

FIRST DAY

Tuesday 18 November 2014

DRAFT HANSARD

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PARLIAMENTARY DEBATES CORRECTIONS TO DAILY DRAFT HANSARD

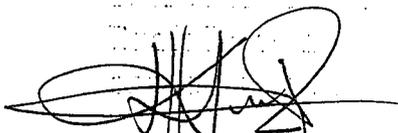
The Draft Hansard is uncorrected. It is also privileged. Members have one week from the date of this issue of Draft Hansard in which to make corrections to their speeches. Until the expiration of this one week period, Draft Hansard must not be quoted as final and accurate report of the debates of the National Parliament.

Corrections maybe marked on a photocopy of the Daily Draft Hansard and lodged at the Office of the Principal Parliamentary Reporter, A123 (next to the Security Control Room).

Corrections should be authorised by signature and contain the name, office and telephone number of the person transmitting/making the corrections.

Amendments cannot be accepted over the phone.

Corrections should relate only to inaccuracies. New matter may not be introduced.



LEE SIROTE

Acting Principal Parliamentary Reporter

FIRST DAY

Tuesday 18 November 2014

The Parliament met at 2 p.m. according to the terms of the Resolution of 23 October 2014.

The Speaker (**Mr Theo Zurenuoc**) took the Chair.

There being no quorum present, Mr Speaker stated that he would resume the Chair after the ringing of the bells.

Sitting suspended.

The Speaker, again took the Chair at 3.35 p.m., and invited the Member for Nawae, **Honourable Gisuwat Siniwin** to say Prayers:

‘In the name of the Father, the name of the Son, the name of the Holy Spirit, Gracious Father we acknowledge your presence and thank you for appointing us to be leaders of this nation, and we acknowledge that.

Continue to provide us your wisdom and knowledge to govern our people and our nation. Today and this week and next week is a big day for us, for this nation for 2015 Budget. We believe and we trust that you are going to give the wisdom to our leaders who are going to present this budget for our people.

Accept us as sinners and forgive us and give us the right heart, the right mind, the right spirit that we may serve this country transparently and with accountability.

Lord, here we are, thank you for appointing us and making us to be leaders in this nation. We ask this in the name of our Lord and our coming King, in His name we pray. Amen.’

**BROADCASTING OF PARLIAMENTARY PROCEEDINGS –
STATEMENT BY THE SPEAKER**

Mr. SPEAKER – Honourable Members, I have to inform Parliament that the Permanent Parliamentary Committee on Broadcasting of Parliamentary Proceedings met and resolved that:

(a) The *National Broadcasting Corporation* will be allowed to broadcast live the presentation of the 2014 Budget this afternoon and also the broadcasting of Question Time for the duration of this Meeting,

(b) Also, *TV ONE* will be allowed to broadcast live the presentation of the 2015 Budget this afternoon and Question Time for the duration of this meeting for news purposes, and;

(c) *EMTV* will also be allowed to film the presentation of the 2015 Budget this afternoon and also Question Time for the duration of this meeting for news purposes.

MOTION BY LEAVE

Mr JAMES MARAPE (Tari-Pori – Minister for Finance) – I ask leave of the Parliament to move a motion without notice.

Leave granted.

**SUSPENSION OF STANDING ORDERS –
REARRANGEMENT OF BUSINESS**

Motion (by **Mr James Marape**) agreed to –

That so much of the *Standing Orders* be suspended as would prevent:

- (a) the Minister for Treasury presenting the 2015 Budget and associated budget papers, and;
- (b) the Appropriation (General Public Service 2015) Budget Bill 2014, Appropriation (National Parliament 2015 Budget) Bill 2014, Appropriation (Judiciary Services 2015

- Budget) Bill 2014 and Supplementary (Appropriation) Bill 2014 being presented together and debated as one; and
- (c) Separate questions being put on the Second and Third Readings.

MESSAGE FROM THE GOVERNOR-GENERAL

A message from His Excellency the Governor-General dated 18 November 2014 was announced recommending,

(a) the expenditure of public monies of Papua New Guinea in accordance with *Section 210* of the *Constitution* insofar as the Appropriation (General Public Service 2015 Budget) Bill 2014 relates to and provides for such expenditure;

(b) The expenditure of public monies of Papua New Guinea in accordance with *Section 210* of the *Constitution* insofar as the Appropriation (National Parliament 2015 Budget) Bill 2014 relates to and provides for such expenditure;

(c) The expenditure of public monies of Papua New Guinea in accordance with *Section 210* of the *Constitution* insofar as the Appropriation (Judiciary Services 2015 Budget) Bill 2014 relates to and provides for such expenditure; and

(d) The expenditure of public monies of Papua New Guinea in accordance with *Section 210* of the *Constitution* insofar as the Supplementary (Appropriation) Bill 2014 relates to and provides for such expenditure.

02/01

**APPROPRIATION (GENERAL PUBLIC SERVICE 2015 BUDGET) BILL 2014;
APPROPRIATION (NATIONAL PARLIAMENT 2015 BUDGET) BILL 2014;
APPROPRIATION (JUDICIARY SERVICES 2015 BUDGET) BILL 2014; AND
SUPPLEMENTARY (APPROPRIATION) BILL 2014**

First Reading

Bill presented by **Mr Patrick Pruaitch** and read a first time.

Second Reading

Mr PATRICK PRUAITCH (Aitape-Lumi-Minister for Treasury) – I move –

That the Bill be now read a second time.

Mr Speaker, honourable Members and fellow citizens of Papua New Guinea, it is a great honour for me to present to this honourable House and the people of Papua New Guinea the 2014 Supplementary Budget and the 2015 National Budget.

Mr Speaker, this is the third Budget since the O'Neill-Dion Government took Office in 2012 and my first as Treasurer in the present Government. Honourable Members would be aware that this is the fourteenth consecutive year of economic growth enjoyed by Papua New Guinea, the longest such period of sustained growth. PNG is among a handful of nations that manage to sustain significant growth levels in the wake of global financial crises in 2008 to 2009. We continue to maintain that record even though some key commodity prices have fallen considerably in recent years.

Mr Speaker, with the US\$19 billion PNG LNG Project in the construction phase from 2010 to 2014, the O'Neill- Dion Government chartered out bold and ambitious plans for future developments taking into consideration the declining economic stimulus from the completion of the construction phase of the LNG Venture. Besides implementing policies for free primary and secondary school education and free basic public health programs it formulated a large infrastructure development program encompassing roads, ports and airports along with substantial direct funding of provincial and local level government to bolster grassroots provisions of infrastructure and services in every district in our country.

03/01

These programs were implemented with a clear understanding that public sector programs would take up the slack in economic activity with the earning of LNG constructions activities. The LNG project has been the significant pillar of economic growth and its stimulus and this stimulus was ending since 2013. The project provided billions of kina worth of activity for landowners and other PNG companies and has been the single generator of jobs growth.

Mr Speaker, the O'Neill-Dion Government consciously decided on a counter cycle strategy to prevent a sudden slowdown in the economy. It was decided that the 2013 and 2014 Budget would see the implementation of large deficit budgets to provide the necessary economy's stimulus. The 2013 Budget had already spelt out the Governments intention to implement deficit budget until 2017 with the expectation that new sources of revenue and growth would kick in 2018.

The Government is working to create and improve climate for growth of the private sector including a new policy platform that will encourage the formation of Public Private Partnership (PPP). These initiatives will also stimulate growth of Small and Medium Enterprises (SME's), particularly in the agriculture sector thereby creating improved prosperity in the rural areas.

