

# Papua New Guinea Extractive Industries Transparency Initiative (PNG EITI)

Executive Summary Report for 2016

21 December 2017



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## Minister's foreword



It is with great pleasure that I endorse this fourth Extractive Industries Transparency Initiative Report for Papua New Guinea. The 2016 Financial Year Report is the culmination of continued commitment, collaboration and efforts by the Government, extractive industries and civil society organisations to provide a comprehensive picture of the sector, its impact on the economy and our management of the revenues and benefits derived.

Through the EITI process, it is beginning to strengthen the relationship between policy, revenue administration and regulating agencies. I believe that inter-agency collaboration is key to achieving positive resource revenue management outcomes, both in terms of transparency in collections and accountability in expenditure. Inter-agency collaboration is also important to identify opportunities to make systems and processes more user-friendly for efficiency in businesses and investments. The 2016 Report continues to build on the information and data gaps that were identified in earlier reports. The Report also provides an update on the actions taken by affected government entities that were directed by the National Executive Council (NEC Decision #91/2017) to implement key recommendations from the first report.

The 2016 Report is important in that it will form the basis of an external review and assessment for PNG's EITI membership validation in 2018.

The EITI process can also help improve current policy settings, the taxation and fiscal regime governing the extractives sector. It demands Government to adhere to global best practices in the sector by increasing transparency and accountability of extractive revenues. It also demands the highest levels of transparency in the collection and distribution of revenues by the Government. I encourage the public to read the contents of the report and use it as a basis for stimulating further discussions on the management of the sector.

Though PNG remains one of the most challenging countries to invest in geographically, it is amongst the most geologically attractive countries in the world. While global commodity prices have remained subdued in the last couple of years, developers of a number of proposed projects in PNG have remained committed and proceeded with several major mines set to come on stream in the near future. With promising signs of global commodity prices recovering, both developers, Government and our people stand to gain from the operation of these projects. The Government values the EITI process because it is playing a critical role in providing such reports to the public for them to better understand how we are managing the revenues and other benefits derived from the sector.

I therefore assure investors and Papua New Guineans that the Government of PNG is committed to transparency and accountability to derive better outcomes for our development aspirations. This Government believes in creating a conducive environment for further investments in the extractives sector.

I commend the 2016 EITI Report and officially endorse it for publication and release.

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

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

## Multi-stakeholder group statement

The Papua New Guinea Extractive Industries Transparency Initiative Multi-Stakeholder Group (PNGEITI MSG) was established in 2013 to provide guidance and oversight on the EITI implementation process. One of MSG's main activities is the oversight and guidance in the production of annual EITI reports as required by EITI International. PNGEITI MSG members representing government, civil society groups and the industry have worked together and published three EITI reports so far. The inaugural report covering the financial year 2013 was published and launched by the Prime Minister Peter O'Neill in February 2016. The second report covering the financial year 2014 was published in February 2017 and the third report covering the financial year 2015 will be published concurrently with the financial year 2016 Report.

The 2016 Report is significant in that it will form the basis of review and assessment for PNG's upcoming validation in 2018.

The MSG continued to provide guidance and oversight in the production of these reports, especially in their endeavour to addressing the data and information gaps identified in the earlier reports. It is good to note in the 2016 Report that the level of disclosure for some EITI requirements has improved from previous reports. The case study on the PNG LNG Umbrella Benefits Sharing Agreement (UBSA) in the 2016 Report is particularly useful, as well as, the discussion on state-owned enterprises (SOEs) structure and management.

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 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 that has been fostered between government, industry and the civil society groups and in publishing the annual EITI reports, consistent with global standards. The publication of this report will not only stimulate further discussions on the management of the sector but also provides an update on the government's efforts to act on some key recommendations made in the earlier EITI reports.

This fourth report further extends a journey the MSG had taken together. The MSG has been focussed 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 transparency of payments made to sub-national levels of government (provincial and local level governments and landowner groups)
- ▶ Ensuring that revenue generation and collections are consistent with the government's policy settings, fiscal and taxation arrangements governing the extractives sector.

