



PNG EXTRACTIVE INDUSTRIES
TRANSPARENCY INITIATIVE
NATIONAL SECRETARIAT



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**MNUTES OF FOURTH QUARTER MSG MEETING (MEETING # 4/2018)
FRIDAY 21 DECEMBER, 2018
10:00 AM TO 12:30 PM
LAMANA HOTEL CONFERENCE ROOM**

IN ATTENDANCE

INDUSTRY

- Richard Kassman (Total PNG Limited)
- Robert Aisi (ExxonMobil PNG Limited)
- Cornelius Soagai (Oil Search PNG Limited)
- Kepas Wali (Harmony Gold Limited)
- Susil Nelson Kongoi (ExxonMobil PNG Limited)
- Sally Dawkins (Newcrest Mining Limited)

GOVERNMENT

- Manu Momo (Department of Treasury)
- Langa Kopio (Department of National Planning)
- Ronald Maru (Investment Promotion Authority)
- Vickey Coleman (Department of Petroleum)
- Ketty Masu (Internal Revenue Commission)
- Maggy Buf (Internal Revenue Commission)
- Sonia Augustine (Department of Petroleum)

CIVIL SOCIETY ORGANISATIONS

- Wallis Yakam (CIMC)
- Arianne Kassman (Transparency International PNG)
- Martyn Namorong (PNGRGC)
- Patrick Lombaia (PNG Mining Watch Group)
- Paul Barker (INA)
- Yuambari Haihuie (Transparency International PNG)
- Melissa Wokasup (Transparency International PNG)
- Isu Aluvule (PNG Council of Churches)
- Lahui Lovai (PNG Council of Churches)

OBSERVERS/DEVELOPMENT PARTNERS/CONSULTANTS

- Margaret George (JICA PNG)
- Ryosuke Watanabe (JICA PNG)
- Stephanie Injia (KPMG)
- Shimar Saxena (KPMG)
- James Gore (Ernst & Young)
- Leonard Catalon (Ernst & Young)
- Shiro Otomo (JICA Consultant)
- Toyohiko Yogo (JICA Consultant)
- Kenji Saito (JICA Consultant)
- Kenji Otsuka (JICA Consultant)

NATIONAL SECRETARIAT

- Lucas Alkan (Head of Secretariat)
- Christopher Tabel (Media & Communications Officer)
- Vaieke Vani (Technical Officer)
- Gedion Timothy (Media Content Writer)

APOLOGIES

- Hon. Charles Abel, Deputy Prime Minister, Minister for Treasury & PNGEITI MSG Chairman
- Dr Tim Grice, Abt Consultant - Subnational payments project
- Ms Nellie James, ASI Consultant - EITI Policy & Legislation project

1. WELCOME & INTRODUCTION

Deputy Secretary for Treasury and Alternate Chair (Manu Momo) informed members of the MSG that the Chair, Hon Charles Abel who had confirmed earlier to officiate at the meeting was not able to attend due to an urgent Cabinet meeting. He therefore had delegated the task to him to chair the meeting. The Alternate Chair conveyed Minister's apology and commenced the meeting with a remark that it was good to be back, chairing the meeting after a long while. The Alternate Chair welcomed MSG members and other stakeholders to the meeting, and since it was the last meeting for the year, he thanked them for their commitment to the EITI implementation process during the year.

The Alternate Chair also extended his thanks to Ernst & Young for being the Independent Administrator for the production of the PNGEITI 2017 Report and KPMG for being the Beneficial Ownership Roadmap Implementation Manager. He also thanked JICA officials, particularly JICA engaged experts who were on a technical mission to undertake a baseline study to strengthen management of extractive revenues in the reporting entities in the country.

2. REVIEW OF MATTERS ARISING FROM THE PREVIOUS MEETING (THIRD QUARTER MEETING)

The Alternate Chair allowed some time for the MSG to go through the minutes of previous meeting. The National Secretariat (Lucas Alkan) pointed out that the heading for the meeting minute stated as 'Meeting # 2/2018', however this should read as 'Meeting # 3/2018' and advised members to take note of this minor correction.