Mr Speaker, the big surge in formal sector employment over the past decade has contributed to a growing middle class which through families and other ties could generate growth that is more inclusive in nature; a trend that a Government would like to encourage. As diverse nation with strong regional traditions and cultures, we have a rich heritage to protect and nurture. At the same time, we need to face up to our many challenges, particularly on the economic and development front, where many more opportunities needed to be created so that our people can enjoy improved living standards especially in rural areas where majority of our population reside.

Mr Speaker and honourable Members with those introductory remarks, I would like to introduce the 2014 Supplementary Budget and to explain why it has been necessary.

Many of you will recall the controversies that were generated in the media and elsewhere with the release of Treasury's Mid-year Economic and Fiscal Outlook in July, where National Government revenues were anticipated to drop by an estimated K350 million, largely as a result of falling revenues caused by declining commodity prices. Commentators discussed the risk of a blow-out of the planned deficit. However, at the current time it has become clear that improve personal company tax receipts, along with benefits flowing on from the early start of LNG exports has kept the deficit more or less in line with the original budget focused.

On the expenditure front, additional spending has to be faced to the tune of K897 million. Among the big ticket items was an additional K250 million for infrastructure for the 2015 South

Pacific Games, K250 million for personal emoluments and an additional interest of K204.3 million as a result of rising interest rates for public sector debt raised mainly by the Central Bank. With overall Government revenue falling from K12 688.5 million to K12 674.8 million, a drop of K13.7 million from the original budget estimate, corrective measures were needed in view of rising expenditure and the failure of asset sales meant to bring in K600 million.

Mr Speaker, this was partly offset by K416 million in contributions from the National Petroleum company; and OK Tedi, K190 million plus dividends from statutory authorities; including Bank of PNG, K120 million, MVIL, K100 million, National Fisheries Authority, K50 million and National Gaming Board, K50 million.

04/01

Mr Speaker to prevent another Budget blowout and safe guard the Governments economic management credentials Budget expenditure cuts of K1.07 billion were made in areas where public service delivery would not be adversely affected. These ensured the integrity of the 2014 Budget was maintained.

Mr Speaker, as a result the overall 2014 Budget deficit increased by K77.2 million to K2430.2 million from the original Budget estimate of K2353 million. The total deficit remains at the previously projected level of 5.9 per cent of GDP.

I am sure honourable Members will recognise that this has a good outcome especially in view of the earth winds we have faced from a slowing global economy and declining mineral commodity prices.

It also signals the need for caution and for the Government to stand ready to undertake corrective action in the face of unforeseen international and domestic developments that may affect our economy.

Mr Speaker, you would recall earlier in the year that the opportunity to purchase Oil Search Shares arose and the O'Neill-Dion Government made the decision to purchase 10.1 per cent stake in Oil Shares as part of the 2014 Supplementary Budget in accordance with *Section 209* of the *Constitution* we have appropriated for interest payments. It is anticipated in the next month the National Petroleum Company of Papua New Guinea will refinance this transaction and take ownership of the shares.

Mr Speaker, significant Budget reforms will guide the 2015 Budget to ensure a more effective, strategic and transparent budgeting process that demonstrates a clear link between the allocations of resources to the policies, planning and priorities to the Government.

Continued reforms include efforts to better integrate with the Capital Budget with the Operational Budget to ensure more satisfactory interaction between departments and agencies responsible for key development outcomes.

Mr Speaker, much more work also needs to be done on the 2014 initiative involving the five-year multi-year Budgeting framework, along with sector-led budgeting that gives priority to projects and activities with demonstrated outputs, outcomes and impacts.

In addition, the 2015 Budget will introduce a Public Sector Program Efficiency Review led by our Prime Minister and myself in my capacity as the Treasurer. The review will look into public sector operations starting in 2015 to ensure there is value for money from all government expenditure, elimination of wasteful spending and unnecessary duplication in National, Provincial and LLG activities.

Mr Speaker, the Efficiency Review aims to improve the overall efficiency and effectiveness with which government services and projects are delivered. The Budget is presented on a sectoral approach, comprising administration, Economic and Agriculture, Education, Health, Infrastructure, Law and Order, Provinces and Social.

Mr Speaker, this will give the government and the people of Papua New Guinea the clearest picture yet of where it is allocating its funds and which sectors are receiving increased funding over time.

The Government will continue to strive for a stronger economy to through diversification of activities and by translating past, present and anticipated future gains from the mining and resource sector into prudent and sustainable investments in other sectors such as Education, Health, Law & Order , energy, transport, tourism and agriculture.

Hence, Mr Speaker, the theme of the 2015 national budget is “Building our Nation and Providing Opportunities for our People”

Mr Speaker, I now turn to the 2015 National Budget, which has elicited much comment and controversy in recent months, largely as a result of over-exaggerated fears about the 2014 Supplementary Budget.

In line with the theme for the 2015 Budget the Government is making historic investment decisions from a position of economic strength while continuing to fund key development program to meet the development needs of our country.

05/01

Mr Speaker, international and domestic economic conditions will always play a pivotal role in the economic fortunes of individual countries and provide a vital backdrop for the formulation of the Budget.

These economic conditions will generally set the parameters under which the Budget priorities can be planned.

Mr Speaker, let me set the scene by discussing the international economic outlook. As honourable members would be aware PNG had the privilege last month of chairing the annual meeting of the Boards of Governors of the International Monetary Fund and the World Bank. The meeting in Washington was attended by 188 member countries of the premier International Financial Institutions and the overall mood can only be described as cautious.

The Managing Director of the IMF, Madam Christine Lagarde, and spoke of the fragile nature of the global economy with significant downside risks at the present time even though the US economy has been showing a significant recovery from the Global Financial Crisis of six years ago. By contract a great deal of uncertain surrounds the European Union, where the leading economy, Germany, narrowly escaped entering into recession. Growth is also slowing down in China as well as in many emerging market economies, including Brazil.

The President of the World Bank Group, Dr Jim Yong Kim, who has been carrying out a major restructuring of World Bank operations, spent a significant amount of his speech discussing the dangers of the Ebola outbreak in the African continent and to the global economy.

Both leaders were also strongly of the view that climate change was another issue of utmost global importance that needed speedy action from governments around the world.

The IMF and World Bank have reduced their forecasts for the World Economic Outlook from a projected 3.6 per cent level in April this year to 3.4 per cent in July and to a current projection of 3.3 per cent growth in 2014.

They were of the view that global economic growth in 2015 would increase to 3.8 per cent because of improving performance of the US economy and some emerging and developing economies.

With growth prospects appearing to dampen even further in recent weeks, we have seen gold prices drop to less than US\$1200 an ounce while oil is hovering around the US\$80 a barrel mark, both of which are at four year lows. As honourable members would appreciate these are critical commodities for the PNG economy especially with the trend of easing mineral prices appearing likely to be sustained into the coming year.

Mr Speaker, let me now turn to the domestic economic outlook and report on how our economy has been performing under the stewardship of the O'Neill-Dion Government.

Mr Speaker, the Papua New Guinean economy is expected to grow strongly by 8.4 per cent in 2014. This is higher than the 6.2 per cent projected at the time of 2014 Budget and the 5.4 per cent projected during the mid-year economic and fiscal outlook report. This upward revision is due to the impact of the early commencement of LNG gas production and export. Other contributing factors include favourable gold production from one of the major mines and a rebound in copra production due to high copra prices during the second half of 2014.