The activities of the MSG, however have not only resulted in the culmination of EITI reports but have also created a platform for government, industry and civil society groups to work together and improve communication outreaches and awareness of the extractive industries. The MSG has formed a vital component of the wider partnership between government, private sector and civil society over fiscal transparency, access to information and improved service delivery. This is being developed under the Open Government Partnership (OGP), of which Papua New Guinea is a member. The MSG also approved an EITI Open Data Policy and Framework which came into effect in January 2017 as required under the EITI Standard. The Open Data Policy which also complements OGP principles. The MSG had also adopted an EITI Communication Policy and Strategy in 2016 to

bring about awareness to the public on report findings as well as design media and communication strategies.

Some of the activities of the MSG members can be found on the PNGEITI website ([www.pngeiti.org.pg](http://www.pngeiti.org.pg)). Some MSG members have also taken ownership of the EITI process and included EITI activities in their regular newsletters, publications and other social media. Some of the key activities include: the annual activity reports and a range of awareness activities on the EITI process, roadshows and outreaches conducted in regional centres and resources impact areas. These outreach activities were targeted at informing the public on the outcome and findings from the EITI reports and their recommendations and progress made by concerned government entities in implementing some of these recommendations.

The MSG has also commenced other important tasks for the sector that are now in progress and these include:

- ▶ Implementation of activities from the Beneficial Ownership Roadmap adopted in January this year following a scoping study. The roadmap will be implemented from 2017 to 2020, when PNG will be required to report on beneficial ownership details under the 2016 EITI Standard.
- ▶ The MSG has also started work on the EITI legislation and policy framework in 2016 that was pursued in 2017. A policy and legal expert will be engaged early next year to commence legislative drafting.
- ▶ Commencement of a scoping study on extending EITI implementation to subnational levels of governments.

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 achieving 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. The MSG process has not only allowed for better inter-agency collaboration and proposed policy and legal reforms but it has also enhanced it further through greater access to Industry and civil society organisations. This inter-agency collaboration was further strengthened through the inclusion of and participation of SOEs at the MSG level. Their participation signalled a long-term commitment from all stakeholders to the EITI implementation process in the country.

Industry representatives on the MSG have been drawn from both the mining and petroleum sectors. The industry representatives have worked consistently with other constituent partners for the last three years, with great generosity of time and resources to help advance all aspects of the EITI process. Publishing this fourth report demonstrates the valuable partnership that has been operating in pursuit of our development objectives as a nation and the real contribution they can make to the economy. The report is not only focussed on revenues produced by this sector in 2016 financial year but also sets out other contextual information on economic contributions such as voluntary social expenditures, contracts transparency and beneficial ownership disclosure.

Civil society organisations (CSOs) have also been critical partners in the EITI process since the establishment of the MSG. Active participation of CSOs in the EITI process has been key to ensuring that the EITI reports that have been published are translated into actual policy and legislative reforms. These reforms are necessary to bring about greater transparency and accountability for better management of PNG's mineral wealth. CSOs have a wider network to disseminate information and a voice for the silent majority who have their own perspectives on the impacts and economic contributions from the extractives industry.

CSOs 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 for informing public debate on, how PNG

government and industry have been managing its valuable natural resource endowment, debating benefits and some hazards of exploitation, the nature of agreements and fiscal conditions, and sustainable management of these resources into the future.

The MSG would like to extend their thanks and appreciation to the PNGEITI National Secretariat headed by Mr Lucas Alkan in supporting the MSG in advancing EITI work in the country. The MSG also acknowledges the valued advice and support it has been receiving from EITI International Secretariat in its efforts to implement. Finally, the MSG would also like to thank EY for performing its duties as the Independent Administrator in compiling and producing this report.



