

**MINUTES OF DELAYED FIRST QUARTER MSG (MEETING # 01/2021)**

**MONDAY, 05<sup>TH</sup> JULY 2021**

**10:00 AM – 1:30 PM**

**LEVEL 05 CONFERENCE ROOM, THE TREASURY BUILDING**

**IN ATTENDANCE**

**Government**

1. Channan Kumalau – Department of Petroleum & Energy (DPE)
2. Jimmy Haumu – Department of Petroleum & Energy (DPE)
3. Vicky Coleman – Department of Petroleum & Energy (DPE)

**Industry**

1. Professor Albert Mellam – PNG Chamber of Mines & Petroleum (PNG CMP)
2. Leah Warupi-Morlin – PNG Chamber of Mines & Petroleum (PNG CMP)
3. Samuel Koyama – Exxon Mobil PNG Limited (EMPL) - online
4. Richard Kassman – Total Energies EP PNG Limited & President of PNG CMP - online
5. Kepas Wali – Harmony Gold (PNG) Exploration Limited - online
6. Cornelius Soagai – Oil Search (PNG) Limited - online
7. Osbourne Karmie – Kumul Petroleum Holdings Limited (KPHL) – online
8. Malcom Negints – Kumul Petroleum Holdings Limited (KPHL) – online
9. Vele Rupa – Mineral Resources Development Company (MRDC) - online
10. Anna Madgwick – Newcrest Mining Limited (NML) – online
11. Harold Duigu – Ok Tedi Mining Limited (OTML) - online

**Civil Society Organisations (CSOs)**

1. Paul Barker – Institute of National Affairs (INA)
2. Arianne Kassman – Transparency International PNG (TIPNG) - online
3. Barbara Ruin – Transparency International PNG (TIPNG) - online

**Development Partners / Consultants / Observers**

1. Dr. Wilfred Lus – World Bank (WB) - online
2. Takihiro Yokota – JICA PNG
3. Fiona Silo – JICA PNG
4. Toyohiko Yogo – JICA Expert Team (online)
5. Harumi Toyama – JICA Expert Team (online)
6. Kenji Otsuka – JICA Expert Team (online)
7. Leonard Catalon – Ernst & Young (EY)
8. Matthew Savage – Ernst & Young (EY) online
9. Paul Kiruwi – Kuna Taberia Kiruwi Accountants & Advisors (KTK)
10. Mary Jane S. Valles – BDO PNG

**National Secretariat (PNGEITI)**

1. Lucas Alkan
2. Francis Diakon
3. Sonia Kenu-Becks
4. Naomi Puipui
5. Gedion Timothy

**NOT REPRESENTED**

1. Department of Treasury (DoT)
2. Internal Revenue Commission (IRC)
3. Mineral Resources Authority (MRA)
4. Department of Prime Minister & National Executive Council (PMNEC)

5. Department of National Planning & Monitoring (DNPM)
6. Department of Finance (DoF)
7. Department of Mineral Policy & Geohazards Management (DMPGM)
8. Auditor General Office (AGO)
9. Kumul Consolidated Holdings (KCH)
10. PNG Resource Governance Coalition (PNG RGC)
11. Consultative Implementation & Monitoring Council (CIMC)

## **1. WELCOME & INTRODUCTION**

The National Secretariat (Lucas Alkan) welcomed MSG members to the delayed First Quarter MSG Meeting for 2021. Mr Alkan said the meeting was purposely to seek approval from the MSG to endorse the FY2019 Report, hence most agendas circulated earlier have been amended. He further informed that Mr. Channan Kumalau from the Department of Petroleum and Energy (DPE) would be Acting Chair. Mr. Kumalau welcomed everybody who were present both physical and online and allowed participants to introduce themselves before the meeting commenced.

## **2. REVIEW OF MATTERS ARISING FROM MINUTES OF MEETING #03/2020**

The Acting Chair (Channan Kumalau) allowed some time for members to review the Third Quarter MSG Meeting minutes. There were no comments and members were in-agreement with the minutes. PNG Chamber of Mines and Petroleum (Albert Mellam) moved that the minutes be accepted as written and Harmony Gold (Kepas Wali) seconded the motion. The minutes were accepted as true records of that meeting.

