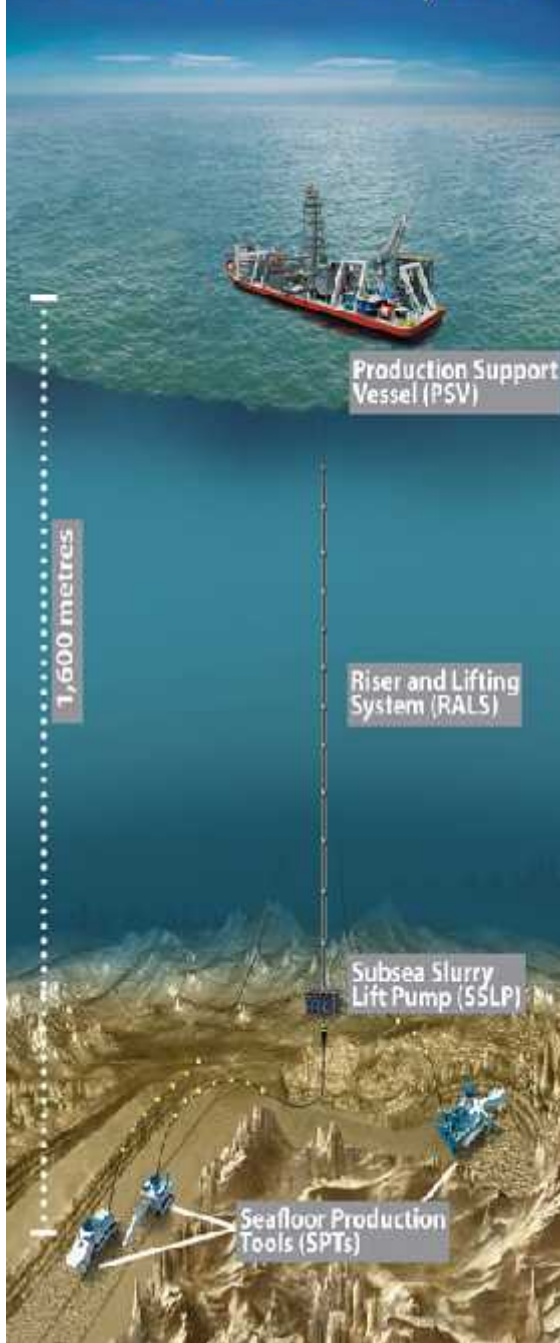


## Seafloor Production System



# DEEP SEA MINING

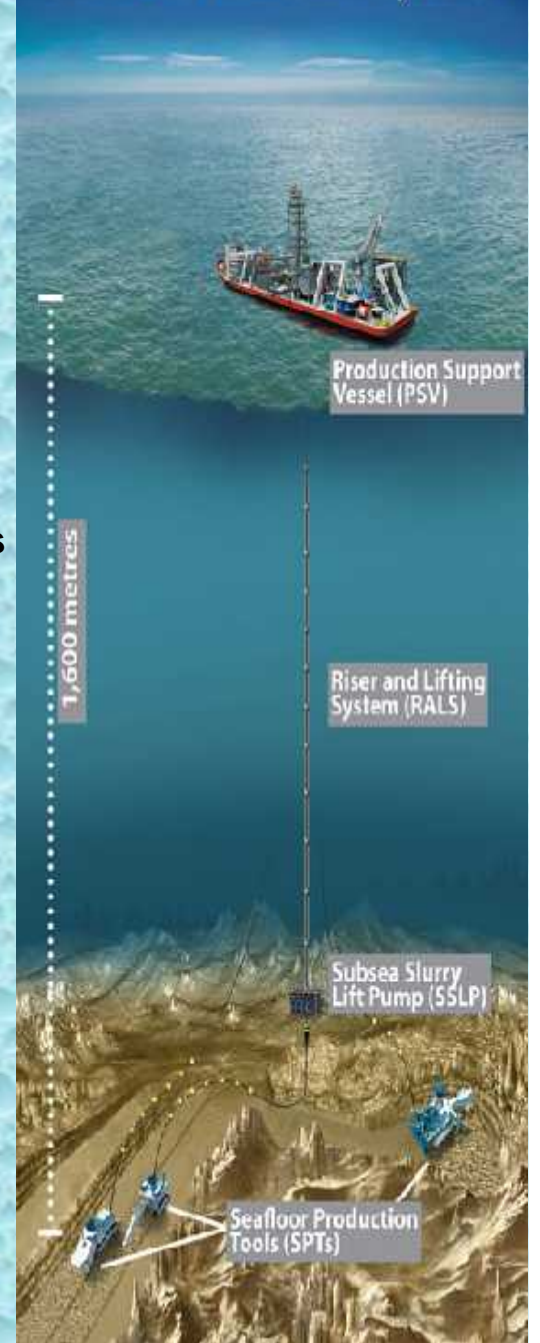


**SPC (SOPAC Division) Pacific ACP States  
5<sup>th</sup> Regional Training Workshop**

**“Deep Sea Minerals: Financial Aspects”  
13<sup>th</sup>-16<sup>th</sup> May  
The Rarotongan Hotel  
Rarotonga, Cook Islands**

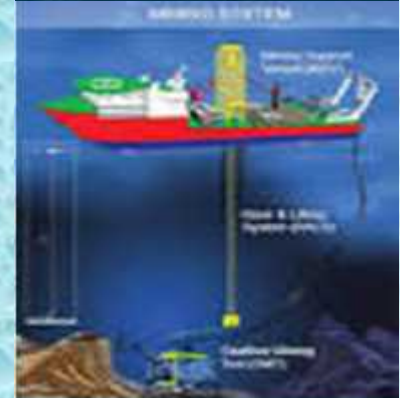
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Papua New Guinea**

## Seafloor Production System



# OUTLINE OF PRESENTATION

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  - 1.1 Institutional Restructure
2. Fiscal Provisions
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  - 2.2 Provincial Government and Landholders
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  - 3.1 Fiscal Provisions
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8. Challenges
9. Wayforward



# **1. Background**

## **1.1 Institutional Restructure**

- Restructuring former Department of Mining in 2004.**
- Creation and establishment of MRA & DMPGM.**
- MRA Regulates PNG Mining Industry.**
- DMPGM operates as policy and legislative arm responsible for providing policy & legal advice and review and development of sector policies and laws.**

# 2. Fiscal Provisions

## 2.1 NATIONAL GOVERNMENT

- **Corporate Income Tax-**
  - Resident companies **30%**