06/01

Despite these positive developments, non-mining GDP is expected to only grow at 1.4 per cent in 2014 down from 4.9 per cent in 2013. The downgrade is due to the slowdown in domestic economic activity as the economy descends from LNG related peaks associated with the completion of the PNG LNG construction phase.

It is anticipated that the flow on impacts of the government's fiscal stimulus put in place in the 2014 Budget would fill some of the gaps created by the end of PNG LNG construction. This has indeed been the case, however capacity constraints and delays associated with the implementation of some projects has been a major concern over the course of the year.

Therein lies the challenge for implementing agencies. This is the main reason why the O'Neill-Dion Government is introducing the Public Sector Program Efficiency Review in this Budget to ensure that there is value for money from all government expenditures.

Mr Speaker, in 2015 our economy is projected to grow significantly at an historically high growth rate of 15.5 per cent driven by a full calendar year of gas production and supported by a rebound in the non-mining sectors. This will be the 14th year of uninterrupted economic growth which is a huge achievement for a small country like PNG. While this is a very strong rate by any standard, it is nevertheless a downward revision from the 2014 Budget forecast of 21.2 per cent. This revision is due to the impact of early increased PNG LNG production in 2014 that has lifted the level of GDP in 2014 and reduced the GDP figure in 2015. 2015 will represent the first full year of LNG production and exports.

Mr Speaker, credit should go to ExxonMobil, its venture partners, the government of the day, and stakeholders such as the landowners for delivering ahead of time such a huge achievement for PNG.

The kina has stabilised and will gain strength next year. Mr Speaker, turning now to the exchange rate, there has been a lot of concerns and criticisms raised by the public and business houses regarding the kina exchange rate.

The facts are that the kina has depreciated against its major trading partners, with falls against the US and the Australian dollars. On average, the kina has depreciated by 8.3 per cent against the US dollar and 3.0 per cent against the Australian dollar from January to October 2014 compared to 2013.

The depreciation is attributed mainly to higher exchange outflows for import payments, repayment of foreign loans and dividends payments and also reflects developments in the economies of our major trading partners.

Currently the US dollar is recovering as the US economy improves, which results in the kina falling against the US dollar.

Mr Speaker, I would like to assure all stakeholders: including the government, business houses, investors, financial institutions, donor partners, individuals both citizens and foreigners that the Government through the Bank of PNG in consultation with commercial banks have put measures in place which have seen the kina's value stabilised. This includes the exchange rate trading band that was introduced in the middle of the year.

Therefore, there should not be any cause for concern as the key fundamentals such as underlying economic growth continue to be strong and are supported by buoyant private sector business activities.

In addition, the recent depreciation of the kina has delivered benefits to PNG exporters by making the price of their goods more competitive internationally.

Going forward, the value of the kina is expected to strengthen when proceeds from PNG LNG exports starts flowing into the country.

The Bank of PNG will continue to assess developments in the foreign exchange market and work closely with the Government to manage the situation.

Strong economic growth translates to strong employment. Mr Speaker, turning now to employment, strong economic growth translates to strong employment growth. I wish I could be specific, and talk about the actual number of jobs created, but these economic statistics are not readily available. We are presently addressing the challenge of improving our data collection efforts.

I can report that there is very good news for employment in the non-mining sector, the sector most of our people depend on.

07/01

Based on through-the-year growth figures, non- mining employment grew by 3 per cent through to the end of the June quarter 2014.

The growth in the non-mining sector is underpinned by sustained demand for skilled labour mainly attributed to increased business activities. However, the bad news is that the employment in the mining sector has declined. Based on through-the-year growth figures, the mining sector employment declined by 22.7 per cent at the end of the June Quarter 2014. This is due to the slow-down in the mining sector activity in the face of rising production costs following low commodity prices. It also reflects a period of realignment in the economy after the exotic impact of the gas completed LNG constructive phase.

Mr Speaker, turning to inflation, in the last Budget Treasury projected inflation to be around 6.5 per cent in 2014 reflective of the Governments stimulus spending. The good news is that it has been revised down to 5.9 per cent after taking into account the manageable 2013

inflation outcome of 5 per cent, weak global economic activities, falling commodity prices, low inflation in major trading partner countries and the easing of aggregate demand associated with the completion of the PNG LNG construction.

Mr Speaker, let me also inform this honourable Parliament, the business community and our people that the inflation figures that I presented are based on the new updated Consumer Price Index with the National Statistical Office and was released early this year.

In 2015, inflation is expected to ease to around 5.5 per cent, reflecting the expected revenue from PNG LNG in the latter half of 2015. This would translate into a stronger kina exchange rate there by reducing the cost of imported goods and services.

Other developments also expected to reduce prices include the second phase of Tariff Reduction Program expected next year. Over the medium term, from 2016 – 2019, inflation rate is expected to average around 5 per cent on the assumption of effective and coordinated monetary and fiscal policies.

Mr Speaker, the good news on the balance is that payments of PNGs trade with the rest of the world has improved in 2014 despite weak global demands and the uneven global recovery. The improvement in exports has resulted in the current account balance narrowing to a deficit of K1.4 billion or 3.4 per cent of GDP in the first half of 2014 compared to the last deficit of K3.9 billion in the corresponding period of 2013.

Mr Speaker, this improvement reflects huge surpluses in the goods and transfer account, partially offsetting the deficits in the services account and income account.

Mr Speaker, despite the improvement in PNG's trade activity, the impact on international reserves is minimal given the low commodity prices that has translated into lower export receipts and high import demand. In addition, the size of foreign direct investment has fallen considerably since the completion of the PNG LNG construction while foreign reserves outflows have increased due to a rise in import demands.

This has triggered a fall in international reserves by 10.6 per cent from K6.8 billion at the end of December 2013 to K6.1 billion at 25 December 2014. By the end of 2014, the level of growth foreign reserves is projected to rise to K6.4 billion sufficient for 4.6 months of total and 7.8 months of non-mineral import covers.

Mr Speaker, in 2015 the current account balance which has been in deficit over the last six years is projected to move to a large surplus of K7.1 billion or 14 per cent of GDP from a revised deficit of K1.03 billion estimated in 2014.

Mr Speaker, this huge surplus in the current account is largely driven by a full calendar year of LNG production and the ramping up total production of the Ramu Nickle Mine in 2015.

08/01

In addition a rebound in production is expected from the agriculture and mining sectors following destruction encountered in 2014.

Mr Speaker, it is important for this honourable House and the people of our country to understand the strategy contained in this wholistic Budget.

I will now take you through the strategy.

The proposed 2015 Budget is guided by the Government's economic Development Framework, Policy Framework including Vision 2050, PNG Development Strategic Plan, the Medium Term Development Plan 2011-2015, the Medium Term Fiscal Strategy 2013-2015 and the Medium Term Debt Strategy.

These are further supported by the Papua New Guinea Fiscal Responsibility Act 2006. These plans and strategies provide an ongoing template for tomorrow's success.

Mr Speaker, I am proud to announce the fiscal position of 2015 National Budget. The 2015 Budget will result in a deficit of around K2.3 billion or 4.4 per cent of GDP and is largely driven by a 7.2 per cent in the nominal Government of PNG expenditure.

While expenditures have gone up by more than seven per cent, total revenue and grants are expected to increase by around 10 per cent in 2015. This has resulted in a manageable debt level with debt to GDP ratio of 27.8 per cent, significantly below the limit of 35 per cent by the Fiscal Responsibility Act.

Mr Don Polye – Point of Order! My point of order is that it is an excepted practice of this Parliament that when the Government presents the Budget it presents it in full to both the Government and the Opposition side of the House.

