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Increased EITI transparency very welcome – but where did all the money go?

"The Alternate Government welcomes more information being made available about resource revenues. The Extractive Industries Transparency Initiative (EITI) is a very positive step forward. The release of the 2015 and 2016 reports shows the professionalism of the EITI Secretariat and the committee which supports them. Treasurer Abel's support for the initiative is welcome, following in the footsteps of the Leader of the Opposition Patrich Pruatich, who introduced the initiative through the 2013 and 2014 reports" said the Shadow Minister for Treasury & Finance Ian Ling-Stuckey.

"International experience has demonstrated that increased transparency on resource revenues can help public understanding and reduce the risk for corruption. Indeed, increased transparency is vital for government, and that includes having leaders providing honest information on how and what things are going to its people. This is why the Alternative Government strongly supports Prime Minister O'Neill giving Ministers and Departmental Heads absent from the recent Leaders Summit a well-deserved roasting.It reminded me of his charismatic predecessor, the late former PM Bill Skate who expected nothing less but full commitment from Cabinet Ministers.

"These comprehensive EITI reports provide a very valuable source of information on how resource companies are contributing to PNG's development. As the reports are only into their fourth year, the report includes some important recommendations for making them even better. The Alternative Government strongly supports even more accurate information in future reports" said the Shadow Treasurer.

"Within these reports, important questions are raised. For example, the 2016 report in a footnote to Table 33 indicates that the government faked most of its claimed dividends from Kumul Petroleum Holdings – these were K100 million, not the K300 million that was claimed in budget papers. The remainder of K200 million was simply an "advance" or a loan to government. When will this loan be repaid? Is this loan recorded as part of the public debt? These sorts of games are why the Alternate Government are concerned about figures which appear in the 2018 budget claiming massive dividends including K300 million from Kumul Petroleum. Is most of this still really a loan which will need to be repaid?" asked Mr Ling-Stuckey.

"A positive suggestion from the Alternate Government is that these reports should also provide more "benchmark" information, including for lead projects. For example, it is difficult to breakup the "Oil and Gas sector into the contribution from the PNG LNG project and the revenues from the former oil fields of Oil Search. Combining all oil and gas projects, the 2016 report highlights that total revenue payments were K270 million based on claims of revenues paid by the companies (the government figures indicate only K190m of this was received). Specifically, the amounts claimed paid were Company taxes of K3.2m from ExxonMobil, K37m from Oil Search, K0.6m from JX Nippon; Dividends from Kumul Petroleum of K100m; Oil and gas payments from Oil Search of K23.4m; Development levies from ExxonMobil of K62.2m and Oil Search of K7.4m; and Royalties of K10.8m from ExxonMobil and K26.3m from Oil Search. Let us assume that all of this revenue was from the PNG LNG project and not earlier oil fields and compare this to the worst case scenario earlier economic analysis from the PNG LNG project. This worst case or low scenario was based on oil prices being USD36 per barrel (much lower than what has happened even after the fall in oil prices). This worst case scenario from the economic analysts for the project (Acil-Tasman) was of company taxes and royalties being K700 million per annum and dividends at least another K300 million on top of that. So why are we getting less than a third of the revenues than were expected under a worst case scenario? K270 million is so much less than the over K1 billion that was expected.

"Frankly, this is very confusing, frustrating and a fundamental issue which requires more understanding. The people of PNG deserve to receive more information on the exact levels of benefit expected under the Papua LNG project and any further trains on the PNG LNG project. When there is a more transparent explanation of exactly what revenues could be expected under different scenarios, and these are made public with assumptions and details released for scrutiny, then there may be a chance to have more faith in the big promises that too often, are made about resource projects. The EITI initiative should extend to more information on resource projects in the pipeline" said the Shadow Treasurer, Ian Ling-Stuckey.

Hon.Ian Ling-Stuckey,CMG.MP
Shadow Minister for Treasury & Finance

5 March 2018

The information provided by reporting entities and the entity receiving the dividend payments in 2016 are summarised below.

Table 33: Reconciliation of dividend payments to Treasury

Company	Amount reported paid (PGK)	Amount reported received (PGK)	Variance (PGK)	Variance (%)	Remarks
Kumul Mineral Holdings Ltd	0	0	0	0.00%	
Kumul Petroleum Holdings Ltd	100,000,000	100,000,000	0	0.00%	
Ok Tedi Mining Ltd	100,500,000	100,500,000	0	0.00%	
Total	200,500,000	200,500,000	0	0%	

Prior to the data reconciliation, Treasury has reported an additional PGK200,000,000 dividend payment amount in their reporting template. Treasury later confirmed that there was an error in their initial internal reporting. The additional amount was confirmed to be an advance rather than a dividend payment. This advance payment has not been included in the reconciliation.