## **3. PROJECTS UPDATE**

### **3.1 Approval of FY2019 PNGEITI Report for Publication**

Acting Chair invited the Independent Administrator (Ernst & Young) to provide an update on the project. The IA (Leonard Catalon) presented the Final Report for MSG's consideration approval. In his presentation, Mr Catalon outlined the following: An Overview; Observation; Key Findings and Recommendations; Report Structure and Outstanding Matters. These were discussed in the manner as recorded below:

#### **(i) Overview**

Mr Catalon said that significant improvements were made on the 2019 PNGEITI Report since the 2016 validation as a result of continuous engagement with reporting entities. He encouraged reporting entities to continue working closely with the IA for a quality and comprehensive report despite a number of gaps that were identified for actions to be taken. Mr Catalon also recommended that the final report be published culminated from the concerted efforts made to close off the remaining gaps in preparation for the second validation, mainly focusing on the areas of inadequate progress.

#### **(ii) Observation**

From the 2019 Report, the IA noted significant discrepancies or variances (in Salaries and Wages Tax, Corporate Income Tax, Foreign Contractor Withholding Tax) on the revenue streams due to internal reporting errors. For instance, the application of GST refunds was not clearly guided for reporting purposes and variances occurred due to foreign exchange transaction differences.

Mr Catalon urged DPE to continuously engage in the report preparation process by providing updated information and data on the production values to be disclosed. This was because production values differed from commodity values being reported by the oil and gas companies. Mr Catalon pointed out that the reconciliation of equity distribution and share of sales were not reconciled in previous reports. However, these were now being disclosed in the 2019 Report and reconciled between the reporting entities and recipients of the revenues. Mr Catalon expressed his gratitude, on behalf of the IA towards reporting entities for the significant improvements made in providing such relevant information for the 2019 Report as a result of continuous engagement.

Mr Catalon informed CEPA to improve its financial disclosure process as CEPA has not been reporting a number of payments it has been receiving from the extractive companies in the reporting templates provided to them. This was a re-occurring issue and Mr Catalon strongly recommended CEPA to engage in the EITI reporting process for greater transparency. Mr Catalon also urged that CEPA should consider environmental reporting as encouraged by the EITI Standard. Mr Catalon recommended that the Auditor General's Office (AGO) undertook testing of various revenue streams received by government entities to provide some level of credibility in the unaudited financial numbers prior to the finalisation of the EITI reports. This action was required because a number of government departments and some SOE's that participate in the EITI reporting process do not have their financial reports audited, including the financial year 2019. Mr Catalon stressed the significance of audited financial reports as this would affect the credibility and quality of the EITI reports. On the compliance or response rate from reporting entities, Mr Catalon commended that the 2019 Report

preparation had received 100% response rate. Despite this, there were still inadequate or incomplete information provided by those responded and needed to be improved on. Mr Catalon indicated that there were other issues that needed to be worked on to improve the comprehensiveness and quality of the next report (FY2020 Report). He however, discussed the ones that were sighted as having made inadequate progress in the 2016 Report as outlined below:

- (a) Licence allocations  
MRA and DPE needed to disclose licencing information in other public portals like (MRA, DPE and PNGETI) for public consumption. MRA's licencing information needed to be updated to 2020 and 2021 period. DPE also need to publish licencing information in other portals as well.
- (b) Beneficial Ownership (BO) Disclosure  
BO disclosure report was published already and links have been included in the report.
- (c) Mining production data  
Information was disclosed in the mining section of the report, though figures remained inconsistent.
- (d) Oil and gas production value  
Disclosure of oil and gas production values still remains a challenge and information should also be available for public consumption and for any government agencies to access information as well.
- (e) Comprehensiveness  
The comprehensiveness of the 2017 to 2019 reports and revenue streams have been addressed but still needed improvements on the credibility and reliability of revenue data and therefore, testing of revenue receipts by government agencies and departments was required.
- (f) In Kind Revenues  
Subnational payments framework to be completed by reporting entities and this included cash and in-kind payments to sub-national levels of government.
- (g) Barter Agreements  
This was not noted in the 2019 Report
- (h) Transportation Revenues  
This was not noted in 2019 Report
- (i) Distribution of Revenues  
The AGO's role to establish the current status of the audit of government and SOEs accounts should be published in the financial years 2020 to 2021 PNGETI Reports.
- (j) Subnational Transfers  
Information on the distribution of revenues and of funds managed by MRDC have been provided and have been updated in the 2019 Report.
- (k) SOE Quasi-fiscal Expenditures  
The SOE Scoping Study currently underway and once finalised would assist the IA to identify any quasi-fiscal expenditures that were not noted in the PNGETI Report.