PNG Council of Churches



PNG MINING  
WATCH GROUP ASSOCIATION



# Executive Summary

## What is EITI?

The Extractive Industries Transparency Initiative (EITI) is a global organisation established in 2002 with a goal of increasing industry transparency and accountability. Countries participate by issuing annual reports reconciling payments from the extractive industries to receipts by governments, in accordance with the EITI Standard. This is Papua New Guinea's fourth EITI report, covering the 2016 calendar year. In accordance with the EITI Standard, the reporting process has been overseen by a multi-stakeholder group (MSG), and has been compiled by an independent administrator, Ernst & Young (EY).

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

## About PNG

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

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

PNG's economy is dominated by two sectors: agriculture, forestry and fishing, which engages most of the labor force (the majority informally); and the extractives sector (oil and gas extraction; mining and quarrying), which accounts for the majority of export earnings.<sup>3</sup> In 2016, PNG's Gross Domestic Product (GDP) was PGK60,516.5 million.<sup>4</sup>

## What extractive industries are there in PNG?

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

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

<sup>2</sup> PNG Department of National Planning and Monitoring, Millennium Development Goals Final Summary Report 2015, [http://www.pg.undp.org/content/papua\\_new\\_guinea/en/home/iibrary/millennium-development-goals-final-summary-report-2015.html](http://www.pg.undp.org/content/papua_new_guinea/en/home/iibrary/millennium-development-goals-final-summary-report-2015.html) accessed 26 September 2017

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

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

<sup>5</sup> 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)

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



## Who owns mineral resources in PNG?

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

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

## How do the extractive industries contribute to the PNG economy?

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

Figure 1: Percentage contribution of the extractive industries to economic measures 2016

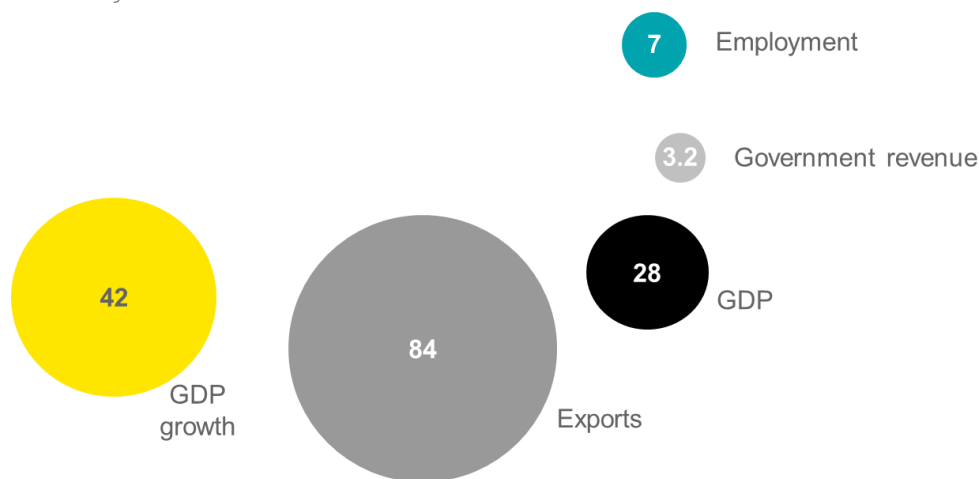
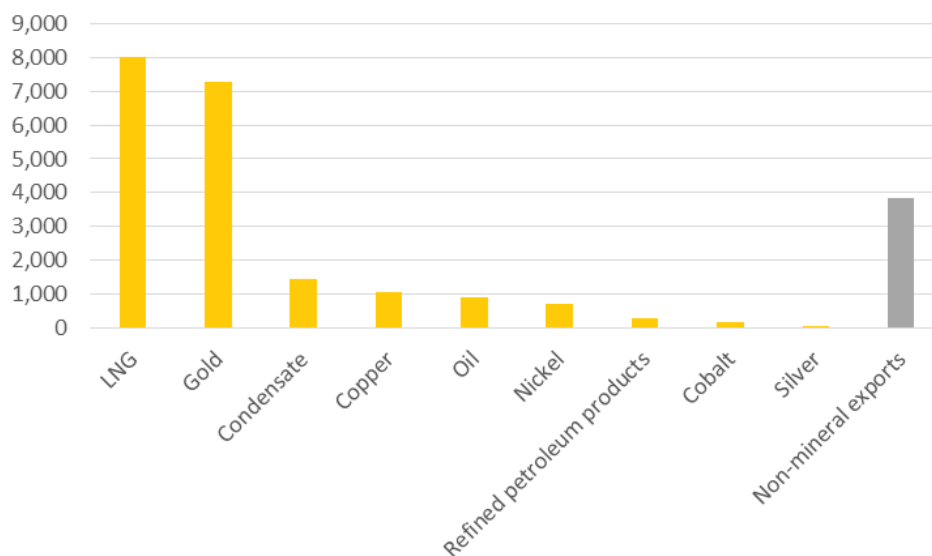


