



PNG RESOURCE INDUSTRY ECONOMIC CONTRIBUTION

The resource sectors are of vital importance to the PNG economy



Resources make a significant contribution to both direct and indirect state revenues in PNG which benefit all Papua New Guineans.



PNG's economy is highly reliant on the resources industry – more so than many other resources jurisdictions.

26%

The resource sectors contribution to PNG's Gross Domestic Product in 2016

20,000

Direct employees

Many more are employed in sectors dependent on resources including landowner businesses.

K24 BILLION

In 2016, 84% of the nation's export revenue came from the resource sectors

Between 2005 and 2012 when commodity prices were strong, the resource sectors contributed over one third of the Government's budget.

CONTRIBUTION TO GOVERNMENT TAX REVENUE BETWEEN 2005 AND 2012 WHEN COMMODITY PRICES WERE STRONG

CORPORATE TAX
K12,570 million
 +
DIVIDENDS
K1,537 million
 +
TCS - Equivalent to tax paid
K542 million
 +
ROYALTIES
K1,658 million

K16.31 BILLION

This is an average of over K2 billion a year

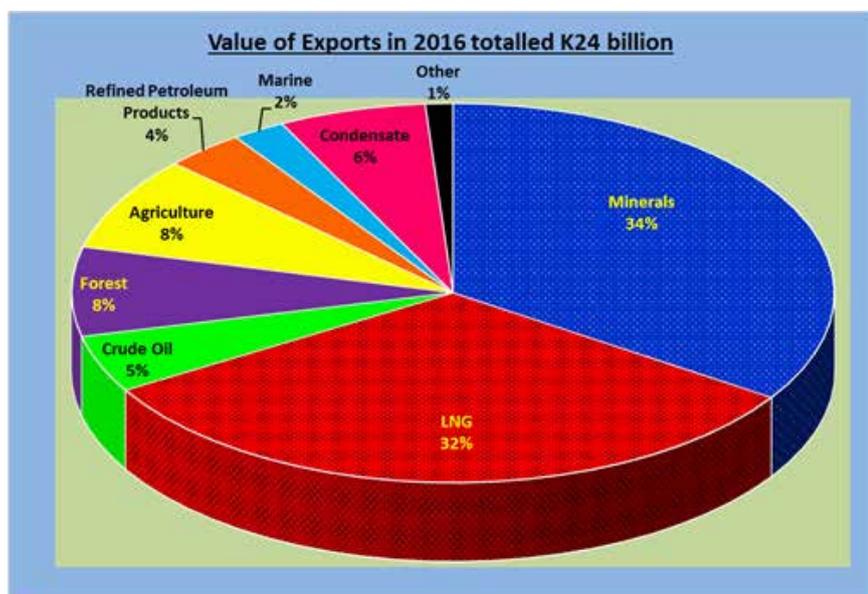
PNG is richly endowed with mineral and petroleum resources and produces a wide range of primary commodities including oil and gas, gold, copper, silver, nickel, and cobalt. PNG's resource sectors have long played a vital role in the country's economic development.

Under the Papua New Guinea Development Strategic Plan 2010-2030, the goal for the resource sectors is to double mineral exports. Given the mature nature of the major mining projects in PNG this cannot be achieved without new projects. It is therefore imperative that an attractive fiscal and regulatory regime is retained to attract new investment in PNG.

The mining and petroleum industry contributes 26% of PNG's GDP and around 84% of the Nation's export revenue which totalled K24 billion in 2016.