Mr Alkan further informed that item # 2.1 in the previous meeting minutes was a repetition of the earlier meeting. He clarified that the 2014 PNGETI Report was converted into a NEC Information Paper and was subsequently endorsed by Cabinet. There being no further comments, the minutes were accepted as accurate records of that meeting.

3. PROJECT UPDATES

3.1 Presentation and approval of FY2017 PNGETI Report

The Alternate Chair invited Ernst & Young as the Independent Administrator to present the draft final report. Mr James Gore did a power point presentation for MSG's consideration and endorsement. Mr Gore presented the following key findings:

Poor compliance/response rate compared to 2016 Report

After encouraging progress in 2016, the compliance or response rate from reporting entities dropped for the 2017 reporting period. Some data was also received very late in the reporting process. The table below shows this finding:

Reporting Entities	Reporting template submitted (%)		Reporting template signed (%)	
	2017	2016	2017	2016
16 mining companies	42	75	33	38
5 oil & gas companies	80	100	80	75
5 SOEs & Trustees	40	86	40	57
9 Government entities	61	86	11	57
Total	53	84	35	58

Material reconciliation differences/variances

The Independent Administrator (James Gore) indicated that in their initial reconciliation of the revenues, the following differences/variances were noted in the revenue streams that were received:

- (i) Development levy – K8.3m under payment;
- (ii) Dividends – K281.4m over payment;
- (iii) Salary & Wages taxes – K53.6m over payment;
- (iv) Infrastructure tax credit (offset) – K24.5m over payment;
- (v) Infrastructure tax credit (actually spent) – K35.7m over payment;
- (vi) Environmental permit fees - K3.1m; over payment and
- (vii) Royalties – K41.1m over payment.

Progress on implementing the EITI Standard

The Independent Administrator informed that the report detailed PNG's efforts in meeting the 2016 EITI Standard arising from the 2018 Validation outcome. In the presentation there were a total of 27 EITI requirements that PNG was assessed on during the validation. The scores/outcome for PNG indicated that we scored 'inadequate progress' in 8 of the requirements, 'meaningful progress' in 6 of the requirements, 'satisfactory progress' on 13 EITI requirements.

Key recommendations

The independent administrator presented 8 key recommendations as follows:

- (i) Address the findings of the validation report;
- (ii) Increase data availability through PNG government web portals for licence allocation and production data;
- (iii) Improve comprehensiveness of revenue data;
- (iv) Coordinated reconciliation of sub-national payments and transfers;
- (v) Improve data quality by integrating EITI with annual financial reporting requirements;
- (vi) Data on quasi-fiscal payments within extractive sector;
- (vii) Reconciliation of PNG LNG share of sales; and
- (viii) Data on additional profits tax.

Mr Gore pointed out in his presentation that for the 2017 Report preparation, the compliance or response rate from reporting entities had dropped significantly compared to earlier rates for past reports that have been published. That was an issue of concern for the MSG address in the next report preparation.

Next steps

The independent Administrator indicated that the following matters were outstanding to finalise the report:

- Financial and non-financial data yet to be received from Total PNG Limited and Kumul Petroleum Holdings Limited (KPHL);
- Detail information on licences was still outstanding from Department of Petroleum; and
- Further work required on reconciliation of variances

Total PNG Limited (Richard Kassman) responded that they were not yet in production and therefore were unsure whether to report or not. The IA responded that all companies that were in advanced exploration and development stages were now required to report. Mr Kassman assured that Total PNG Limited will submit the outstanding data after the meeting. He further suggested that the National Secretariat organises with the Chair and Minister for Treasury to issue a letter to all advanced exploration companies informing them of the requirement to report so that they can participate.

MSG members were concerned at the decline in the compliance/response rate for the 2017 report preparation and noted that this was a challenge that needed to be addressed at the MSG level to improve for the next report.

Resolution:

After the presentation and deliberations on the MSG accepted and approved the draft PNGEITI FY2017 Report in principle and advised the Independent Administrator to work with the National Secretariat to resolve the outstanding matters and publish the Report before December 31 to meet the reporting deadline.

3.2 Beneficial Ownership (BO) Roadmap Implementation

The Alternate Chair invited KPMG as the BO Roadmap Implementation Manager to provide an update on the project. KPMG (Stephanie Injia) informed that they were undertaking phase 2 of the project that comprised of 21 milestones divided into 4 parts implemented in parallel to each other. Phase 2 of the project commenced from July 2018 and will end on July 2019.