We have volume number one and the honourable Treasurer is now onto page 15 which is half way through the speech. We'd like to have the full Budget paper to look through along with his speech.

I ask that if the Government does not have the Budget ready, can they go back and prepare it properly for this honourable House to look at the full Budget of the country.

Mr SPEAKER – Thank you, honourable Member for Kandep, I have been advised that the documents are coming and so we can proceed. Treasurer, please proceed.

Mr PATRICK PRUAITCH – Thank you, Mr Speaker. Total revenue and grants in 2015 is anticipated at K13.9 billion. This is K1.3 billion or 10 per cent higher than the 2014 Revised Estimates of K12.7 billion.

Mr Speaker, the higher 2015 revenue estimates is expected to be driven by tax receipts on income and profits taxes and domestic goods and services and tax receipts on international trade. The increase in tax receipts on income and profits from mining and petroleum tax has been due to the PNG LNG Project.

This will offset lower MPT from existing mines which are facing downgrades to production, falling commodity prices and infrastructure tax credits which represents revenue foregone to the Government.

There are also additional compliance measures that is expected to raise K380 million by Internal Revenue Commission.

Tax revenue is estimated at K11.2 billion in 2015, an increase of K1.5 billion or 15 per cent from the 2014 revised estimates of K9.7 billion. This increase, Mr Speaker, in tax revenue is a significant achievement by our Government and it is built on sound economic growth and improved tax compliances measures.

09/01

Mr Speaker, this Budget introduces five major revenue policy measures along with a number of minor policy measures and technical amendments. These measures combined, are expected to bring in K81.8 million in revenue for the Government in 2015.

Whilst Tax revenue receipts are expected to increase in 2015, Non Tax Revenue receipts are expected to decline by a total of K129.9 million or 10.9 per cent from the revised 2014 estimate of K1.9 billion. The decline in Non-Tax Revenue is because of lower dividends from the State owned entities in 2015. State owned entities are expected to pay a total of K80 million that is K20 million from the Bank of PNG, K10 million from IPBC, K25 million from the National Fisheries Authority and K25 million from the Motor Vehicle Insurance Limited.

Mining Petroleum and Gas dividends, a component of Non Tax Revenue, is anticipated to be K698.5 million with the bulk contributed by LNG dividends. Project grants are estimated at K1.3 billion in 2015, a decline of K200 million from the 2014 revised estimate of K1.5 billion.

Mr Speaker, projects grants are subject to discretion of donors and exchange rate fluctuations which are beyond our control. Revenues from mining and petroleum companies will be reduced by K207.8 million in 2015, as a result of allowances for Infrastructure Tax Credits.

Mr Speaker, the Government's spending priorities in the 2015 Budget include;

- Enhance opportunism for our people by improving the investment climate of our country while recognising the need for macro-economic stability by progressively returning to a balanced budget in 2017, one year earlier than the original time frame.
- Further promote the efficient and effective implementation processes as well as open and competitive tender process
- Increase direct funding to provinces and districts with more emphasis on monitoring, evaluation and compliance so as to achieve improved development outcomes
- Continue to support policy priorities in Education, Health, Infrastructure, Agriculture and SME
- Continue to strengthen the Justice Sector, adequately resource Corrections Services, modernise the Police Force and rebuild the Defence Force

The prioritisation of spending in this Budget reflects the Governments focus on delivering against the current Medium Term Development Plan 2011-2015 (MTDP) through continued investment in the following key enablers;

- unlocking land and providing affordable housing for the public;
- improving law, order and justice;

- establishing quality national transport corridors that connect rural populations to markets and services;
- improving higher and technical education and training to redress the severe skills shortage in the labour force;
- providing universal access to primary and secondary education;
- provision of key utilities of electricity, clean water and sanitation and communications;
- improving primary and preventative health outcomes; and
- enhancing responsible sustainable development.

The total estimated expenditure of K16 199.1 million in 2015 includes operational spending of K9 213.5 million and capital expenditure of K6 985.5 million. While capital spending remains at historically high levels, the unprecedented growth achieved in 2014 cannot and should not be expected to be sustained on an ongoing basis.

This Government recognises that, over time, major investment in capital infrastructure must be accompanied by growth in operational budgets to ensure those investments are sustained and the expanded capacity is fully utilised to deliver improved services.

Some of the largest spending commitments include:

- Additional direct support for sub-national infrastructure through the new District Education Infrastructure Program, K267 million and District Education, Infrastructure Program, K178 million,

10/01

- Roads and bridges funding K1.1 billion;
- Universities and Colleges infrastructure K182.5 million;
- Continued roll-out of Tuition Fee Free Education K650 million (inclusive of trust funds);
- Hospitals re-development K308.9 million;
- Agriculture SME development K150 million;
- Housing and land development K70 million;
- Completion of facilities for the 2015 South Pacific Games K350 million, in addition to the K250 million advance in 2014 Supplementary Budget; and
- Increased allowances for local-level Government Councils officials K48 million.

Mr Speaker, total infrastructure sector funding of K2 298 million across the infrastructure sector will be used for various roads and bridges; infrastructure rehabilitation and completion of facilities for 2015 South Pacific Games. The majority of infrastructure funding is through the Department of Works and Implementation which is K1194 million.

Mr Speaker, the Government is committed to improving the transport sector to establish an investment platform as the basis for sustaining economic growth and effective social service delivery in our country.

The Government is investing K151 million in air transport infrastructure and K50.8 million in maritime transport infrastructure. Investment in our roads is also substantial under this Budget with National Highways K238.9 million, Highlands Highway K150 million and city roads K293 million.

Mr Speaker, total funding for the education sector in 2015, will be K1.9 billion. The Department of Education will receive funding of K1 140 million in 2015 which shows that current Government is committed to education. The subsidies paid to support the tuition fee-free policy continue to be a major but essential costs (K605 million, plus existing funding in trust accounts) to promote both increased school enrolment at elementary and primary levels and improve retention rate at higher levels.

Mr Speaker, the Government recognizes the implication of fee-free education policy and it's providing additional funding to the Department of Education and the provinces for the recruitment of additional teachers and to meet the cost of recent large increase in teachers' awards and allowances by approximately 10 per cent.

Mr Speaker, in 2015 a total of 18 232 schools will be beneficiaries of tuition fee-free education policy. This includes 11 093 Elementary Schools, 6 453 Primary Schools, 410 High Schools, 228 Vocational Schools, 2 FODE Schools, 8 National High Schools, 30 Permitted Schools and 8 Special Education Schools.

In addition to this, a total of K70 million will be provided for curriculum development materials which includes the procurement of text and resource books for teachers in elementary and primary schools, K12.2 million will be provided for national examinations to cater for grade 8, 10 and 12 examinations in 2015 and K11.7 million for Secondary Schools equipment.

The Government is continuing to improve access to higher education by providing K10 300 tertiary scholarships and by introducing a student loan scheme. At the same time the Government is providing wide ranging support for the rehabilitation of the nations higher education infrastructure with K62.5 million provided for 7 Universities, K14 million for 13 Technical Colleges, K40 million for 8 Teachers Colleges and another K40 million for Nursing Colleges.

11/01

The Health sector encompasses the Department of Health as well as delivery and research agencies including Hospital Management Services and Provincial Health Authorities.

Mr Speaker, in 2015 total funding for the sector will be K1.8 billion. The government will continue to subsidise free health care in 2015 at a cost of K20 million, support the creation of four new Provincial Health Authorities in West New Britain, Manus, Enga and Sundaun at a cost of K75.5 million, and as I have noted I will provide K40 million for rehabilitation of eight Nursing Colleges.