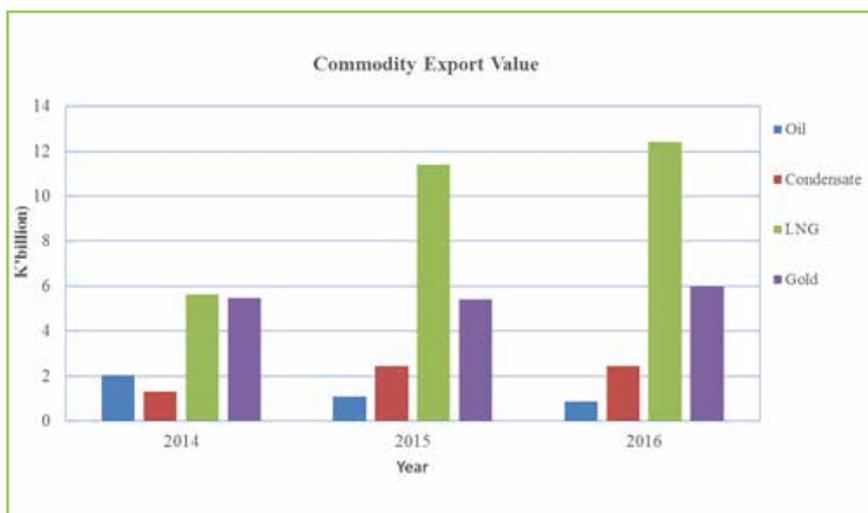
The financial contribution of the resource sectors to the PNG economy can be broadly divided into two categories:

1. direct revenues - comprising company tax, royalty, dividend withholding tax, salary and wages tax, foreign contractors tax, duties, production levy, development levies and dividends paid to the government and landowners if holding an equity interest in the project, and
2. indirect revenue - comprising of tax credit scheme projects, special support grants and development levies, employment, education and training, public health programs, business and agricultural development, and community infrastructure.



Prior to the completion of the LNG project, mining was the single largest export revenue earner; now reverting to the second largest, behind oil and gas (LNG) exports. Growth in the resource sectors has also acted as a large stimulus for growth in other sectors of the economy, including the financial sector, agriculture, telecommunications, construction, manufacturing and tourism.

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TAXES

When commodity prices were strong, the PNG mining and petroleum industry contributed over one third of government tax revenue. The industry paid K12,570 million in corporate tax, K1,537 million in dividends, K1,658 million in royalties and K542 million in the tax credit scheme (equivalent to tax paid) to the National Government from 2005 - 2012. This totals K16.31 billion, an average of over K2 billion a year.

In addition to the above taxes, the industry contributes significant amounts in salary and wages tax, duties and levies, and foreign contractors tax, as well as dividends to some host provincial governments and landowners. For example, salaries and wages tax paid directly by the resource sectors has averaged over K600 million in recent years. The figures also do not take into account taxes generated through the many providers of goods and services to the resource sectors.

In recent years, the four main taxes listed above have declined to a total under K800 million per year. The resource sectors will return to their traditional role as strong contributors to PNG's economic prosperity once commodity prices increase again but continued growth and development in the sectors will depend on continuation of supportive government policies and stable regulatory and fiscal regimes.

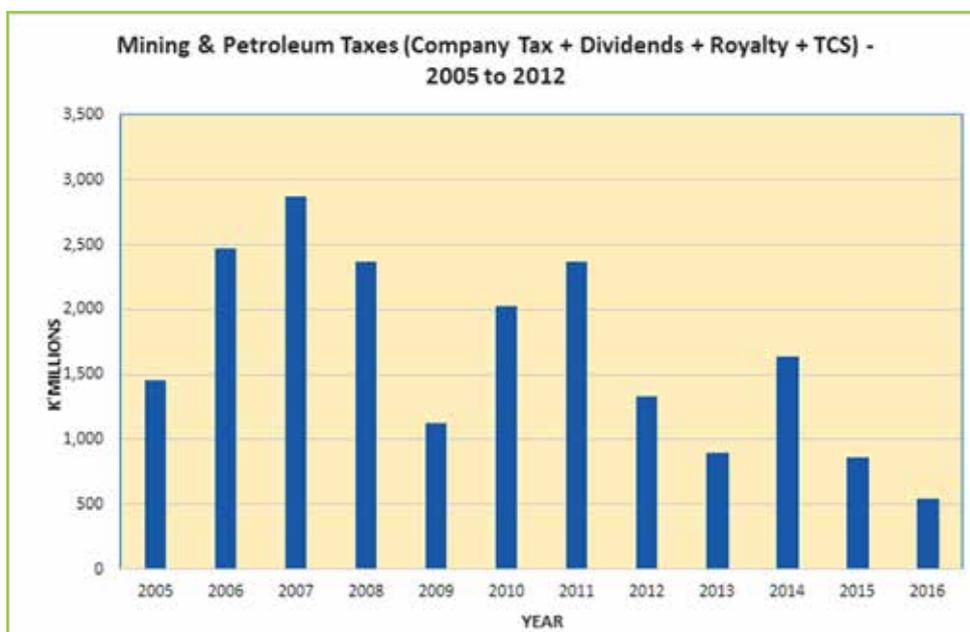
Royalties received by the National Government are