Figure 2: Mineral exports 2016 (PGK million)<sup>7</sup>



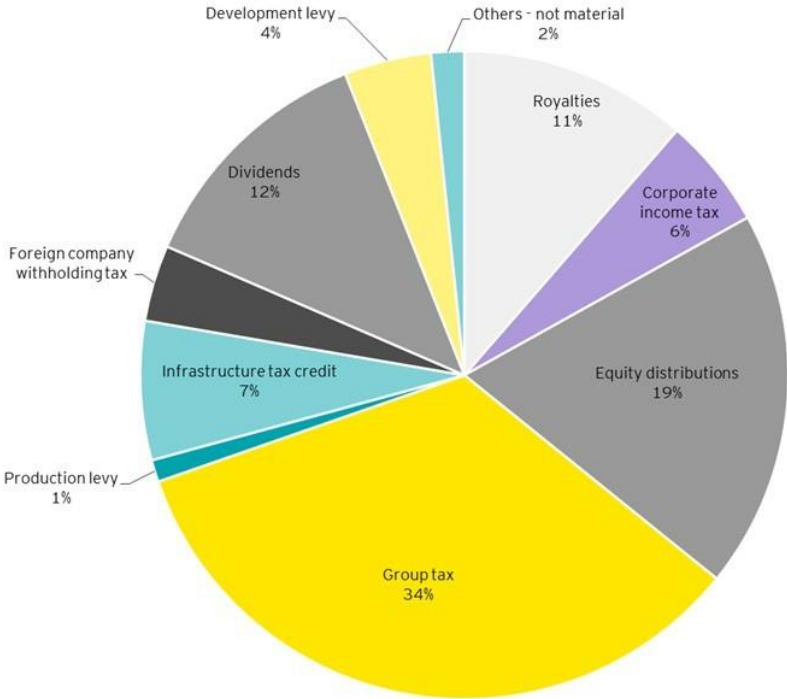
<sup>7</sup> Estimates from 2017 Budget, Vol 1, Appx 3, Table 5, p. 106, [http://www.treasury.gov.pg/html/national\\_budget/files/2017/2017%20Budget%20Volume%201%20Economic%20and%20Development%20Policies.pdf](http://www.treasury.gov.pg/html/national_budget/files/2017/2017%20Budget%20Volume%201%20Economic%20and%20Development%20Policies.pdf)

# How do the extractive industries contribute to State revenue?

The government derives income from the industry through:

taxes	such as corporate income tax and group tax	43%
dividends	derived from holding direct stakes in the industry	12%
royalties	2% of the gross revenue from resource sales or wellhead value	11%
Equity distributions	Received by state owned entities participating in the extractive industries	19%
other revenue streams	such as levies and fees	14%

Figure 3: Relative contribution of revenue streams from the extractive industries 2016



In 2016, the largest sources of government revenue from the extractive industries were group tax, equity distributions, dividends, royalties, corporate income tax and infrastructure tax credit.

