FACT SHEET
PRODUCTION SHARING & THE MINING SECTOR

Papua New Guinea has a well-established mining industry, attracting investment from many of the world's leading mining companies. Minerals currently being mined include gold, silver, copper, nickel and cobalt.

The PNG mining sector currently operates under a royalties and tax regime (RTR), which sees minerals 100% owned by the State. Private mining companies are granted a right to explore and extract such minerals and in return pay the State royalties for any mining products extracted as well as additional taxes. Under this scheme, the State continues to own all minerals remaining in the:

PRODUCTION SHARING DOES NOT WORK FOR MINING

PSAs are used widely in the oil and gas sector but are rarely used in the mining sector for many reasons including:

- Mining is inherently high-risk due to a low exploration success rate
- Revenue flows start much later for a mining project, meaning cost recovery carries more risk
- While oil and gas extraction costs remain consistent, mining requires ongoing investment throughout the life of the project as the resources become less accessible and more difficult to extract
- A mineral ore body can vary greatly over time which impacts extraction rates and costs, requiring greater flexibility than production sharing arrangements can provide
- It makes financing mine developments far more difficult

THE GOVERNMENT'S PROPOSED CHANGE

The PNG Government has begun a process that will see the PNG mining sector transition to a production sharing regime, whereby 100% ownership of the minerals within stipulated areas is permanently transferred by the State to Kumul Minerals in return for a royalty to the State on any mining products extracted from those areas.

Kumul Minerals may explore for and extract minerals in those areas itself or it may enter into a production sharing agreement (PSA) with a private company. The terms of the PSA will be up to Kumul Minerals – it will control how minerals are exploited and will not be accountable to the Mineral Resources Authority nor the PNG Government.

The State will receive a royalty and (through the Prime Minister as shareholder) dividends from Kumul Minerals from any net profits it may make.

KEY FACT
The mining industry contributed K15.65b to the PNG economy in 2019.
Source - BPNG QEB 2019

MINING AND PETROLEUM
'GROWING THE FUTURE'

	CURRENT SYSTEM	PROPOSED SYSTEM
Mineral Ownership	The State owns all minerals within the tenement area until they have been extracted, when they transfer to the mining company.	State retains 100% ownership and transfers to Kumul Minerals (which may contract out mining to other companies).
Exploration Rights	Granted to companies on application (subject to requirements under the law).	Could be included by Kumul Minerals as part of the services under a PSA.
Mining Rights	Granted to companies on application, usually based on a feasibility study or successful exploration.	Rights over any discovery remain with Kumul Minerals, with the contractor permitted to undertake extraction as a service under the PSA.
Risk/Reward	All project funding and costs borne by mining company, recoverable from sales revenue. Reward shared with State via royalties and taxes.	All project funding and costs borne by contractor, recoverable under terms of PSA.
Main source of Government Revenue	Royalties and taxes. • Royalties to Landowners and Provincial Governments • Equity share to Kumul and MRDC • Corporate tax (and Additional Profits tax) to Treasury	Share of profits / production. • Kumul takes Production share. • Kumul to decide on Royalty share if any • Tax not applicable in a pure PSC – so no direct revenue to Treasury.

PSAS AROUND THE WORLD

Mining PSAs have been implemented in a handful of jurisdictions around the world. However, no country uses the same PSA for its oil and gas sector as it does for its mining sector. The two sectors simply cannot be treated the same.

Around the world, the few jurisdictions that have implemented mining PSAs have worked with their industry stakeholders to adjust the PSA regime to ensure it is workable for both the State and the sector. Even so, mining investment in those jurisdictions with mining PSAs is notably lower than their recognised potential.

Egypt has the world's fourth largest reserves of Tantalum. However, investment in the mining industry has been low because of the low return and extensive cost recovery periods. In January 2020 Egypt repealed its PSA legislation, replacing it with a RTR.

The **Philippines** has created a hybrid PSA scheme for its mining sector, which incorporates very limited features of a traditional PSA and is more like a standard mining agreement. Despite being the fifth most mineralised country in the world, interest and investment in the sector remains low.

Senegal issued a new Mining Code in 2016, introducing the concept of mining PSAs but failing to provide information on how they will work or be administered. The country has not entered into any PSAs to date.

Myanmar withdrew its PSA regime in late 2015. In 2018 the country announced local and foreign investment into mining could resume after a two-year suspension. As of February 2018 only US$2.89 million had been invested in 71 projects within Myanmar's mining sector.

PAPUA NEW GUINEA CHAMBER OF MINES AND PETROLEUM

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