### **Key Findings and Recommendations**

The IA (Leonard Catalon) presented its key findings and recommendations as contained in Chapter 11 of the 2019 Report as follows:

- a) Address the findings of the validation report  
This was not completely addressed due to the continuous improvements being made based on the 2018 Validation report.
- b) Data collection  
The IA indicated that there were late submissions of templates from reporting entities, hence it was recommended that submission of reporting templates in a timeliness manner for production of a comprehensive report was important.
- c) Presentation of government revenue  
The IA recommended the National Secretariat through the MSG to find an appropriate way of presenting government revenue streams to be understood by all reporting entities for ease of lengthy discussions.

- d) **Reconcile mandatory and social expenditures**  
The IA informed that other countries were already reconciling these expenditures. Therefore, it was recommended that the National Secretariat through the MSG considers reconciling this category of social expenditures in future reports.
- e) **Increase data availability through the PNG Government web portals for licence allocation**  
Mr Catalan indicated that license information has yet to be fully available for the public. Disclosing this on a public portal would greatly increase transparency and comprehensiveness of licence information.
- f) **Assurance and compliance reviews over royalties and levies**  
The IA noted that initial variances could be minimised or prevented if there were pre-assurance and pre-compliance reviews done between reporting entities. Therefore, the IA recommended that undertaking regular assurance and compliance reviews on royalties and levies would greatly assist.
- g) **Improve comprehensiveness of data**  
The IA recommended the AGO to test government revenue receipts to improve the credibility of the numbers used in the PNGEITI report and also to improve data comprehensiveness and quality.
- h) **Improve consistency of data reported**  
The IA noted inconsistency in the production and export data from MRA and DPE. The IA therefore recommended that MRA and DPE, as the sole regulators or authorities provide correct and up to date data. This should be disclosed for public consumption as viewing different portals could lead to confusion.
- i) **Include import and excise taxes as reporting revenue streams.**  
These revenue streams were not included in the 2019 Report. However, the IA noted that there has been increased number of material revenue streams and recommended that the National Secretariat, through the MSG included these revenue streams and reconciled in the next PNGEITI Report (FY2020 Report).
- j) **Co-ordinate reconciliation of sub-national payments and transfers**  
Despite the Covid-19 disruptions, there should be continuous improvements on the execution and implementation of sub-national payments and transfers. This would enhance the comprehensiveness of PNGEITI reporting.
- k) **Availability of Financial Reports**  
The IA confirmed that a number of reporting entities do not have published financial reports, thus the IA recommended for disclosure of financial reports for comprehensiveness and transparency of the report.

### Report Structure

The IA (Leonard Catalan) presented relevant sections of the report as structured below:

- Chapter 2: Revenue streams and reporting entities  
No changes in this chapter
- Chapter 3: Contribution of extractive industries to the economy  
Added employment data disaggregated by gender in this chapter
- Chapter 4: Legal framework and fiscal regime  
No changes in this chapter
- Chapter 5: Management and distribution of revenues  
No changes in this chapter
- Chapter 6: Social and subnational payments  
Some information not provided by reporting entities due to contract confidentiality issues
- Chapter 7: Mining  
Added compliance and financial statement on the entities in this chapter
- Chapter 8: Oil and gas  
Added PNG LNG borrowings and also updated production and export volume data received from oil and gas companies and included them in the report
- Chapter 9: State-Owned Enterprises.  
Updates on the amount paid as dividend were also reported in this chapter.