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

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

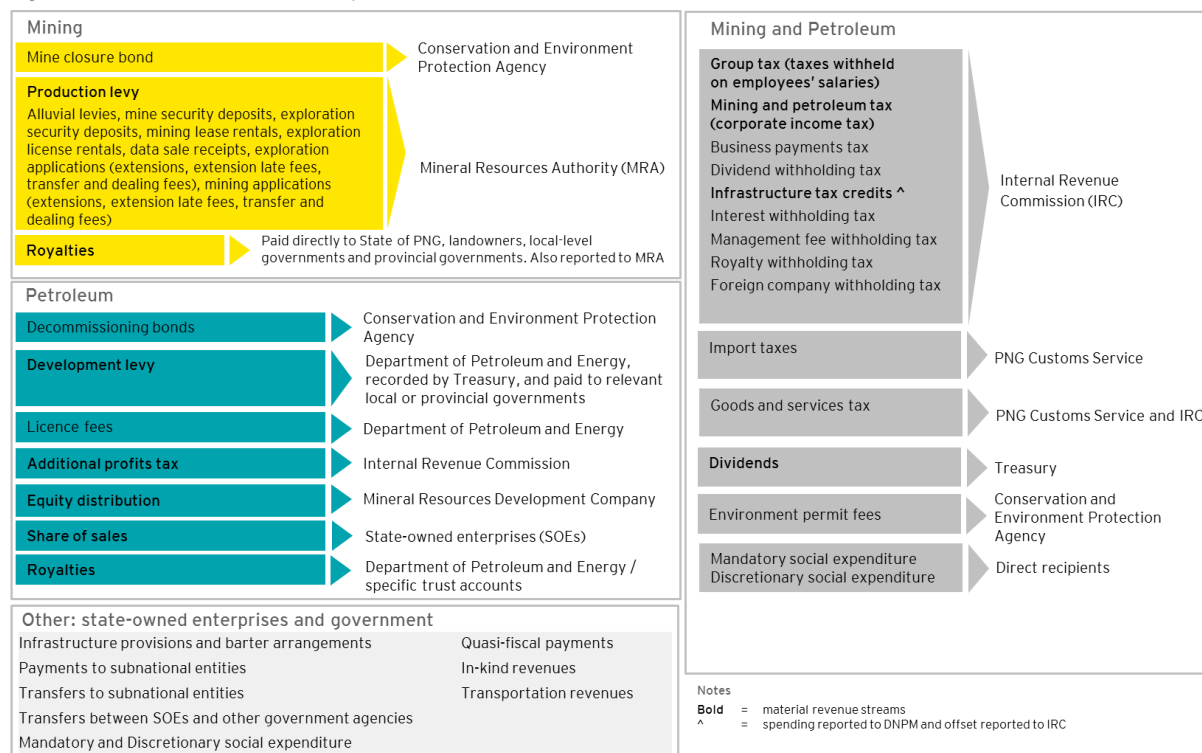
The PNG Sovereign Wealth Fund was recently established to ensure that some of the wealth generated by the extractive industries and is saved for the benefit of future generations. However, the fund is yet to come into operation.

Revenue flows to the government from the extractives industry can be volatile, as the financial performance of the individual operations can fluctuate due to factors including commodity prices, and impacts of severe weather events such as drought and flood.<sup>8</sup> This was evident in 2016, with receipts significantly lower than previous years due partly to lower commodity prices and temporary cessation of production from some major resource projects.<sup>9</sup>

## What are the revenue streams from the extractives industry?

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

Figure 4: Revenue streams and recipients



## Which revenue streams are considered material for this report?

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

## Which organisations are considered material for this report?

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

<sup>8</sup> 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

<sup>9</sup> Institute of National Affairs, PNG's Economy 2016 - past, present and future prospects.  
[http://www.inapng.com/pdf\\_files/PB%20-%20Mining%20and%20Petroleum%20Conference%20202016%20Word%202007.pdf](http://www.inapng.com/pdf_files/PB%20-%20Mining%20and%20Petroleum%20Conference%20202016%20Word%202007.pdf), accessed 9 October 2017.

