

Mining and Petroleum Taxation - The importance of *Getting It Right*

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Ours is a country blessed with an abundance of natural resources. These resources belong to Papua New Guinea and its people.

Mining has long been a feature of the PNG economy. With the first shipments of natural gas leaving PNG's shores in recent months, the importance of the extractive sectors to PNG's economy looks set to continue.

PNG's natural resources, however, are limited. Unlike other sectors such as fishing, forestry and agriculture, once extracted our country's minerals cannot be replaced. It is therefore essential that PNG maximises its economic return from the exploitation of these resources.

There are a range of ways that a country benefits from its extractive industries – direct employment is one such way. Yet it is a country's tax system that often has the largest role in ensuring it obtains a fair return from the exploitation of its resources.

Such regimes differ from country to country and, within PNG, there are differences between the extractive sectors (oil, gas and mining). One common feature of these systems is that they involve a taxing instrument beyond what is usually applied to businesses. In PNG, as in most countries, all companies must pay corporate income taxes – a tax on normal profits that represents their contribution to the country's revenue base. Yet extractive industries are not like other businesses – they utilise the valuable resource of the country – these resources need to be paid for.

Royalties, which are a percentage payment based on the value or quantity of a mineral, are a common feature of many systems including in PNG. In addition a number of countries have tax instruments that are used to deliver bigger returns to the state when commodity prices rise. The Additional Profits Tax, applying to certain gas projects in PNG, is one example of this. State equity in projects can also play this role.

An effective extractive industries tax regime must strike the right balance. On the one hand it needs to maximise the revenue from the extractive activity, revenues that can be used to fund the hospitals and schools of the country. On the other hand, the regime needs to be competitive – companies involved in extracting resources face significant risks and challenges and they need a fair return on their investment.

Striking the right balance is often challenging. But it is important and now is a good time for PNG to ask whether it has the balance right.

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