## **Outstanding Matters**

The IA (Leonard Catalon and Mathew Savage) concluded the presentation and sought MSG's approval to publish the final FY2019 PNGEITI Report. They also mentioned that the additional information could be uploaded on the PNGEITI website, especially DPE licencing information to support the validation process. DPE (Jimmy Haumu) responded that licencing information has been published on DPE website.

Total Energies EP PNG Ltd (Richard Kassman) acknowledged and commended the Independent Administrator (EY) for a detailed report and recommended to MSG to approve it for publication. The INA (Paul Barker) recommended for the FY2019 Report to be approved and the outstanding issues or minor improvements that may be needed to be rectified before publishing it. Mr Kassman shared similar sentiments with Mr Baker. He wanted to know whether the outstanding matters raised in the 2018 Report by the EITI International were adequately addressed in the 2019 Report. He was also concerned and wanted to know whether the FY2019 Report would be accepted by EITI International Secretariat.

Mr Catalon assured the MSG that the FY2019 Report would be endorsed by the EITI International Secretariat despite the challenges on contract transparency, data comprehensiveness and subnational payments. These gaps have been highlighted in the FY2019 Report and would be identified once the covid-19 pandemic has been uplifted. He added that licencing information could also be uploaded on the website for public information. Mr Kassman stressed the importance of the Government maintaining its membership to the EITI Global. He therefore suggested that the National Secretariat presented the outstanding issues matrix at the political level so that the country could be well informed on the challenges of EITI Implementation.

The National Secretariat (Lucas Alkan) explained that a lot of gaps that have identified and recommended in the first validation and the recommendations that were made from past EITI reports have been addressed in the FY2019 Report. However, there were a number of outstanding gaps that remained to be actioned and these required more longer-term approach or policy and legislative reforms. Mr Alkan added that lack of support at the political level remained, especially the difficulty currently faced in getting the current MSG Chair to endorse the 'Ministerial Foreword' of the 2019 Report. He therefore sought MSG's approval on the final FY2019 Report to be published without the Chair's endorsement. Mr Kassman concurred with the National Secretariat to proceed with publication of the final FY2019 Report without the MSG Chair's approval on the Ministerial Foreword.

ExxonMobil PNG Ltd (Sam Koyama) wanted to know whether the amendment made on page 4 of the executive summary was included in the FY2019 Report under item 'contributors by the oil and gas sector'. Mr Catalon responded and said that the amendments were included in the Report. Mr Koyama expressed his satisfaction and acknowledged the efforts by all MSG members in compiling the Report. He also recommended that the Report be endorsed for publication. Harmony Gold PNG (Kepas Wali) also recommended that the Report be approved for publication. He also commended the team's effort and the significant improvements that were made in the Report compared to previous reports. Mr Baker pointed out the discrepancies in the figures on the additional contributions, especially its contribution to the national economy in terms of GDP and suggested if it could also be reflected in the documents.

Mr Koyama sought endorsement from the National Secretariat to publish the Executive Summary Report on social media platforms like the PNGEITI website and in the newspapers. He said this would promote transparency and accountability of EITI implementation in PNG in terms of reporting. He further commented that the year 2019 has been a productive year, especially for the industry. He expressed that the year 2020 may not be a good year due to the on-going Covid-19 pandemic restrictions. Mr Alkan acknowledged Exxon Mobil's comments and informed that the National Secretariat would allow a week for the IA to accommodate minor comments before publishing on the Report on social media.

Below resolutions were reached by Total Energies EP PNG Ltd (Richard Kassman) moving the motion and seconded by Harmony Gold PNG (Kepas Wali), and the INA (Paul Baker).