Ore being dumped into the crusher at the Porgera gold mine in Enga Province.

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all paid to the resource communities and host provincial and local-level governments. This is in accordance with a distribution formula established during the Development Forum process and enshrined in the Benefit Sharing Agreement (petroleum) or the Memorandum of Agreement (mining). Over the last five year (2011-16), these beneficiaries have received royalties from the resource sectors totalling K979 million.



MINING AND PETROLEUM ROYALTIES

Royalty is paid by every mining and petroleum project in the country at a rate of 2% of the value of production. This means that 2% of the total value of the minerals (gold, silver, copper, nickel) or the oil and gas sold are paid to the National Government.

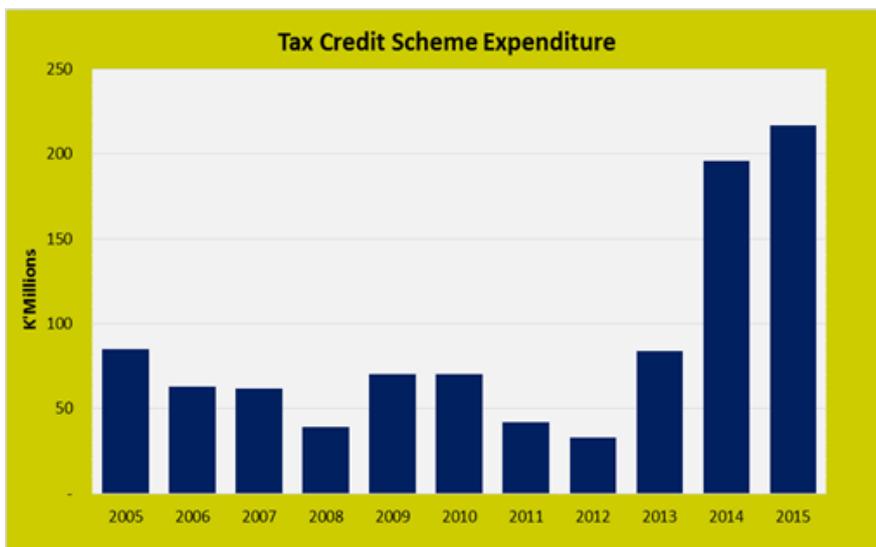
All royalties paid by the mining and petroleum projects to the National Government are passed onto provincial and local-level governments and the project landowners.

TAX CREDIT SCHEME

PNG's mining and petroleum industry spent K286 million on the tax credit scheme from 2011 to 2015.

