Dear Sir;

I would be grateful should you email me a copy of the PNG Tax Review report based on the review exercise undertaken recently.

I wish to make few comments in respect to the current petroleum fiscal regime.

1. Royalty Rates for Oil & Gas

The 2% Royalty rate is the lowest in the world. In my best view, the royalty rate for Oil should 7% at crude oil price at US$100 per barrel but should be increased to 10% when crude oil price increased above US $100 per barrel. The royalty rate for Gas/LNG Projects should be based on the same principles as oil royalty.

2. Wellhead Value calculation for Royalty

By definition, royalty is a resource rent paid by the Developer to the State but the State offloads it to the affected landowners, LLGs & Prov Govts. The reason is Project security. It is quite contradictory when this benefit is significantly diluted due to the large deductions. For example; to calculate the wellhead value, the Netback Factor concept is used where all costs attributed to producing a unit of production is deducted. Suppose a barrel of crude oil is sold for US $100.00. If the cost for producing, transporting & marketing it is US $30.00 the 2% Royalty is US$1.40 and not US$2.00. Amendments to relevant laws are required to ensure royalty payment is based on 100% of the realizedd market price. The current 5% tax on Royalty benefit must be removed.

3. Development Levy

Development levy should be treated exactly the same as Royalty as recommended above.

4. STATE EQUITY

Currently the law allows for the State to exercise its right to acquire up to 22.5% equity in all new petroleum projects. When the State agrees to buy this equity, it takes money out of its own pocket. It must pay for 22.5% of the Capital Cost plus 22.5% of Sunk Cost associated with the project. In my view, this is a huge economic blunder. Section 6 of the Oil & Gas Act asserts that the State owns all the hydrocarbon resources in PNG, yet it is an irony for the State to pay to own what it already owns. For example; in the PNG LNG Project, the State could not even off-take some gas for domestic Power Generation despite the fact that it owns the gas. Why should the State pay for something it already owns and why reimbursing the Developer for its past exploration costs or Sunk Cost. This is madness and an economic suicidal arrangement. This issue must be carefully looked at in order to come up with a more acceptable arrangement where the State does not pay anything. This could be achieved by introducing a hybrid regime with some characteristics of a PSC regime.

5. Licensing & Trading

A Petroleum Prospecting Licence (PPLs) costs only K10,000.00. This is too low. Most companies which own PPLs do not have money and so often they make big quick money for farming out an interest in the PPL. This is a grey area where licence owners trade the licence as a commodity and make millions without discovering or/and producing a single molecule of hydrocarbon.

6. Tax Holidays & Concessions

Oil & Gas business is big boys business. Hence, tax holidays and any kind of investment concessions should not be entertained.

7. Income Tax

The oil project tax rate at present is 45% and for gas projects is 30%. Ok. But we should consider how we can share the Cream in the cases where oil and gas prices jimp by over 30-50% and where the resource is extremely large.

Looking forward to hearing from you.

With regards,

Kepsey Puiye.