation	Voting member?	Type	Primary	Alternate 1	Alternate 2
Kumul Consolidated Holdings Ltd	N	SoE	Garry Hersey - Managing Director	Apaitia Veiogo, Chief Financial Officer	Steven Kikala, Senior Portfolio Manager
Total E&P Limited	Y	Industry	Philippe Blanchard – Total E&P Limited	Richard Kassman OBE, Government Relations Manager	
Barrick Niugini Ltd	Y	Industry	Anthony Smare, Director	Ila Temu, Country Manager	
ExxonMobil PNG Limited	Y	Industry	Andrew Barry, Lead Country Manager	Robert Aisi, General Manager, External Affairs	Stanley Yarka, Advisor External Affairs
Morobe Mining Joint Ventures (MMJV)	Y	Industry	Kepas Wali, General Manager Sustainability		
Newcrest Mining Ltd	Y	Industry	Peter Aitsi, Country Manager	Borone Isana, Manager Government Liaison	
Oil Search (PNG) Ltd	Y	Industry	Gerea Aopi, Executive General Manager of External Affairs and Sustainability	Willie Kupo, General Manager of Community and External Affairs	Cornelius Soagai, Government Affairs
PNG Chamber of Mines and Petroleum	Y	Industry	Greg Anderson, Executive Director	Leah Warupi, Project Coordinator	Emmanuel Powuh David, Project Coordinator
Business Against Corruption Alliance (BACA)	Y	CSO	Mayambo Peipul, Project Manager		
Consultative Implementation and Monitoring Council (CIMC)	Y	CSO	Wallis Yakam, Executive Officer	Henry Yamo, Deputy Executive Officer	Elizabeth Avaisa, Sr. Project Officer, Public Budgets & Expenditure
EcoForestry Forum	Y	CSO	Thomas Paka, Executive Director	Senson Mark, Manager Lobby, Advocacy and Networking	Mary Boni, Manager Programs, Governance & Research
Institute of National Affairs (INA)	Y	CSO	Paul Barker, Executive Director	Douveri Henao, Research Officer	Marjorie Andrew, Research Fellow
Papua New Guinea Mining Watch Association Inc.	Y	CSO	Patrick Yepe Lombaia, Executive Director	Harrison Owage, Program Manager	Baru Amenu, Project Coordinator
PNG Council of Churches (PNGGCC)	Y	CSO	Father Denny Guka		
Transparency International PG (TIPNG)	Y	CSO	Lawrence Stephens, Chairman	Emily Taule, Executive Director	
PNG Resource Governance Coalition	N	CSO	Martyn Namorong, National Coordinator		

Appendix B: Terms of Reference for the Independent Administrator

Refer to document on PNG EITI website - http://www.pngeiti.org.pg/download-category/reports/

Appendix C: Social expenditure

Table 41: Details of mandatory and discretionary social expenditure by resource companies

Ok Tedi		
Mandatory social expenditure	**Recipient**	**PGK**
Tabubil Hospital	Diwai Pharmaceuticals Ltd	31,646,712
Ok Tedi Development Foundation	Ok Tedi Development Foundation	27,073,000
CMCA Compensation	Communities & Villages	44,100,488
Land Lease	Communities	5,493,013
General Compensation	Heduru Trust Ltd	13,968,059
Special Compensation	Migalsimbip & Wangbin Landowners	95,963
Tabubil Kiunga Highway Maintenance		27,327,666
Tabubil Airport		140,436
Tabubil Township/Municipality		6,679,974
Discretionary social expenditure		
North Fly Health Services		7,811,276
Donations	Pacific Games	1,000,000
	other	89,168
Kiunga Town Power		16,527,274
Lihir		
Mandatory social expenditure		
		57,041,453*
Discretionary social expenditure		
		105,460,934*
Porgera (Barrick)		
Mandatory social expenditure		
Compensations	Local Communities	20,260,692
Education Fees	Local Schools	6,641,390
Infrastructure - Tax Credit Schemes		8,679,063
Infrastructure - General Projects		3,377,736
Discretionary social expenditure		
	Schools, Hospital, and Communities	267,264

Hidden Valley (Newcrest and Harmony)		
Mandatory social expenditure		
Compensations	Local Communities (broken into 877 recipients, primarily community groups or individuals)	744,226
Discretionary **social expenditure**		
	Benefit Share Agreement	1,567,126
Ramu (MCC Ramu NiCi Ltd)		
Mandatory social expenditure		
		2,409,660
Discretionary social expenditure		
		692,617
Simberi		
Mandatory social expenditure		
	Simberi land owners	52,790
Discretionary social expenditure		
		0
Sinivit (New Guinea Gold)		
Mandatory social expenditure		
		Data template not completed
Voluntary social expenditure		
		Data template not completed
Tolukuma (Petromin)		
Mandatory social expenditure		
		0
Voluntary social expenditure		
	PNG Pacific Games	1,000,000
Edie Creek (Niuminco)		
Mandatory social expenditure		
		Data template not completed
Voluntary social expenditure		
		Data template not completed

Oil Search		
Mandatory social expenditure		
		0
Discretionary social expenditure		
	Lanco's	173,091,275
	SOE's	56,269,625
	TCS	106,966,575
	PNG Sustainable Dev. Spend	19,149,600
ExxonMobil		
Mandatory social expenditure		
		0
Discretionary social expenditure		
		181,715,107
Cue Energy (now NPCP)		
Mandatory social expenditure		
		Data template not completed
Discretionary social expenditure		
		Data template not completed
JX Nippon		
Mandatory social expenditure		
		0
Discretionary social expenditure		
		0
Santos		
Mandatory social expenditure		
		0
Discretionary social expenditure		
		0
Independent Public Business Corporation (IPBC) – now Kumul Consolidated Holdings		
Mandatory social expenditure		
		0
Discretionary social expenditure		
		0

Mineral Resources Development Company Limited (MRDC)		
Mandatory social expenditure		
		Data template not completed
Discretionary **social expenditure**		
		Data template not completed
National Petroleum Company of Papua New Guinea (NPCP) – now KPH		
Mandatory social expenditure		
		0
Discretionary **social expenditure**		
		0

* Reported social expenditures for Lihir are for the financial year ending 30 June 2014
Data not received for Sinivit or Eddie Creek

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