Four components of project milestones

The four parts of the project milestones presented were as follows:

- (i) Raising public awareness
KPMG informed that 3 roadshows out of 5 have been conducted throughout the country in the Southern, Momase and NGI regions. There was active involvement by MSG members in all roadshows that were conducted.
- (ii) Mapping and obtaining BO disclosures
KPMG indicated that they were also working with stakeholders and others to map out how to obtain the required company details for purpose of BO disclosures.
- (iii) Liaise with relevant stakeholders to produce hybrid BO reporting forms for company registrations
KPMG has been working closely with IPA, IRC and FASU in the development of the hybrid form that will capture BO disclosure information through the company registration process.
- (iv) Embedding BO reporting into existing legislations
KPMG pointed out that the existing laws and legislations needed to be amended to enable BO disclosures.

Ongoing disclosure challenges

KPMG has been using shareholder information that is publicly available to narrow down beneficial owners from various key extractive entities. Although throughout the course of this action, there has been several hindrances.

The shareholders of extractive entities that were recorded above the threshold of 5% were in fact custodian holders and not 'beneficial shareholders' per say. Therefore, in order to proceed further, extractives needed to provide shareholding information of entities which hold shares directly and not through custodian holders. However, if in the event one of the major shareholders is a custodian holder, then it will be required to obtain the shareholding information of their custodians, underlying customers which possess shares above the threshold. KPMG expressed that this is in itself a mammoth task.

3.3 Sub-national payments and transfers scoping study

The Consultant was not available to provide an update on this study, however a copy of the first draft of the report that was presented recently to the MSG in November, 2018 was circulated for member's information.

The Sub-national payments study

The presentation outlined that the sub-national payments scoping study was a partnership project between the PNGEITI and the Pacific Leadership and Governance Precinct. The study was to:

- Identify and map the subnational payments and transfers in PNG's extractives sector;
- Document stakeholder views on enhanced sub-national reporting through PNGEITI; and
- Develop a reporting framework and roadmap for PNGEITI subnational reporting.

Methodology and Approach

The approach and methodology of the study included:

- Consultation meetings with stakeholders in Port Moresby who have a role in sub-national payments, transfers, or governance in the extractives sector;
- Data and information requests sent to all national stakeholders who play a direct role in sub-national payments and transfers;
- Online extractive payments and transfers dashboard developed to analyse subnational payments;
- Subnational workshop held in Kavieng in May 2018; and
- Case studies carried out in Lihir Gold Mine (New Ireland), Ok Tedi Mining Limited (Western Province), PNG LNG Project (Hela, Gulf, Southern Highlands, Western and Central Provinces) and Geo-Pacific in Woodlark Island, Milne Bay Province.

Stakeholder Views

The views of stakeholders consulted were as follows:

- Strong, almost unanimous (explicit) support for PNGEITI subnational reporting;
- Sub-national governance/coordination is key;
- Inclusion of landowner associations and businesses, local CSOs, development foundations and all levels of sub-national governments;
- Keep materiality levels low;
- Go beyond payments and transfers to also include project MOAs, expenditure and social and environmental impacts;
- Challenges include institutional capacity, training and concerns on accessing sub-national funds.

The draft report also contained details on the proposed payment categories in the extractives sector that will be in use, details on an on-line subnational payments dashboard that was developed for the study, the total revenue from the extractives sector from 2013 to 2016 totalling K11.85 billion (This included K7.42 million in payments to national level stakeholders and K4.3 million in payments to sub-national entities), sub-national payments by sector, level, category and by company.

The draft report also detailed the subnational recipients (also including the NEFC functional grants). The report documented findings from 4 case studies including: Ok Tedi Mining Limited Lihir Gold Mine, Woodlark and the PNG LNG project.

A workshop was also held in Kavieng on 'Governance, transparency and reporting in the mining sector' in May 2018. One of the focuses of the workshop was to identify opportunities to improve the reporting of mine derived payments including considering the potential to extend PNGEITI to the provincial and local levels.

PNGEITI Sub-national Reporting Framework.

