Foreword

As KPMG is the only professional services firm in PNG with dedicated in-house specialists in all of the following areas: internal audit/risk, visa migration, corporate finance, management consulting, IT advisory, fraud investigation as well as tax and assurance, we are well placed to provide a truly multi-disciplined approach to business advisory. We hope you enjoy our regular KPMG Kundu.

KPMG energy outlook and its implications for PNG
by Jonathon Peacock, Partner, National Oil and Gas Leader

KPMG's Australian Oil and Gas Leader Jonathon Peacock presented to a group of PNG business executives in APEC Haus on our global energy outlook and the implications for the PNG Oil and Gas industry.

The UN has estimated that the global population will reach 11bn by 2100. As our population grows so does our demand for energy, which is expected to be 50% higher than it is today. At the same time we need to decrease our CO_2 emissions by 54% by 2040 to limit the rise in global temperature to 2 degrees Celsius. The reduction in CO_2 will be achieved over the long term through an energy transition where renewables and low emission technology will account for the majority of energy production. It is expected that this period of transition will take over 50 years.

Despite this pressure, there remains a great deal of policy uncertainty around the world and a collective inability to successfully implement the measures needed to achieve this outcome. Europe has had mixed success with carbon pricing. Some oil and gas majors are leading transition efforts with new energies portfolios designed to reduce or offset carbon emissions.

While energy transition is underway it will take time and during this period there is a role for both oil and gas. KPMG view gas as the enabler of the energy transition as it provides a cleaner source of energy than coal and can underpin baseload power generation needed to co-exist with renewables.

Over the long term the key drivers of gas supply will be the market price of gas, the availability of reserves, and the cost of extracting, processing and delivering the fuel to users relative to other fuel sources.

It appears that there is potential for a demand supply gap to occur in the mid 2020's of approximately 100mtpa. With a significant portion of the future demand coming from Asia, PNG is well positioned to take advantage of this gap, given the proximity of PNG to demand markets, the relative cost advantage and the quality of the gas. However, there are over 300mtpa of global projects awaiting final investment decision (FID), and as such there is a short period of time to take advantage of this window of opportunity. So PNG needs to move quickly to approve projects that can be ready in time to fill this gap.

Experience in the industry, from LNG projects globally, tells us that for projects to succeed they require clear and consistent government policy to be in place, a strong social licence to operate building trust with stakeholders and investors, and a focus on safe and efficient operations.

PNG stepping up transparency within the extractive industries
by Shimar Saxena, Manager, Advisory Services

The growing pressure on resource intensive nations and extractive companies to increase transparency and accountability has resulted in a global shift towards increased disclosure around 'Beneficial Ownership'.

A beneficial owner (BO) is a "living, breathing human being" who ultimately owns or controls more than a certain percentage threshold of a company's shares or voting rights or exercises control over the management of the company. This threshold is tentatively assumed to be capped at 5% within the PNG Extractive entities, with the implication that it would be mandatory to report owners of the extractive entities within PNG borders with more than 5% of capital or voting rights.

In line with these global developments, Papua New Guinea has undertaken the Extractive Industries Transparency Initiative (EITI) and standards in a bid to reveal the 'real owners' of extractive companies. Papua New Guinea is a significant producer of cobalt, copper, gold, nickel, silver, oil and gas (extractive industries contributing 28 – 30% of PNG's GDP (2018)),

PNG EITI National Secretariat, a PNG Government initiative, was established in 2013 as a directive aimed to fight tax evasion, money laundering and terrorist financing in PNG. In line with EITI's strict deadlines it is a PNG prerogative that by 2020 companies applying for, or holding a participatory interest in an exploration or production license or contract for oil, gas or mining, must report the details of the Beneficial Owner, and these details are to be housed as a publicly available (digital) register.

Currently, Papua New Guinea neither has those details of Beneficial Ownership Company owners reflected in a publicly available (digital) register, nor has the legislative backing to enforce extractive companies to disclose those details. KPMG is currently supporting the PNG EITI on a 3 year Roadmap Implementation Contract to assist the nation in the following areas:

- Dissemination of awareness about Beneficial Ownership across PNG.
- Formulation of EITI compatible public register documents, and;
- Establishment of strong EITI legislations that would make it mandatory for all extractive entities and companies to disclose the requisite EITI information regarding directors, politically exposed persons and ownerships to the Investment Promotion Authority (IPA) upon registering the companies.

However, given the very stringent requirements in the 2016 EITI Standard for EITI implementing countries, PNG has done remarkably well. During the EITI Global Meeting on 30 October 2018 it was validated that PNG had made 'Meaningful Progress' in implementing meaningful reforms in government systems and in positively augmenting the level of transparency on State participation in the country's extractive sector. Furthermore, it was acknowledged that PNG's progress with regards to governance and oversight of the EITI process was attributed to strong government commitment and meaningful engagement by its stakeholders.

IRC Activity - audits and garnishees

Following on from our article last month we have continued to see sustained activity by the IRC including further garnishee notices, site visits, queries on differences between Corporation Tax and GST. We again strongly advise that any IRC communication is taken very seriously.

IRC Activity - GST credit offsets and SWT

A media release has been issued stating CR1 GST credit offsets would no longer be allowed and salary or wages tax must be paid even if the company has refundable GST credits. We were told by IRC officers that this practice will only apply to the offset of GST credits against SWT payments and not to other taxes such as CIT etc. However, we are seeking further confirmation on this point.

There is a risk that any unprocessed historic returns will not be processed, which would mean taxpayers would have to pay the base tax, request remission of the imposed penalties and separately seek a GST refund that will increase the administrative burden for both taxpayers and the IRC.

We are exploring this matter further and will report back in future editions.

IRC Activity - SWT declarations

We are seeing a change in IRC policy in relation to SWT declarations whereby the IRC are either confirming acceptance or rejection of these declarations. The IRC are rejecting incomplete SWT declarations by taxpayers. In particular, they are also asking employees to provide statutory declarations where the surnames of the dependents differ from the employee.