The funds were used to maintain and construct

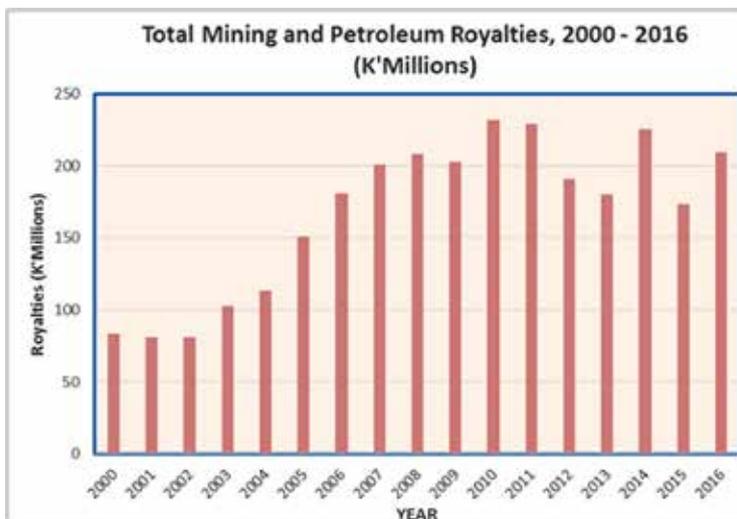
government and community infrastructure in the resource provinces, including schools and teachers' houses, law and order facilities, aid posts and health centres, roads, bridges and wharves.



EMPLOYMENT

PNG's mining and petroleum industry currently directly employs over 20,000 people. Many more are employed in businesses that depend on the resource sectors including landowner businesses which are estimated to employ at least 25,000-30,000 people.

In addition, many village people are employed short term on exploration programs around the country and 60,000-80,000 more are engaged in alluvial gold mining.



CURRENT STATUS OF THE PNG RESOURCE SECTORS

The petroleum and mining sectors continue to face tough times, both globally and locally, following the sharp fall in mineral prices in 2011 and 2012 and the sudden drop in oil and LNG prices since December 2014.

The declining fortunes of PNG's resources sector have been reflected in falling export revenues (in US\$ terms) and in government budgets that were initially hit by declining corporate taxes and subsequently further impacted by corporate restructuring that included some job shedding. Exploration in PNG has been adversely impacted and most exploration in both sectors is being done by a handful of companies, mostly majors. The junior resource companies which lack production are finding it almost impossible to raise funds for exploration on the financial markets.

Some of the PNG commodity prices have recovered some ground, notably gold, copper and oil, but are still well below the highs of the earlier years and now appear to be stuck at these new levels. Copper and nickel commodity prices will likely rebound

1. The global resource sectors are in a downturn and this is having a major effect on the PNG resource industry.
2. Major commodity prices have fallen dramatically and expenditure on exploration and development has significantly reduced.
3. This has been reflected in declining resource taxes and government budgets.

fairly strongly at some stage but there is no indication of any changes at present. LNG prices are not predicted to increase substantially until around 2024 when demand is expected to overtake the supply side excess.



RESOURCE EXPLORATION AND PRODUCTION LICENCES ARE ISSUED BY THE NATIONAL GOVERNMENT

A company that wishes to undertake exploration in PNG must apply for an Exploration Licence for mineral exploration or a Petroleum Prospecting Licence for oil and gas exploration. If approved, the licence holder is required to spend a certain amount each year and carry out an agreed work program.

An exploration title does not permit the company to extract minerals or oil and gas. This can only be done on a production licence granted after a lengthy approval process which includes completion of an Environmental Impact Assessment and the issuing of an Environment Permit.

PNG mining and petroleum companies have instituted cost cutting measures and production optimisation and efficiency programmes to decrease costs and improve output. Fortunately, these are now showing significant results with increased gold, copper and nickel production as well as record output from the PNG LNG project.

The tough market conditions and low commodity prices are likely to continue for some time and exploration expenditure, especially in the junior sector of the industry, is likely to continue to decline. This will continue to adversely impact PNG's economic outlook and substantial recovery does not seem likely for some time to come.

STABLE AND EFFECTIVE FISCAL AND REGULATORY POLICIES ARE FUNDAMENTAL TO THE WELLBEING OF THE RESOURCE SECTORS

The resource sectors have historically made a significant and important contribution to PNG's economic and social development objectives, including in taxes and other revenues, export earnings, high value jobs, infrastructure development and social development programs for thousands of Papua New Guineans.