The figures from the 2016 EITI report do not include Group Taxes which are the income taxes paid by employees of oil and gas sector projects. This is because the original economic analysis by Acil-Tasman did not explicitly include these personal income tax payments into the economic analysis.

Extracts from 2008 Acil-Tasman Economic Analysis of the PNG LNG project. Low case scenario of USD36 per barrel is shown by the red line. In the early years with debt being repaid, this is estimated at K700 million per annum.

ACIL Tasman

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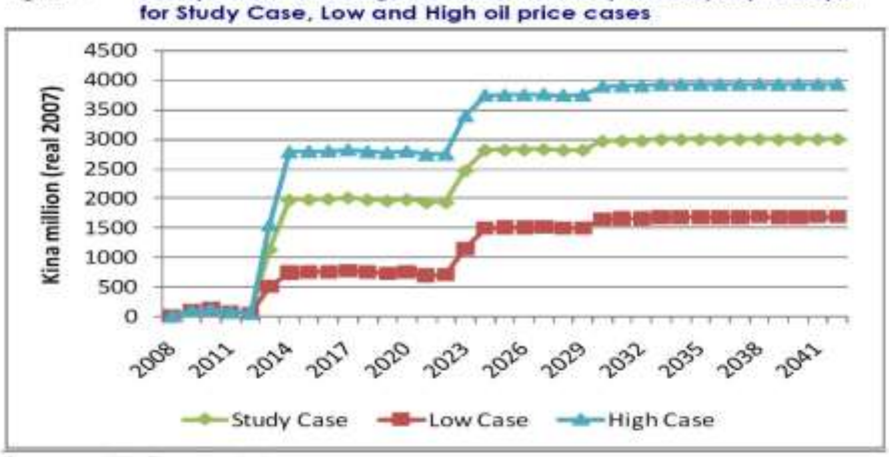
product prices to international oil prices, the high oil price case results in more revenue while the low oil price case yields less revenue. The results are summarised in Figure 9. Total annual receipts would reach about K1.7 billion under the Low Case and K3.9 billion under the High Case.

Figure 9 **Comparison of total government tax, levy and royalty receipts for Study Case, Low and High oil price cases**



Data source: ACIL Tasman analysis

Extract for Dividends figures. Low case is assumed to maximise at K870 million per year. Debt (the green bars) is shown as around – K500 million per year, so dividends in the early years should exceed K300 million.

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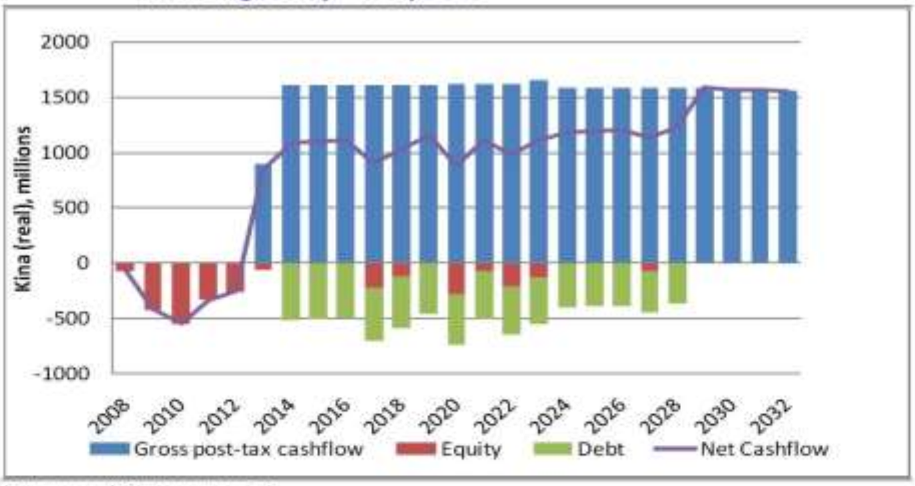
Figure 10 **PNG government equity share of net cash flow (after tax and financing costs)—Study Case**



Data source: ACIL Tasman analysis

For the Low Case the net cash flow would be a maximum of around K0.87 billion per year, while for the High Case the corresponding net cash flow would be around K2.0 billion per year.

Price assumptions used in Acil-Tasman report

The first part of the study, addressing the *direct impacts* of the project, explores three oil price/LNG price scenarios: a Study Case that assumes a long run oil price of US$65/bbl as the pricing basis for LNG and other product streams; a low oil price scenario that assumes a long run oil price of US$36/bbl; and a high oil price scenario that assumes a long run oil price of US$100/bbl. All monetary values (US$ and kina) quoted in this report are expressed in real (2007) terms.