Based on the analysis and findings of the scoping study, the following key questions have been put forward in an attempt to map out a framework for PNGEITI sub-national reporting:

- (i) Should PNGEITI implement subnational reporting?
- (ii) What sub-national governance structure should PNGEITI develop?
- (iii) Who should participate and report?
- (iv) How should materiality be defined?
- (v) What should be reported?
- (vi) How sub-national reporting should be rolled out?

Recommendations

The Scoping Study made the following recommendations:

- (i) Develop, resource and implement a plan for PNGEITI Subnational Reporting in the extractive impacted provinces
- (ii) Establish PNGEITI Sub-national MSGs with links to PNGEITI MSG and Secretariat
- (iii) Include subnational government entities and non-government entities;
- (iv) Set quantitative and qualitative materiality thresholds
- (v) Standardised payment categories for social payments, allow for reporting of expenditure and MOA commitments.

The National Secretariat (Lucas Alkan) informed that the full draft report was with the Australian High Commission for their clearance before released to the MSG for consideration in the first quarter of 2019. Members were advised to refer to the copy of the presentation in their meeting folders for full details.

3.4 JICA Technical Cooperation Program on Resources Related Revenue Management Project

The Alternate Chair invited JICA consultants to provide an update on the project. The Consultant outlined the project framework, an outline of the project, project purpose and its overall goal, project contribution and the implementation structure.

Project Framework

JICA expert indicated that the purpose of the project was to ensure that revenue management, and reporting was in accordance with the EITI International Standard.

Outputs

The outputs under the project would be:

- Enhance and improve management of relevant data and information in the Department of Petroleum;

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- Enhance reporting mechanism among extractive companies and government agencies (mainly PNGEITI Secretariat); and
- Enhance the EITI implementation structure and promote awareness in the country.

Project Period/Duration

The project is anticipated to take 3 years to complete and should end in December 2020.

Overall goal

The overall goal of the project would be to improve management of resources related to revenue in PNG.

The project will assist in implementing the recommendations from the 2016 PNGEITI Report and also the recommendations from the validation report, including the corrective measures.

3.5 World Bank funding program

There was no official from the World Bank office to provide an update on the promised funding support to implement the PNGEITI work program. The National Secretariat (Lucas Alkan) informed that the K5.3 million grant promised by World Bank in 2016 has not been drawn down yet due to the Bank's internal bureaucratic process.

3.6 PNGEITI National Policy Framework & Legislation

National Secretariat (Lucas Alkan) informed that the consultants from Adam Smith International (ASI) were not present to provide an update on the above project. However, Mr Alkan advised that not much was undertaken following the update made during the Third Quarter MSG meeting. During the Third Quarter MSG meeting, the National Secretariat was tasked work with the consultant to draft the PNGEITI National Policy Framework and the NEC Submission for Cabinet's consideration and endorsement of the Policy Framework.

Mr Alkan informed that both draft documents referred to above were completed and were circulated to the MSG in advance for their feedback before the meeting. He also advised that same copies were in their meeting folders. He also informed that notices were placed in the local newspapers and on the website, seeking inputs from the general public on the draft PNGEITI National Policy.

Mr Alkan requested if the MSG could provide their feedback before the documents were finalised for the Minister to endorse for submission to Cabinet.

4. VALIDATION OUTCOME FOR PNG AND NEXT STEPS

National Secretariat (Lucas Alkan) informed that the EITI International Board in its meeting in Dakar, Senegal in October, 2018 considered PNG's validation Report and granted 'meaningful progress'.

Mr Alkan informed that the Board commended Papua New Guinea's efforts to move from reports to reforms by ensuring, through high-level government directives, swift

follow-up on PNG EITI recommendations. The Board encouraged Papua New Guinea to sustain progress on key reforms, including systematic disclosures of license information through the digitization of the petroleum register, and to strengthen follow-up on recommendations related to improving accountability in the management of trust accounts holding resource revenues, in the oversight of subnational payments, and in the governance of state owned enterprises.