  - Non-Resident companies **40%**

### 2.1.1 OTHER TAXES

- **Interest withholding Tax** **15%**
- **Dividend Withholding Tax** **10%**
- **Production Levy** **0.025% (MRA)**
- **National Infrastructure Credits** **(NEC determines)**
- **Additional Profit Tax** **(Abolished)**

## 2.2 PROVINCIAL GOVERNMENT & LANDHOLDERS

- **State Equity Participation** **Up to 30% (5% free to LO & PG)**
- **Royalty** **2% fob**
- **Tax Credits** **0.75% of assessable annual income**
- **Special Support Grant** **0.25% of the assessable annual income**

# 3. Deep Sea Mining

## 3.1 Fiscal Provisions

- Current taxation regime and fiscal provisions and rates **apply**

## 3.2 Royalty Distribution:

- Royalties collected from the “Area” or the “High Seas” to **be** paid to the State through MRA.
- Royalties collected within National Jurisdiction to be paid to state through MRA.
- PNG Offshore Mining Policy calls for 20% to be paid to **Coastal Area of Benefit**.
  - 5% to registered and duly recognized women’s group to participate in the Women in Mining Programs.
  - 5% contributions to the future generation trust **fund**
  - 10% to the **Coastal Area of Benefit umbrella Association** for business participation on behalf of the coastal people.
- The remaining 80% is to be shared by beneficiaries. MOA negotiations ongoing with the NIPG, the ENBPG and the NG.