### **Resolutions:**

- ***MSG noting the comments and recommendations made by the IA, moved to accept the FY2019 Report as presented.***
- ***MSG resolved that the PNGEITI National Secretariat sought MSG Chair and Treasurer, Hon. Ian Ling Stuckey's endorsement on the FY2019 Report and sign the 'Ministerial Foreword'. However, should the MSG Chair not unavailable within the next 7 days to do so then the PNGEITI National Secretariat would proceed to publish the Report and disclose it on social media platforms including the PNGEITI website.***

### **3.2 Options for Preparation of FY2020 PNGEITI Report**

The National Secretariat (Lucas Alkan) commented that the MSG had agreed with conventional reporting method in the last MSG meeting (MSG Meeting # 03 of 2020). He explained the differences between conventional and flexible reporting. On conventional reporting, PNG would publish contextual information for the year 2020

following the usual procedures in accordance with its TOR. It would require reporting on both government and company revenue data for the year 2020 report. With flexible reporting, it would only require publishing contextual information in a shorter period by referring to the sections of previous reports and adding any relevant updates or new information that may become available. Flexible reporting would involve unilaterally reporting on government data using the summary data templates. These summary data templates would provide highlights of key revenue data that would be documented in the report.

In reconciling government and company revenue data for the 2020 Report using conventional reporting, PNG would ensure that reconciliation is comprehensive and reliable. In flexible reporting there will not be any reconciliation required. However, the usual data quality assurance procedures would still apply to both the conventional and flexible reporting. This would require MSG's assessment and documentation on whether government disclosures are comprehensive and reliable. Mr Alkan added that there would not be any obligation to include forward looking elements in conventional reporting though this was encouraged. However, it was required in flexible reporting to include some forward-looking elements such as the Covid-19 pandemic effects, fall in commodity prices and its implication on revenues and so forth.

Relating to validation, both conventional and flexible reporting method would be based on the new validation model applying the 2019 Standard. He said there were few countries implementing flexible reporting including; Indonesia, Mongolia and the Philippines. Due to Covid-19 pandemic restrictions, the EITI Board had allowed 2 years flexibility in preparing and submitting reports. This is to ensure that countries continue to implement EITI despite the negative consequences brought about by the Covid-19 pandemic. Mr Alkan advised that the MSG would formally seek approval from the EITI Board for the extension of time to release the FY2020 Report under conventional reporting. For flexible reporting, the EITI Board would assist by providing technical support, if implementing countries including PNG required such assistance.

Total Energies EP PNG Ltd and President of PNG CMP (Richard Kassman) was of the view that PNG has not had extended lockdowns and restrictions like what has been happening in other countries. He urged government entities (DPE, MRA, KPHL) and the reporting entities to provide reports to be used by the government. He was concerned that the Government, unfortunately based its argument on flawed interpretation of the PNGEITI Reports that have been published. He had very strong views that the extractive industries did contribute significantly to GDP and the national economy. He added that the governments' perception of not contributing enough to the government and its people based on its slogan of 'taking back PNG' and on getting its 'fair share' from resources exploitation was a flawed view. This wrong perception had convinced the Government to amend resource laws governing the extractive sector. Therefore, from the Chambers' perspective, conventional reporting was preferred and recommended to maintain consistency in reporting.

The PNG Chamber of Mines and Petroleum (Albert Mellam) and the INA (Paul Barker) shared similar sentiments with Total Energies (Richard Kassman) that PNG has not had extended lockdowns and therefore, conventional reporting was recommended. Professor Mellam moved the motion that option A for conventional reporting be adopted and Paul Barker seconded the motion. Mr Kassman also urged MSG to appoint an IA to commence work immediately on the FY2020 Report. This should be done well before the 2022 National General Elections so that PNG fully understands and appreciates the extractive industries based on the FY2019 Report.

