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Sir Nagora Bogan, KBE  
The Chairman,  
Tax Review Committee,

Dear Sir,

**Tax System : Development of Natural Resources in Papua New Guinea:**

Papua New Guinea is blessed with abundant natural resources. Many countries would envy this country. Currently these resources are being harvested and stakeholders take their share of benefits. The government collects taxes of all types and if the developers or investors declare any dividends the tax on the profit. This is complex for the landowners to appreciate. The landowner on the other hand receives royalties, levies, premiums, MOA funds, seed capital, business development funds etc. How these payments are calculated and administered is another complex system for ordinary man in the village.

We see many landowners in Port Moresby in the hope of receiving payments from the government. Many get sick and some even died waiting for the money. Where is fairness and equity. I will leave these topics or issues for landowners to debate. However landowner payments should be paid promptly and at their own towns. They don't need to travel all the way to Port Moresby.

The issue I would like to discuss in this article is about the Letters of Credits (LCs) for the export of either processed or raw natural resources. The government and the investors perhaps can throw some light for the benefit of ordinary man on the street as to what happens.

When the investor exports gold, oil, gas, nickel, fish or timber the payments are made in United State Dollars in the form of Letters of Credit. The question I am raising is , Where are these LCs cleared? In other words when the oil tanker comes to Kumul Terminal in Kikori and fills the tanker the buyer pays the investor. Into which bank does the investor deposits the payment? From some information obtained in the archives it says the LCs are cleared in either London, New York or Sydney. The investor brings into his bank in PNG only the operational funds to pay salaries and spare parts etc. Bulk of the income is retained in overseas banks.

If this is correct then PNG is the biggest loser. It seems the government has made concessions for the investor to keep the money away from PNG. Some explanation is that banks in PNG cannot handle transactions of such magnitude. This is a good excuse for the investor but what are we missing out? I cannot understand the logic when banks like ANZ and Westpac with overseas networks cannot deal with the transactions here for the investors.

My simple understanding of commerce tells me that when the revenue s from natural resources are kept in overseas banks the banks in PNG are not benefiting from the resource boom. They could be slowly drying up, liquidity problem. This would result in high interest rates on loans. The small

landowner has no chance whatsoever to even get a loan for his business. If my assumption is correct PNG will be the most pitied country in the world.

It is not good for the banks in a resource rich country to be placed in such a situation. The full LCs should be cleared through banks in PNG. This should allow the banks to have the money to lend and expand at low interest rates and assist national economy.

If I am correct that the LCs are cleared overseas, then the revenues from our resource is helping developed economies to advance further while PNG is missing out. They don't need PNG's money to develop. They have enough to build their own economies and the surplus they give aid to poorer nations.

I have been thinking about this issue for some time and decided to write this article . I would appreciate if someone could enlighten me on this issue. If I am correct, PNG is most pitied. When our natural resources are exhausted we will be begging for aid.

To conclude let me mention here that there is nothing on the ground to show for the use of our natural resources. There is no road from Kutubu to Mendi and Gobe to Mt Hagen. Porgera to wabag is not even sealed for mining the high grade gold.

Ok Tedi has done more harm to environment and the people than the benefits accrued to them while Ramu Nickel has been allowed to dump waste into people's fishing sites. We hear the development of the marine park in Madang does not include the landowners. These are just a few out of the many projects that completely ignore the people and the future of this nation.

My recommendations to the Tax Review Committee are as follows:

1. The landowners are not getting a fair return for the natural resources found in their land. A fair tax system of benefit sharing should be introduced as soon as possible before all the natural resources are depleted.
2. That all Letters of Credit be cleared in PNG banks like the Forestry sector. I believe the banks are capable of handling large transactions. It's only an excuse to say that current banks in PNG cannot handle large transactions. If that is the case, government need to license bigger banks to start in the country.
3. Should the investors in the resource sector insist on clearing LCs overseas, a tax system or penalties for every transaction be imposed.

I would be pleased to discuss the above should you consider necessary.

May God give the wisdom to deal with this great task.

Yours Sincerely

Dike Kari, OBE, ML

( I was Director of Policy and Aid Coordination with PNG Forest Authority and left in 2008. I am now with Christian Leaders College, Port Moresby Centre as Director Leadership Link Ministry.)