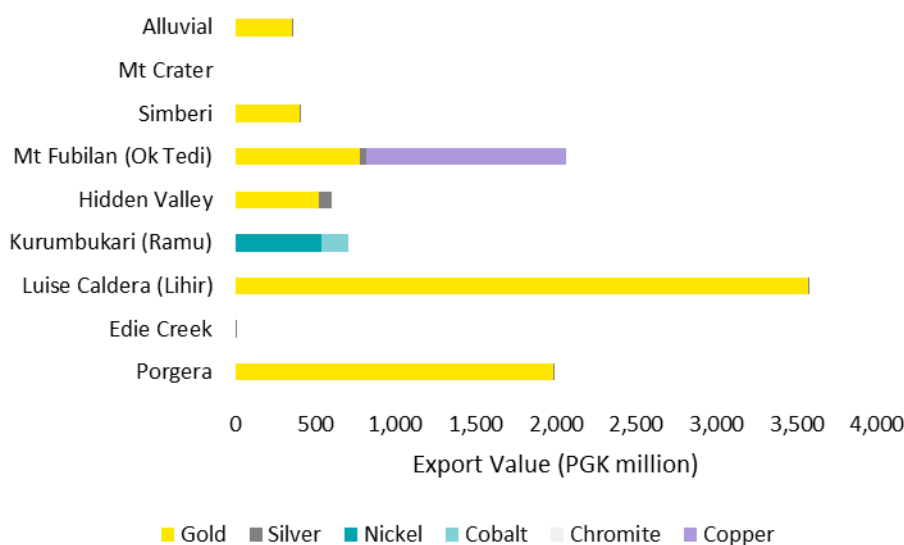
Table 1: Material reporting entities

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

## The mining industry in PNG

During 2016, eight mines were operating in PNG, distributed over a number of provinces. Companies active in mining and exploration in PNG include large international companies, state-owned enterprises, and a large number of junior companies, together with a significant contribution from up to 80,000 small-scale alluvial miners.

Figure 5: Mining exports by project, 2016<sup>10</sup>



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

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

<sup>10</sup> Figures from MRA except for Lihir figures from company

## The oil and gas industry in PNG

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

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

Gas production at scale is a new industry; the PNG LNG project shipped its first liquefied natural gas (LNG) in May 2014.<sup>11</sup> The project has design capacity of 6.9 million tonnes of LNG per annum,<sup>12</sup> 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.<sup>13</sup> The project has had significant impacts on affected communities, both positive and negative. Production figures for 2016 were sourced from Oil Search and ExxonMobil, in the absence of data from the Department of Petroleum and Energy.<sup>14</sup>

Table 2: Oil and gas production data 2016

Source	Amount reported by DPE	Amount reported by operator	Amount reported exported by operator	Total export value reported by operator (PGK)	Total export value reported in Budget (PGK)
Oil	Not provided	13,721 stbopd	5,082,671 stbo	716,988,408	893,000,000
Condensate	Not provided	308 stbopd	3,423,923 stbo	482,996,657	1,462,000,000
PNG LNG liquids	Not provided	5573 MMscf	0	0	0
PNG LNG Project LNG	Not provided	7,944,946 tonnes	Not reported	Not reported	8,013,000,000

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

### 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 2016, PNG's relevant state-owned enterprises (SOEs) were:

- ▶ Kumul Petroleum Holdings Ltd (all hydrocarbon assets)
- ▶ Kumul Minerals Holdings Ltd (all mining assets)
- ▶ Ok Tedi Mining Ltd

<sup>11</sup> '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

<sup>12</sup> 'project capacity of 6.9 million tonnes of LNG', *ibid*.

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

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

► Mineral Resources Development Company Ltd (MRDC)

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

## Beneficial ownership

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

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

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

## Subnational governments

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

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

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

## Reconciliation of revenue streams

For most revenue streams, the IA attempted to obtain data from both the paying and receiving entity, so the amounts could be reconciled. In some instances, however, the MSG agreed that data would be collected unilaterally. This can be seen in Table 4 below.