Mr Speaker, the Government is committed to rebuilding and rehabilitating our hospitals. In 2015 a total of K216 million will be provided for major works at the Angau Memorial Hospital and the New Enga Provincial Hospital. A further K93 million will be distributed for capital works across the remaining Provincial Hospitals.

Mr Speaker, the Government will provide K1.6 billion in 2015 (including K66 million in donor grants) to the Law and Order sector. The major recipients of the increased funding in 2015 Budget are the Department of Police (K367.2 million) and Defence (K261.2 million). In total K15.2 million has been allocated to 480 new Defence recruits, 750 new Police recruits and 200 CIS recruits.

Major investments in the law sector include the PNG-Australia Law and Justice Partnership (K55.7 million), Waigani Court House Complex (K180 million) and Services Improvement Program (SIP) contributes to the sector of K127 million. The Government will also provide K30 million to Police, Defence and Correctional Service, in addition to K28 million provided in 2014, to meet the cost associated with providing security services for the 2015 Pacific Games.

Mr Speaker, some other drivers of the investments in the legal sector include an increased number of Judges and increased circuits held in the provinces and districts and increased payments to village Court officials from seven to eleven officials per Court at a cost of K14.4 million.

Mr Speaker, the 2015 Budget will see a further enhancement of funding reforms introduced in 2013 which saw a major increase in the direct funding to sub-national levels of government. Funding will increase to K3.7 billion and additional resources will also be available from the District Education Infrastructure Program (K267 million) and District Health Infrastructure Program (178 million). While funding will initially appropriated through the Department of National Planning these new programs will provide K3 million per district and K2 million per district respectively for local infrastructure in health and education priorities. As the funding is tied, the expenditure the expenditure is listed in the tables for those sectors.

Mr Speaker, the funding for the Provinces includes the ongoing K1 492.0 million per year in direct funding based on K5.0 million per district for the Provincial Services Improvement Program, K10.0 million per district under the District Service Improvement and K100, 000 per Local Level Government. With the removal of fixed sector allocations, Provinces and Districts now have greater flexibility in utilizing this funding to address local development priorities.

12/01

Mr Speaker, the operating budgets of provinces will also be increased, in many cases substantially, to ensure the recruitment of more teachers and health workers and to assist in meetings and increased cost arising from substantial award increases in 2014 and 2015.

Mr Speaker, in respect to Public Servant wages, the Budget makes allowances for the new Public Service Pay Fixation Agreement (PSPFA) 2014-2016. Starting this year, the Government has allowed the 7.5 percent increase in the Public Servant wages to continue for the next three years. This will ease the burden of hard working public servants from additional inflationary pressures.

Whilst the Government welcomes increased salaries for our public servants, the National Government is committed to making the Public Service more efficient. Over the last four years the size and structure of the National Government and sub-national governments has changed

considerably, as the Government has moved to devolve service delivery. There is now more money being given to and service being delivered by sub-national governments than ever before.

It is timely, Mr Speaker, to consider the cost, efficiency and functions of the Public Sector; and to examine if the balance is right between the National and sub-national levels of government. The efficiency review will report on efficiencies and savings to improve the effectiveness of and value-for-money from all government expenditure across the forward estimates and in the medium term.

Mr Speaker, the 2015 Budget deficit of around K2.3 billion, or 4.4 percent of GDP, will be more than offset by proceeds from the sale of equity in the LNG project to landowners. The decision by the Government to proceed with the transaction and use of proceeds to retire debts this year means that the estimated level of debts will fall by K228 million to K14.26 billion by the end of 2015. This will have a positive impact on reducing the Government and private sector interest borrowing costs.

Mr Speaker, in 2015, and pending the time of the finalization of the sale process, Treasury will continue its tasks of raising funds from the market to finance the deficit. Next year's National Budget will be financed through a combination of loans from our development partners (K0.8 billion), who continued to provide valuable assistance to PNG, and the remainder to our domestic market (K1.5 billion). Domestic debts will be retired as soon as the Government receives the proceeds from the equity sale.

Mr Speaker, the Government has always had a strong preference for utilizing the domestic debt market where possible, but the time has now come for the Government to explore ways to increase its investor base and range of financing options. A growing economy needs to be supported by an equally vibrant and mature debt market capable for meeting PNG's future needs to fund projects and its development needs.

Mr Speaker, the Government's goal of achieving balanced budgets from 2017 onwards provides the appropriate platform to further reduce the level of debt to GDP ratio. The key measure of debt sustainability is expected to fall to 27.8 percent next year and rise slightly to 28.6 percent by 2019. Even with the inclusion of the outstanding superannuation liabilities of K2.1 billion, this ratio still remains below 30 percent. This sustained reduction in the level of

debt to GDP confirms the Government's underlying commitment to the Medium Term Fiscal Strategy and *Fiscal Responsibility Act*.

Mr Speaker, I am pleased to update this House on the progress of the Tax Review Committee. The establishment of the Tax Review Commission in 2013 demonstrated the commitment of the O'Neil-Dion Government to undertake substantial economic reform. It is the first major review of the revenue system in over 13 years. It is timely given the substantial economic and social changes in the country since then.

13/01

It is critical that PNG has a revenue system in place to enable it to effectively meet social and economic challenges now and in the future. It will ensure that PNG is able to raise the necessary revenue to allow the Government to improve essential services and build the infrastructure necessary for growth and development of PNG. A modern and effective tax system is a critical part of PNG's efforts to become a competitive middle income nation in the Asian Century and to achieve other aspiration as envisaged in the Vision 2050.

Mr Speaker, since the review was formally launched in September 2013, significant progress has been made. Three issue papers have been released with a further three to be released by the end of the year.

I am pleased by the significant level of interest generated in the Review. Broad engagement is crucial in ensuring that recommendations are well-informed and also that any subsequent reforms are sustainable.

Mr Speaker, already the review has received around 70 formal submissions with attended regional consultations held in Lae, Kokopo and Madang. The engagement of the National Research Institute in the Review process has been particularly welcomed, with a Tax Symposium co-hosted by National Research Institute and the Review Committee earlier in 2014 giving international and local academics an opportunity to provide inputs in the Review.

Mr Speaker, in recognition of the value of the consultation processes to date, the Government has agreed to extend the timeline by a further three months, with the Review to be finalized by 31st July 2015. The O'Neil-Dion Government is looking forward to receiving the final Report.

While the Government is not undertaking major tax reform prior to consideration of the tax review, the Government has put in place stringent compliance measures and has encouraged the Internal Revenue Commission and PNG Customs to improve their revenue administration.

Likewise, the Government is introducing reforms to the Research and Development and Infrastructure Tax Credit regimes to protect the revenue base from further erosion.

Mr Speaker, earlier this year, PNG took a significant step towards increasing transparency and accountability of revenues generated from the mineral and oil & gas sectors when our application for candidacy was accepted by the Extractive Industries Transparency Initiative (EITI) secretariat. Industry, Government and Civil Society will now commence the task of implementing EITI so that we can realize similar benefits to other resource-rich participating countries, such as an improved investment climate, more informed public debate and enhanced management of resource revenues both now and for the future generations.

Under the EITI, Papua New Guinea will report on revenue flows matching what resource companies will pay what Government receives. The EITI reform will also be a platform through which we can communicate to our citizens and the broader international community the amazing potential of our natural resources sector and the mature and responsible way we manage it. This is a considerable undertaking with the first report to be produced in 2015.

