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On the Kokoda Track: trekking towards petroleum, gas and mining tax reform in Papua New Guinea

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[PNG Tax Review Symposium, May 2014, 2.3mins, <https://www.youtube.com/watch?v=3BYPnIPCD50>]

ABSTRACT

The mining of minerals has been active in Papua New Guinea (PNG) since well before the Pacific War and knowledge of the Kokoda Track. The petroleum industry has been producing oil since 1992, and as of 2014 there are positive expectations for an economic spillover effect from the new natural gas extraction project for the export of LNG. PNG has been trekking toward tax reform since its commitment to a fiscal review in 2013. The review includes petroleum, gas and mining taxation reform options, with contributions being considered from institutions, investors and community stakeholders. Reforms acceptable to the PNG government could be part of their 2015 Budget.

This paper draws on the authors' presentation to the National Research Institute of Papua New Guinea sponsored 'Taxation Research and Review Symposium' in Port Moresby, May 2014 and it emphasises the steps in PNG's tax reform process. The background research for reform covered socio-economic trends for PNG natural resources; tax law for petroleum, gas and mining; theoretical approaches to petroleum, gas and mining taxation; concerns with PNG's natural resource taxation and global trends in natural resource taxation.

PNG's taxation of petroleum, natural gas and mining is provided for in the general provisions of the *Income Tax Act 1959* (PNG). It also contains specific

provisions for petroleum, designated gas projects and mining. A petroleum project may produce both oil and natural gas and exploration risks for both are high. However oil and gas infrastructure, production, final marketing costs and profitability profiles differ substantially. Thus the separate *Oil and Gas Act 1998* (PNG) regulates the petroleum industry, including provisions relating to the health and safety of workers. Designated gas projects are defined in the Act, which essentially exist when a gas agreement has been signed with the Minister responsible for petroleum. Otherwise the arrangements for petroleum projects apply. *The Mining Act, 1992* (PNG) regulates the mining industry. Provisions for mineral royalties and state equity participation are contained in the *Mining Act 1992* (PNG).

Investor entities might enter into resource development agreements with the State of Papua New Guinea. These agreements can modify the operation of legislation by containing negotiated, project-specific, income tax concessions. The agreement might also provide for GST, duty and tariff exemptions; the terms of any state equity participation or fiscal stabilisation arrangements; construction of infrastructure facilities, environmental management; or require training for local staff.

The paper, in particular, revisits the resource rent tax for minerals, one of the authors' recommendations for PNG tax reform. A cash flow-based resource rent tax offers a stable fiscal regime over time, which if understood, is highly valued by investors. Other petroleum and gas tax reform recommendations provide an insight into the minerals extraction industry in PNG.