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

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<sup>15</sup> Mining Act 1992 s.16A

<sup>16</sup> The EITI Standard, 2016 - Requirement 2.5 Beneficial Ownership

Table 3: Rates of compliance with EITI reporting 2016

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

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

Table 4: Revenue stream overview

	Revenue stream	Reconciled/ Unilateral	Receiving entity	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)
Mining	Production levy	Reconciled	MRA	17,544,297	17,577,741	(33,445)	(0.19%)
	MRA fees	Unilaterally declared (MRA)	MRA	n/a	8,423,503	n/a	n/a
Oil and gas	Development levy	Reconciled	Finance (via DPE)	69,689,630	7,425,972	62,263,658	89.34%
	Licence fees	Unilaterally declared (DPE)	DPE	n/a	3,302,054	n/a	n/a
	Additional profits tax	Reconciled	IRC	471,647	0	471,647	(100%)
	Equity distributions	Unilaterally declared (KPH)	KPH	n/a	302,932,186	n/a	n/a
	Equity distributions (Oil Search shares)	Reconciled	KPH	23,396,040	822,349	22,573,691	96%
	Share of sales	Unilaterally declared (SOEs)	State partners in PNG LNG	n/a	560,086,591	n/a	n/a
Mining and petroleum	Mandatory social expenditure	Unilaterally declared (companies)	See section 6.5	183,431,808	n/a	n/a	n/a
	Discretionary social expenditure	Unilaterally declared (companies)	See section 6.5	90,372,513	n/a	n/a	n/a
	Dividends	Reconciled	State (Treasury)	200,500,000	200,500,000	0	0%
	Group tax	Partially reconciled	IRC	496,298,414	554,460,671	58,152,257	10%
	Corporate income tax	Reconciled	IRC	46,600,594	88,686,362	(42,085,768)	(90.31%)
	Infrastructure tax credits (Offset against income tax payable)	Reconciled	IRC	42,345,643	54,734,655	(12,389,012)	(29.26%)
	Infrastructure tax credits	Reconciled	DNPM	135,544,477	111,025,337	24,519,140	18.09%

Revenue stream	Reconciled/ Unilateral	Receiving entity	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)
Other taxes	Unilaterally declared (IRC)	IRC	n/a	74,930,413	n/a	n/a
Special support grants	Unilaterally declared (Treasury)	Provincial governments, special purpose authorities See section 5.7	14,700,000	n/a	n/a	n/a
Environmental permit fees	Unilaterally declared (CEPA)	CEPA	n/a	3,811,837	n/a	n/a
Royalties	Reconciled	DPE, MRA landowners and subnational governments	196,777,541	182,547,009	14,230,532	7.23%

Together, the revenue streams included in the reconciliation equate to approximately 95% of total known revenue from the sector in 2016 (see Figure 3 **Error! Reference source not found.**). Group tax was not initially included in the 2016 reconciliation based on a decision made by the MSG in 2015, at a time when these revenue streams were deemed not material.<sup>17</sup> With the PNG LNG project now in operation, this situation has changed, and the IA has included this information in the reconciliation where it was available. A recommendation has also been made to reconcile in future years along with foreign contractor withholding tax that has been shown to represent 4% of the known revenue streams for 2016.

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

## Is the data on the extractive industries revenues reliable?

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

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

## Social expenditures

Many extractive companies contribute to the communities in which they operate beyond the direct economic benefits and employment provided. These contributions may be voluntary, or may be mandated through legislation or through contracts with the government. The EITI Standard does not define 'social', and the types of payment reported by companies under this heading varied, with some including payments such as compensation or lease payments, which others classify as commercial rather than social.

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



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

### Findings and recommendations

The 2013 and 2014 PNG EITI Reports made recommendations in relation to a number of areas where weaknesses in systems, processes, or organisational capacity had the potential to materially impact on the quality, accuracy, and comprehensiveness of future PNG EITI reports. On 6 April 2017, the National Executive Council (NEC) endorsed the recommendations from the 2013 PNG EITI report. Progress has already been made against a number of these directives, some independently of the EITI recommendations. The timing of these improvements meant that not all benefits were noticeable during the 2016 reporting period, but it is expected that these changes will continue to drive improvements in the completeness and accuracy of data relating to the extractives sector in PNG for future EITI reports.

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

Additional recommendations have been made in this report, concerning:

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

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