The Government also anticipates that EITI will set a platform for reforms in the extractive industries and other sectors as well.

Mr Speaker, turning now to the Sovereign Wealth Fund. The importance of the PNG Sovereign Wealth Fund cannot be understated. It aims to ensure PNG's natural resource revenue are well managed, and support the economy and future developments of our nation as envisaged in the PNG development strategies. The design of the PNG SWF is consistent with international best practice such as the SWF Generally Accepted Practices and Principals, the Extractive Industry Transparency Initiatives, and PNG domestic requirements

The current Organic Law of PNG SWF has been reviewed since its passage by Parliament in February 2012 to account for further refinements and technical issues of the Constitutional Law process.

13/01

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14/07

The *Organic Law* on the Sovereign Papua New Guinea Wealth Fund has been revised since its passage by Parliament in February 2012 to account for further refinements and technical issues of the *Constitutional Law* process.

The Organic Law has been redrafted with amendments to ensure that it does need all the underlining policy objectives of the Papua New Guinea Sovereign Wealth Fund and to further strengthen Government structures to ensure the Sovereign Wealth Fund cannot be diverted in future for purposes it was not intended for by Parliament.

Mr Speaker, looking ahead we recognise that our Mining and Petroleum resources are limited and are non-renewable. The Government has removed the development fund and incorporated a savings fund for the purposes of mineral and petroleum taxes and dividends. This

change does not affect the core institutional and operational structure of the PNG Sovereign Wealth Fund.

However, it does require alterations to the mechanisms for the flow of funds to properly account for the changed intention. Notwithstanding this change, there will be a single governance framework for the PNG Sovereign Wealth Fund. But this incorporates two funds; a Stabilization Fund and a Savings Fund.

Mr Speaker, this Stabilization Fund can help everyone in our country. It will ensure a steady stream of revenues to the Government's Budget for social and development spending. It will help protect our economy from the volatility and uncertainty in the global market. Without it our country risks being caught in the circles of boom and dark and not making the most from a resourced wealth.

Mr Speaker, the Savings Fund will provide a means of preserving the real value of extracted mineral and petroleum resources to long-term investment for the benefit of current and future generations of our citizens. This work is critical to improving the lives of everyone now and the generations to come.

Mr Speaker, the overall objectives of Papua New Guinea's Sovereign Wealth Fund are to;

1. support Macro-economic stabilization
2. promote inter-generational equity; and
3. support asset management in relation to financial assets accrued from natural

resource revenue.

Mr Speaker, the PNG Sovereign Wealth Fund will be integrated into the Budget and to the Fiscal Policy Framework

The PNG Sovereign Wealth Fund will operate and be governed within PNG with an independent body that will invest the assets predominantly overseas to help macro-economic management and seek the best returns for our country. Not all spendings will be in Papua New Guinea to the National Budget. This will avoid the dangers of the so called Dutch Disease, ensuring effective Government spending of mineral and petroleum revenues and facilitate fiscal transparency and oversight of Public Finance Management by Parliament.

Mr Speaker, the National Budget will be accorded priority funding and will be linked by the deposit and withdrawal rules of the Sovereign Wealth Fund.

The Policy is intended to help achieve macro-economic and financial stability system. The Government will table this legislation in the next Meeting of Parliament.

Mr Speaker, I am also pleased to announce that in 2014 the Government made considerable progress in improving the financial literature and financial inclusion of our citizens.

The Goal for 2014 -2015 National Fiscal Inclusion and Financial Literacy Strategy is to reach one million more unbanked Papua New Guineans. We want at least 50 per cent of those to be women.

I would like to acknowledge the Bank of Papua New Guinea and everyone involved in making the first year in this important initiatives so successful. It is critical that we maintain the momentum in relation to this important reform.

The Financial Services Sector review which commences this year and will conclude next year will identify policies and practices in improving the efficient operation of this important sector and to ensuring greater success by our citizens.

Among other issues, the review will cover systemic risks in the financial sector, government arrangements; how to utilise financial sector to improve the integrity of transfers between levels of a Government and to citizens; and enabling the growth and expansion of a sound debt market (financial capital market).

15/01

The O'Neil-Dion Government, Mr Speaker, strongly considers micro economic reform to be the engine for sustainable growth of the private sector. Accordingly, the Government will continue to pursue a comprehensive National Micro Economic Reform Agenda in 2015.

The Government will prioritise competition policy and looks forward to considering the reform options to be presented to government in 2015 from the consumer and competition policy review.

This review will consider how we can enhance consumer protection and addresses barriers and impediments to competition including those faced by women.

These findings will arm the Government with an ongoing programme of reform to support ongoing efficiency gains and growth.

I am very happy to announce that there is a background paper that is now nearing completion that will be available on the Treasury website by the end of November setting out the processes and objectives of the review in greater details.

A low-cost user friendly business regulatory environment for local and foreign business investors will also continue to assist Papua New Guinea to promote ourselves as an attractive investment destination.

Mr Speaker, the Government is about to undertake the largest restructure of the arrangement for holding and managing State assets since the establishment of the Independent Public Business Corporation in 2002.

The Kumul Consolidation Agenda will manage all State assets including the State-owned Enterprises and mining and petroleum interests. Sound and transparent management is critical to the success of Kumul Structure.

The Government will also undertake micro economic reforms in the SOEs. The Government's reform efforts throughout 2015 will continue to promote more efficient State-owned Enterprises through policies that require them to operate in accordance with the commercial best practice principles.

These principles include responding to shareholders expectations to receive dividends as a return on their investments. In the case of SOEs, these shareholders are the people of Papua New Guinea.

Mr Speaker, the Government recognises the important role the private sector can play in expanding service and infrastructure provision in Papua New Guinea including working with the State through public/private partnerships or PPPs.

Mr Speaker, triple Ps are a way to increase private sector involvement in the supply of public services. A key reform achievement for 2014 was the enactment of the *Public Private Partnership Act 2014*. We now have the legislative framework in place to commence realising triple P opportunities in Papua New Guinea.

Mr Speaker, 2015 will require the triple P regulation to be finalised and the establishment of the triple P centre in order to fully operationalise the framework.

Triple P is the governments preferred model for approaching infrastructure and service delivery going forward.

Not every project will lend itself to a triple P arrangement but many will and we look forward to realising the benefits of this approach as so many other countries have.

Mr Speaker, to harness this potential, the Government is examining the feasibility of a number of triple Ps in the power and transport sectors. It is important to emphasise that a triple P arrangement is simply a measure to competitively procure, deliver and maintain infrastructure and services through cooperation between a public institution and one or more private enterprises via long term contractual agreement, for example to build and maintain a highway or to plan and develop a large scale commercial agriculture project.

16/01

This additional PPP transaction expertise, combined with legislation that require transparent processes to execute PPP arrangements be followed, and it should provide the private sector enhanced confidence to invest in our country's PPPs.

Mr Speaker, the need for reliable and timely statistics cannot be stressed enough and the O'Neill-Dion Government has made a serious commitment in 2014 to reform the National Statistical Office (NSO).

The Government approved a co-sponsored submission on the Reform of Statistics in June for the NSO to immediately be reformed. This submission was sponsored by the Minister for National Planning and myself as the Treasurer. A terms of reference was drafted and presented to an IMF and Australian Bureau of Statistics (ABS) high mission in July to assess, prior to them committing technical Assistance to the Government's program.

It is understood that the IMF and the ABS including key donors like the World Bank are pleased with the broad thrust of the Government's plan and have officially announced they will provide technical assistance to reform NSO.