# 3. Deep Sea Mining (cont.)



## 3.3 State Equity Participation

- **State nominates its corporate entities to take up Equity Interests.**
- **Petromin Holdings PNG Ltd is the State nominee to take up equity interest in the Deep Sea Mining, Solwara 1 Project.**
- **The Mineral Policy allows for 5% free carried equity to be given to PG.**
- **Subject to MOA negotiations, State would consider offloading 5% to the New Ireland & East New Britain Provincial Governments.**
- **Provincial Government(s) equity interests will be managed by MRDC under subsidiary companies**

# 4. Economics

## 4.1 Deep Sea Mining estimated Benefits Solwara 1 Project.

- The Nautilus Minerals estimated for Solwara 1 project to generate estimated direct benefits to Papua New Guinea in the following terms-
  - US\$42 million Salary and Wages Tax
  - US\$42.6 million Fuel
  - US\$42.4 million Barge & Tug Hire
  - US\$14.2 million Port Services
  - US\$1.1 million Development Fund
  - US\$1.8 million Food Supplies
  - US\$25.5 million Royalties
- Total approximately US\$142 million which is equivalent to over K431 million (*ER: US\$0.3290 dated 29.04.14*).



# 5. Other Benefits

## 5.1 Deep Sea Mining indirect benefits

- Mining law and policy calls for the following benefits to be given to Papua New Guineans:
  - Employment opportunities
  - Education and Training (scholarship) opportunities
  - Community Development and Assistance
  - Goods & Services Procurement opportunities
  - Business opportunities
  - School of Excellence (Marine Scientific Research)
- First preference is given to the mine host provinces in terms of benefits listed above then to other parts of the country.

**The rationale is for our people to fully participate in the project. Skills are attained and sustainable economic independence for everyone after mine closer.**



# 6. Economic Sector Receipts

## 6.1 Mining Sector in Focus (2011)

- Mining Sector Over K9 billion (57%)
- Crude Oil Over K2.4 billion (15%)
- Fisheries Over K151 million (1%)
- Agriculture Over K3.7 billion (23%)
- Forestry Over K674 million (4%)

✓ Mining Sector is the largest contributor to the PNG Economy.



# **7. Sovereign Wealth Fund**

## **7.1 Sovereign Wealth Fund (SWF)**

- **Organic Law on the SWF gazetted on the 2.11.11.**
- **Passed by Parliament in February 2012.**
- **Funds to be parked in an offshore account.**
- **The overall objective of the PNG SWF is to:**
  - **support the development objectives of the Government including long term economic and social development;**
  - **support asset management in relation to financial assets accrued from natural resource revenue.**
- **SWF has two funds:**
  - 1. Stabilization Fund; and**
  - 2. Development(Savings) Fund.**

# 8. Challenges

- Design appropriate Fiscal Regime for Deep Sea mining
- Tax Incentives and Investment Concessions
- Type of royalty regime
- Appropriate benefit distribution mechanism including compensation for the coastal area of benefit
- Who should be included in the MOA and party to such agreements
- Regional taxation regime to cater for the movement of mining vessels from one country to another for exploration and mining.



# 9. Way forward

- PNG is currently reviewing its Taxation Regime including the extractive industry's fiscal regime.
- Commonwealth Secretariat is assisting DMPGM reviewing the PNG Mining Fiscal Regime. Expect the Final Advisory Report to be submitted by end of May 2014.
- DMPGM on behalf of the PNG Mining Sector will submit a proposal to the PNG Tax Review Committee by end of May 2014. The Commonwealth Secretariat Advisory Report will form basis of the submission.
- DMPGM will propose different Royalty Regime for the Deep Sea Mining. Again, the Commonwealth Secretariat Advisory Report will form the basis.
- The mineral policy, the Mining Act 1992 and Mining Safety Act 1977 and its Regulations are being reviewed currently. The PNG Offshore Mining Policy and other sector Policies are being developed. Mining Fiscal Regime to be included in the revised mining laws and policies.
- Expect policies to be endorsed by Cabinet and revised laws passed by parliament in the third quarter of 2014.

# Tenk yu...Em Tasol