#### **Resolutions:**

- ***MSG agreed to adopt Option A for Conventional Reporting;***
- ***MSG directed the National Secretariat to write to the EITI Board seeking extension of time for publication and release of the 2020 Report; and***
- ***The MSG directed the National Secretariat to commence procurement process for the appointment of the IA to commence work on the preparation of FY2020 PNGEITI Report.***

### **3.3 Beneficial Ownership Disclosure (BO) Report**

The Acting Chair invited BDO PNG as the consultant to provide an update on the project. Mary Jane S. Valles expressed BDO's appreciation to the MSG for engagement them in preparing the report. She informed that the MSG had taken note of the findings of the BO Report that was approved in December 2020. She briefly summarized the Report outlining the BO data collection, implementation of a BO register in PNG, and the findings and key recommendations made. Ms Valles said a workshop would be arranged for the MSG to discuss report recommendations and its implementation soon.

The MSG took note of the report presentation and its recommendations.

### **3.4 Approval of SOE Scoping Study Report for publication**

The Acting Chair called upon the consultant, KTK Accountants and Partners (Paul Kiruwi) to provide an update on the Report. He conveyed his gratitude to the MSG for appointing KTK as a national accounting firm to undertake this project jointly with its international partners. He also thanked the National Secretariat for the assistance and confidence displayed during the study. He added that lack of responses from the SOEs and Covid-

19 pandemic had caused a delay to completing and releasing this report. He presented only items 5, 6 and 7 out of the 7 items as listed below:

- (i) **Scope**  
The consultant was tasked to scope on two definitions on SOE and quasi-fiscal expenditure (QFE). The consultant thanked OTML, KMHL and KPHL for their responses received for this study, however it raised concern on MRDC's lack of response.
- (ii) **Key activities** – developed definitions on SOE and QFE.
- (iii) **Definitions on SOE** – detailed definitions circulated to MSG already.
- (iv) **Legal Framework** – adopted approach to SOEs Acts
- (v) **Data gathering and analysis** – assessed responses and analysed for recommendations.
- (vi) **Participation in the extractive sector** – flow of benefits
- (vii) **Recommendations.**


### **Report Recommendations**

KTK Accountants and Partners (Paul Kiruwi) presented below recommendations for the PNGEITI MSG to consider:

- (i) MSG to adopt the definitions of SOE and QFE set out in the Report.
- (ii) MSG to adopt the reporting template for SOEs.
- (iii) MSG to ensure that all future annual EITI reports contain a description of the legal framework for SOEs.
- (iv) MSG to advocate for legal reforms to provide an explicit legal obligation for SOEs and their associated development foundations to publish their annual reports and audited financial statements in a timely manner.
- (v) MSG and National Secretariat to engage with SOEs and their development foundations in the extractive sector to raise awareness of the benefits of increased transparency of their activities.
- (vi) MSG and National Secretariat to undertake a pilot project to collect, reconcile and disclose transactions concerning the sale of SOEs' share of oil, gas and minerals.
- (vii) MSG to undertake a scoping study into contract transparency.
- (viii) MSG and National Secretariat in collaboration with extractive sector SOEs and their development foundations to engage in a structured campaign of outreach activities.
- (ix) MSG to commission a specific study on MRDC's financial flows in the light of MRDC's lack of co-operation with this scoping study.
- (x) Extractive sector SOEs and their development foundations to publish their annual reports and audited financial statements as a matter of course, and on a timely basis.
- (xi) Extractive sector SOEs and their development foundations should take a proactive approach to information disclosure.
- (xii) Extractive sector SOEs to complete EITI reporting templates in full and in a timely manner as part of the annual EITI reporting process.

The consultant (KTK) strongly recommended item 4 of the listed recommendations above on the establishment of the PNGEITI legal framework. The MSG thanked the consultant for a comprehensive report and approved the SOE Scoping Study Report and its recommendations. The INA (Paul Barker) moved the motion to accept the Report and DPE (Jimmy Haumu) seconded the motion and the Report was accepted.

Agenda items No. 4 on Validation and No. 5 on the PNGEITI Commission Bill were deferred for deliberations in the next MSG Meeting as time had lapsed. With no other businesses for discussion, the Acting Chair thanked everyone for their attendance and closed the meeting at 1:30pm. It was informed that details of the next MSG meeting would be advised by the National Secretariat later.



**CHANNAN KUMALAU (Mr)**  
Acting Chair  
Director, Special Projects  
Department of Petroleum & Energy