It is also understood that an ABS led scoping mission is already in PNG and have been working with the NSO and the key stakeholders to scope out reform packages for the Government. The Government is very serious about this reform and will provide the necessary resources to ensure and build the statistical system. The Government would also like to thank the IMF, the ABS and other donors for re-engaging PNG NSO. Let us work together to make this a reality.

Mr Speaker, on any journey, it is important to have friends who will walk alongside you. PNG is lucky enough to have a number of friends who have joined us on the path to greater economic prosperity that we are currently enjoying.

For example, in terms of grants in 2015, the Australian Government will provide K1.07 billion to PNG, the European Union will provide K82.4 million, the United Nations will provide over K81.9 million, the Japanese Government will provide K76.2 million, the New Zealand Government will provide K34.9 million and the Chinese Government will provide K15 million.

In addition, the World Bank contributed K164 million in grants and loans and the Asian Development Bank will be providing loans for K376.7 million worth of mainly infrastructure projects and the Chinese Government a further K348.6 million. There are a number of other partners and one of them being the International Monetary Fund which, recently completed their Article IV economic assessment of PNG that supported the continuation of the O'Neill-Dion Government's fiscal and sound monetary policies.

It is worth noting that in their economic assessment of PNG, they commended the O'Neill-Dion Government for the impressive achievements, especially the PNG LNG Project. The PNG LNG Project has demonstrated PNG's impressive capacity to undertake the large scale commercial development.

Looking ahead, the Pacific Games in 2015 and the APEC in 2018 will further provide opportunities to showcase PNG's capabilities. The O'Neill-Dion Government's commitment to sustainable budgetary reforms was acknowledged by the World Bank Group and the IMF through the appointment of PNG to chair the 2014 Annual General Meeting of the Board of Governors in Washington DC, USA from October 10 to October 12, 2014. Mr Speaker, it is a great honour for me personally and for Papua New Guinea to Chair this most prestigious meeting in front of our global leaders. While chairing the meeting, I used this opportunity to promote PNG and the Pacific Region and most importantly relay our concerns and challenges to the world.

This Budget must build the foundation for a strong and vibrant economy that will provide improved opportunities and higher living standards for the current and the future generations.

This Budget will help PNG overcome its development obstacles and create a more prosperous future for all of us. I commend the 2014 Supplementary Budget and the 2015 National Budget to Parliament.

Thankyou Mr Speaker.

Debate (on motion by **Mr Belden Namah**) adjourned.

17/01

CUSTOMS TARRIFF (2015 BUDGET) (AMENDMENT) BILL 2014

First Reading

Bill presented by **Mr Patrick Pruaitch** and read a first time.

Second Reading

Mr PATRICK PRUAITCH (Aitape-Lumi-Minister for Treasury) – I move –
That the Bill be now read a second time.

Mr Speaker, this Bill will introduce a new Tariff item for other meat and edible that do not fall in the mechanically debone meat descriptions. This is intended to avoid potential confusion in identification of appropriate items and rates; the import duty rates of this tariff item will be consistent with other tariff able items under heading 0207 except for M dip M, currently most goods in chapter 2 of the *Customs Tariff Act 1990* are attracting K2 and are schedule to fall to K1.80 in 2015 as per the current Tariff Reduction Program. This Bill also introduces a consequential Amendment resulting from the introduction of new Excise Tariff items for misclassified cigarettes. This is to ensure consistency in the descriptions contained in both *Excise Tariff Act 1956* and *Customs Tariff Act*.

Debate (on motion by **Belden Namah**) adjourned.

MOTION BY LEAVE

Mr JAMES MARAPE (Tari-Pori – Minister for Finance) – I ask leave of the Parliament to move a motion without notice.

Leave granted.

SUSPENSION OF STANDING ORDERS – ALTERATION OF HOUR OF SITTING

Motion (by **Mr James Marape**) agreed to –

That so much of the *Standing Orders* be suspended as would prevent:

- (a) the Parliament from sitting beyond 5 p.m. this day; and
- (b) the Parliament from adjourning on a motion to be moved by a Minister at any time.

EXCISE TARIFF (2015 BUDGET) (AMENDMENT) BILL 2014

First Reading

Bill presented by **Mr Patrick Pruaitch** and read a first time.

Second Reading

Mr PATRICK PRUAITCH (Aitape-Lumi-Minister for Treasury) – I move –

That the Bill be now read a second time.

Mr Speaker, the Bill proposes to increase the Tobacco Excise 6 monthly adjustment to fix rate of 5 per cent. The Government recognizes the health associated with smoking and the cost that this imposes on the health system and the broader community in recognition of this and d

with a view to discouraging consumption; Tobacco products are subjects to excise duties. It is important the real value of these excise duties is maintained overtime. However in taxation base on the consumer price index has not always effective given challenges in the CPI measurements. The Amendment will change the bases of measurement to a specific fix rate of 5 per cent every six months. The Bill also introduces 2 new Tariff items to cater for misclassified cigarettes. Currently, there is no Tariff item in the PNG Customs ammonized systems to cater for cigarettes such as *Pall Mall* and other manufactured cigarettes with filter containing Tobacco other then dark fired Tobacco and to cater for cigarettes without filter containing Tobacco and other Tobacco substitutes containing dark fired Tobacco.

18/01

The Bill introduces new Tariff items which will ensure that cigarettes are correctly classified under the new tariff items 2402.20.4 and 2402.20.50 reflecting their description. The excise rate of this tariff items will be consistent with the current practice. This means in December 1, 2014 the excise rate of cigarettes will be K261.51 per 1000 sticks index to the newly introduced 5 per cent nominal increase biannually for tobacco.

Mr Speaker, I commend the Bill to Parliament.

Debate (on motion by **Mr Belden Namah**) adjourned.

GOODS AND SERVICE (2015 BUDGET) (AMENDMENT) BILL 2014

First Reading

Bill presented by **Mr Patrick Pruaitch** and read a first time.

Second Reading

Mr PATRICK PRUIATCH (Aitape – Lumi - Treasurer) – I move –

That the Bill be now read a second time.

Mr Speaker, this Bill proposes clauses one and two, to expand the existing direct penalty regime which currently only applies to unpaid salary and wages tax amounted to unpaid amount due under the *Goods and Services Act 2003*.

Mr Speaker, the amendment will level the playing field in terms of soul traders, partners and company directors who use collected GST to fund business or private activities rather than remitting the amount as required. A soul traders who applies GST to pay other creditors instead of remitting the amount collected to IRC will be required pay the GST out of their own funds along with any late payments penalty. Implementation of the proposal will encourage directors to ensure that their company fulfills their obligation to remit amounts payable under the *Goods and Services Tax Act 2003*. I commend the Bill to the House.

Debate (on motion by **Mr Belden Namah**) adjourned.

INCOME TAX (2015 BUDGET) (AMMENDMENT) BILL 2014

First Reading

Bill presented by **Mr Patrick Pruaitch** and read a first time.

Second Reading

Mr PATRICK PRUAITCH (Aitape –Lumi- Minister for Treasury) – I move –

That the Bill be now read a second time.

Mr Speaker, the Bill proposes clause one, an amendment to rectify an unintended consequence of having the definition of debt equity and interest applied to act as a whole but rather clarify those definitions as needed for calculating restrictions and the level of deductible interest expansions originally intended.

