

Fiscal Regimes of Extractive Industries (EI): Issues & Challenges in the Asia Pacific Region



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AGENDA



1. Overview of Current & Future Petroleum Activities in PNG.
2. Overview of PNG's Petroleum Fiscal Regime.
3. Main Current Challenges with PNG's Petroleum Fiscal Regime.



1. OVERVIEW OF CURRENT & FUTURE PETROLEUM ACTIVITIES IN PNG



□ CURRENT ACTIVITIES

- Strong Growth in Exploration & Development
- World-class PNG LNG Project exported first Cargo in May 2014
- 7 Million Tones of LNG Exports
- Crude Oil production: about 50,000 bbl/day
- Domestic Gas-based Power Generation
- International Investor Confidence High



Cont..OVERVIEW OF CURRENT FUTURE PETROLEUM ACTIVITIES IN PNG



□ FUTURE ACTIVITIES

- Papua LNG soon to be announced
- PNG LNG Project Expansion: Third Train
- Condensate Stripping Projects
- LPG Production
- Petrochemical Projects: Methanol/DME, Ammonia & Urea.
- Gas-fired Power Generation



2. OVERVIEW OF PNG'S PETROLEUM FISCAL REGIME.



- ❑ **Type of Regime**
 - Tax/Royalty-based system
 - First-come first-serve
 - Minister grants a Petroleum Prospecting Licence (PPL) to a successful applicant and gives the Licensee exclusive rights to explore



Cont'..OVERVIEW OF PNG' PETROLEUM FISCAL REGIME.



❑ Fiscal Regime

- Income Tax: - Oil Projects- 45%
- Gas/LNG Projects- 30%
- Royalty: 2% of Wellhead Value for both oil & gas projects
- Development Levy: Same as Royalty
- State Equity Participation: 22.5% at full cost
- Sunk Cost: allowed for up to 20 years but ring-fenced.



3. MAIN CURRENT CHALLENGES WITH PNG'S PETROLEUM FISCAL REGIME.



- ❑ **Ownership versus Control**
 - Law says the State owns all the hydrocarbon resources
 - Licensee controls and determines development and marketing
 - Domestic demand for energy and petroleum needs not easily met by domestic projects

- ❑ **State Equity Participation**
 - High cost
 - Should the State participate and at what rate?
 - Why should the State pay for a resource it owns?

- ❑ **Royalty**
 - 2% Royalty rate is the lowest in the world
 - Final royalty cash benefit significantly diluted because of the net-back factor in calculating Well-head Value.
 - Royalty benefits are paid to the State, but the State grants them to affected landowners and communities.



cont..MAIN CURRENT CHALLENGES WITH PNG'S PETROLEUM FISCAL REGIME.



❑ Sunk Cost

- 20-year period
- Cost itemization & transparency
- State pays 22.5% of cost

❑ Regulation

- Need to have a Robust Regulator
- Efficient regulation vital for investment
- Skilled/competent workers
- Adequate Resources/Infrastructure



4. CONCLUSION



- ❑ PNG is comparatively underexplored, hence its real hydrocarbon potential is yet to be unlocked
- ❑ PNG's LNG sector has strong growth potential
- ❑ PNG's Current Petroleum Fiscal Regime is internationally competitive
- ❑ Effective and efficient regulation of the petroleum sector a major challenge in PNG.



Thank you!!