The Board recognised the MSG's satisfactory progress in ensuring appropriate multi-stakeholder oversight of EITI implementation and aligning objectives for EITI with national priorities. It also lauded the country's efforts to produce timelier EITI data and to actively disseminate the findings of EITI Reports to influence public debate. The Board welcomed the government's commitment to strengthen government systems by using the EITI process as a diagnostic tool to support reforms. As part of improvements of such systems, the Board encouraged Papua New Guinea to pursue efforts to systematically disclose data required by the EITI Standard as part of routine government and company disclosure systems.

The Board has determined that Papua New Guinea will have 18 months (i.e. until 30 April 2020) before a second Validation to carry out corrective actions regarding the requirements relating to; License allocations (#2.2), License register (#2.3), State participation (#2.6), Production data (#3.2), Export data (#3.3), Comprehensiveness (#4.1), SOE transactions (#4.5), Direct subnational payments (#4.6), Data quality (#4.9), Distribution of revenues (#5.1), Subnational transfers (#5.2), Mandatory social expenditures (#6.1), SOE quasi-fiscal expenditures (#6.2), Outcomes and impact of implementation (#7.4). Failure to make any progress with considerable improvements across several individual requirements in the second Validation will result in PNG being suspended in accordance with the EITI Standard.

PNG Resources Governance Coalition (Martyn Namorong) commented that the EITI Board's decision in granting 'meaningful progress' was much better than expected. The National Secretariat (Lucas Alkan) was also of the view that assessment on PNG's performance in implementing the EITI was not bad and reflected the efforts and commitment by MSG members and other stakeholders involved agreed.

Resolution:

It was resolved for the MSG through the National Secretariat to come up with possible options to take corrective actions on the validation outcome in the next 18 months before the second validation.

5. NATIONAL SECRETARIAT MATTERS

The Alternate Chair asked the National Secretariat to talk on Secretariat matters.

5.1 2018 Third Quarter financial statement & 2019 Budget Allocation

The National Secretariat (Lucas Alkan) presented the third quarter financial statement (as at 30th September, 2018) for the Secretariat operations for MSG members' information. The statement showed an opening balance from the third quarter of K3,772,761.17 (K3.8m) and a closing balance of K3,004,827.09 (K3.0m) after accounting for the expenses for that quarter.

Mr Alkan also informed that for the 2019 financial year, the PNGETI National Secretariat was allocated K2.7 million by the Government in the 2019 National Budget.

5.2 Draft 2019 PNGETI Work Plan

The National Secretariat (Lucas Alkan) circulated the draft 2019 Work Plan for members' consideration and endorsement. Mr Alkan informed that the draft plan was circulated to the MSG through the email for feedback well in advance before the meeting. The Alternate Chair (Manu Momo) requested if there were any feedback before it was endorsed. Due to no feedback, the Plan was endorsed in principle for use.

5.3 Publication of Third Quarter PNGETI Newsletter

The National Secretariat (Lucas Alkan) circulated the draft Newsletter for members' information. Mr Alkan stated that the newsletter would be released after few edits have been made.

6. ANY OTHER BUSINESS

Institute of National Affairs (Paul Barker) informed the MSG to the effect that for the 3 way partnership to function effectively, there does need to be some resources made available for the civil society component as there was in the first instance, which was used by CIMC/PNGRGC with engagement with the civil partners and for some of the provincial dialogues.

The National Secretariat (Lucas Alkan) shared this concern that for the EITI to make meaningful impact in the country, there should be active participation by the civil society group. He said currently the civil society stakeholder constituency does not have the capacity to participate effectively and needed support in terms of resourcing.

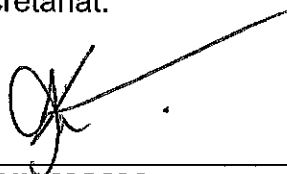
The Alternate Chair noted these concerns and assured that the matter would be looked into to find ways of assisting the civil society constituency to build the capacity to participate effectively at the MSG level.

Resolution:

It was generally agreed that the National Secretariat will work with the CSO constituency to find ways of addressing the current capacity issues.

Finally, the respective meeting participants who attended the Jakarta BO Peer Learning Workshop and the Sydney Mining and Petroleum Conference verbally commented on their attendance.

There being no other businesses for discussion the meeting closed at 12:15 pm. It was informed that the details of next meeting would be advised by the National Secretariat.



MANU MOMO

Alternate Chairman & Deputy Secretary for Economic Policy
Department of Treasury