Clause two, to amend the secrecy provisions enabling the Commissioner General to provide information to the Department of Treasury and the National Statistics Office for specific

purposes. The provisions relating to the Department of Treasury ensure that the Department is able to use tax information to effectively perform its function in costing policies and forecasting revenue both where there is a risk, aggregate information may identify a particular tax payer or where tax payer specific information is required, for example in costing a proposal to provide a particular taxpayer or project certain tax treatment that departs from the general tax treatment provided under the law. The information will also be shared with the National Statistics Office.

Clause three, an amendment to correct referencing. The word 'subsection' appearing in section 46 CA subsection 4, is meant to read section.

Clause four, consequential amendment to Clause One to include the definition of debt and equity ion section 68AF for the purposes of calculating thin capitalization.

19/01

Clause 5, to correct inconsistencies within the previous amendment to clarify the eligibility of gifts and sponsorship to the pacific Games for the 150 per cent deduction and to clarify the role of the Commissioner General in valuing the sponsorship of money or property in consultation with the PNG 2015 Pacific Games Limited.

Clause 6, to update a reference to the new prescribed royalty withholding tax division and further clarifies that the landowner royalty payments are a final tax.

Clause 7, the current legislation taxes, prescribed royalty payments in the same manner and under the same provisions as it taxes business income payments. This occurs due to the fact that the provision of the relevant division operates in respect of eligible payments made by a paying authority. The definition of eligible payments includes prescribed royalty payments and business income payments. These payments are unrelated in nature and the withholding of these amounts for tax purposes are also unrelated in its purpose and intent. This amendment would separate the legislative bonds

Clause 8 and 9, consequential amendments to Clause five to take landowner royalty payments out of the business payments tax regime and establish it as a final tax.

Clause 10, Under the Director Penalty provisions, section 299AD subsection 1 captures those persons who are directors of companies on or before the due date of salary or wage tax.

Subsection 3 is intended to capture those persons who became directors of companies after the due date. This is a typographical error which has an unintended effect.

Clause 11 and 12, this prevents non-compliant directors from winding up a company under the Directors Penalty regime. The measure serves only to remove one of the three options available to non-compliant company directors. It applies a differentiated approach between directors who comply partially with their salary and wage tax obligations that is they report it, even if they don't pay it, and those who don't comply at all that is those who don't pay and don't report. This amendment will enhance compliance for salary and wage tax obligations by improving the director penalties regime to prevent non-compliant directors from winding up a company.

Clause 13, to amend the penalty for convicted tax offenders under *section 315* of the *Income Tax Act* to include a jail term of up to 12 months imprisonment for individuals and public officers of corporate entities in the event of non-compliance of a court order compelling the offender to comply with their obligations under the Income Tax Act. The introduction of a jail term and the increase in monetary fines range will act as a stronger incentive for taxpayers to comply with court orders.

Clause 14, an amendment to update the definition of the Central Bank to reflect the correct name as defined under the *Central Banking Act 2000*

Clause 15, an amendment to replace out-dated references to provisions of the *Central Baking Act 2000* that do not exist anymore and update them with the correct legislative reference. I commend the Bill to Parliament.

Debate (on motion by **Mr Belden Namah**) adjourned.

**INTER- GOVERNMENT RELATIONS (FUNCTIONS AND FUNDING)
(2015 BUDGET) (AMENDMENT) BILL 2014**

First Reading

Bill presented by **Mr Patrick Pruaitch** and read a first time.

Second Reading

Mr PATRICK PRUAITCH (Aitape-Lumi – Minister for Treasury) – I move –

That the Bill be now read a second time.

Mr Speaker, this Bill makes a provision into the *Inter-Governmental Functions and Funding Act 2009* such that the Commissioner General of Internal Revenue Commission shall administer the National and Provincial inland GST Trust Accounts only in accordance with the provisions of the *Inter-governmental Relations Functions and Funding Act 2009*. This provision is intended to protect and secure state revenue from being affected by reason of other acts of parliament giving rise to revenue sharing outside of the scheme of the *Inter-governmental Relations Functions and Funding Act 2009*.

20/01

In 2009 such as the Commissioner General of the Internal Revenue Commission shall administer the National and Provincial inland DSP Trust Account only in accordance with the inter-governmental relations functions and funding *Act 2009*. This provision is intended to secure state revenue from being affected by reason of other Acts of Parliament giving raise to revenue sharing outside of the scheme of the *Inter-Governmental Relations Functions and Funding Acts 2009*. I commend the Bill to Parliament.

Debate (on motion by **Mr Patrick Pruaitch**) adjourned.

STAMP DUTY (2015 BUDGET) (AMENDMENT) BILL 2014

First Reading

Bill presented by **Mr Patrick Pruaitch** and read a first time.

Second Reading

Mr PATRICK PRUAITCH (Aitape-Lumi- Minister for Treasury) – I move –

That the Bill be now read a second time

Mr Speaker, this is intended to catch landlords who are currently leasing out there commercial and residential properties but are not declaring this income to the Internal Revenue Commission. This will make it mandatory for Landlords to provide their taxation identification number on leased documentation so that the IRC can more easily identify the Landlords and their likely taxation liabilities when Stamp Duty Processing is undertaken. I commend the Bill to Parliament.

Mr Belden Namah – Before I move the final motion I would like to seek clarification through your Chair that if all the Budget books that we have received from Volume 1 to Volume 2d are the only Volumes for 2015 Budget are the only Volumes, if I can get the clarification from the Treasurer.

Mr SPEAKER – Like I said earlier that I was advice that all the books will eventually reach you.

Mr Belden Namah – I want to quickly see it before I move the final motion. Mr Speaker.

Mr SPEAKER – I think you should be guaranteed that you will receive it. It will be delivered and you will have a week to reply on it so I think it's only common sense

Mr Belden Namah – Mr Speaker, if we cannot have the third Volume then this Budget is incomplete.

Mr SPEAKER – That is not true; I think the statement has been released already meaning that the Government will definitely provide it.

Mr Belden Namah – Then Mr Speaker, I will not move the final motion and the government can go back and prepare its Budget properly and we debate it properly in this House.

Mr SPEAKER – I will seek an explanation from the Treasurer. The Leader of the Oppositions decisions cannot be done than Leader of Government Business can move the motion

Mr Belden Namah – The Government is ill prepared to pass the 2015 Budget, Period!

(Members interjection)

Mr SPEAKER – I am advice that these accompanying Bills only

Sir Michael Somare – Point of Order!

21/01

Mr SPEAKER – The Chair also now recognises the Governor of East Sepik.

Sir Michael Somare – Point of Order! Mr Speaker, this is the first stage of presenting a Budget to this Parliament, giving us details of what is happening and then later on when the Leader of Government Business moves a motion, all the details will be explained and Supplementary Papers will be brought.

Mr SPEAKER – Honourable Governor, thank you very much. I will not be entertaining any more Points of Order.

Mr Don Polye – The documents of this expenditure of the development Budget are not here.

Mr SPEAKER – The documents are coming as far as I know.

Mr Sam Basil – It's an integrated Budget.

Mr Belden Namah – I cannot move a motion if the Budget Papers are not complete.

Mr SPEAKER – Honourable Leader of the Opposition, we have a week. By virtue of the fact that the Treasurer has delivered the Budget. I will not entertain anymore Points of Order. I call on the Leader of Government Business.

(Members interjecting)

Mr SPEAKER – Order!

Motion (by **Mr James Marape**) agreed to –

That debate be adjourned and made an Order of the Day for a subsequent sitting day.

Debate adjourned.

22/01

ADJOURNMENT

Motion (by **Mr James Marape**) agreed to–

That the Parliament do now adjourn to Tuesday 25 November at 10 a.m..

The Parliament adjourned at 5.20 p.m..