As a result of stable and effective Government legal, fiscal and regulatory policies from 2003 until 2015 the PNG mining and petroleum industry flourished leading to the commissioning of two new mines (Ramu, Hidden Valley), the development of the world's first deep sea mining project (Solwara 1) and the commissioning of the PNG LNG project which catapulted PNG into the big league and attracted a good deal of international recognition that has re-rated PNG as an investment destination.

1. Stable and effective legal, fiscal and regulatory policies in the past have underwritten the success of the resource sectors in PNG.
2. An attractive, internationally competitive legal, fiscal and regulatory regime is fundamental to the future wellbeing and growth of the resource industry.
3. PNG's lack of infrastructure adds to resource project costs.

This is a wonderful success story that few nations of similar size have achieved and demonstrates clearly that fiscal and regulatory stability is key to attracting and retaining investment in the resource sectors, leading to a sustainable and prosperous industry. This is a record PNG should be proud of.

The continuing success of existing projects and development of new projects in the country is critical to the future of the nation. PNG is well positioned

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THE BENEFITS OF MINING AND PETROLEUM MUST BE SHARED BY ALL PEOPLE IN PNG

State ownership of minerals is vital to the development of PNG and allows resources to be developed for the benefit of all citizens as required by the Constitution. The State issues production licences over these resources and they are managed in an effective and orderly manner that is recognised internationally and accepted by the investor, whilst at the same time recognising landowners' rights to an equitable benefit share of resource development. PNG's success in resource developments speaks for itself.

THE NATIONAL GOVERNMENT HAS A RIGHT TO PARTICIPATE AS AN EQUITY PARTY IN ALL RESOURCE PROJECTS ON BEHALF OF THE PEOPLE OF PNG

On behalf of all Papua New Guineans, the National Government can acquire equity up to 22.5% in any oil and gas project and up to 30% in any mining project. The government gives 2% of this equity to the project landowners for oil and gas projects and up to 5% for mining projects

to capture the benefits early when the commodity prices recover substantially as there are a number of gas and mining projects that are currently in feasibility or post-feasibility stages. Thus there is a potential for significant development opportunities in the next three to five years, but these will not proceed unless investors are confident of the legal, fiscal and regulatory environment in PNG, including taxation.

In a global market for investment capital investors have a choice where they will invest in new projects, and this choice is driven significantly by the after tax return on a project. Resource projects face signifi-

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cant costs and difficulties in investing in PNG including infrastructure and terrain challenges resulting in high exploration and development costs, and poor global rankings for 'ease of doing business'.

PNG lags far behind major economies in the region in key infrastructure, including transport, electricity, and water supply. Resource projects are almost always located in remote regions and the need to



The Moran oil and gas production field.



The processing plant at the Simberi gold mine in the New Ireland Province.

provide project specific infrastructure is a factor considered by global investors as akin to an additional fiscal impost on the project. It is a cost not borne by resource projects in many other jurisdictions, and not a cost borne by other industries in PNG that are located in or near urban centres with better infrastructure. The infrastructure cost therefore needs to be considered as part of the fiscal settings for a resource project in PNG.

The resource industry is facing a range of revised legislation as well as major taxation changes that have already been implemented. The final outcome of the review of the Mining Act and the Mineral Resources Authority Act will be critical to future investment in mineral exploration and development. This process has already created a great deal of uncertainty in the minerals sector.

Both resource sectors are now facing a very uncertain future with serious changes to the tax regime made without any consultation with industry or seemingly without reference to the lengthy review and consultation process conducted by the Tax Review Committee. Similarly, proposals to radically change other legislation such as the Land Act, also almost without consultation with industry, erodes confidence in the stability of the overall regulatory regime.

The remainder of 2017 and 2018 will be a very difficult period for PNG economically and close cooperation and partnership between government and industry will be more important than ever.

In order to fully realise the future resource potential it is imperative that Government maintains an attractive investment regime underwritten by stable, effective, and internationally competitive legal, fiscal and regulatory policy.



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