

**FIFTH DAY**

**Tuesday 28 November 2017**

**DRAFT HANSARD**

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**PARLIAMENTARY DEBATES**  
**CORRECTIONS TO DAILY DRAFT HANSARD**

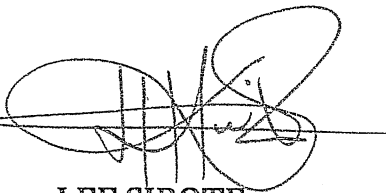
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Corrections maybe marked on a photocopy of the Daily Draft Hansard and lodged at the Office of the Principal Parliamentary Reporter, A1 - 23 (next to the Security Control Room).

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

Amendments cannot be accepted over the phone.

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



**LEE SIROTE**

Acting Principal Parliamentary Reporter

**FIFTH DAY**

**Tuesday 28 November 2017**

The Speaker (**Mr Job Pomat**) took the Chair at 10 a.m..

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

Sitting suspended.

The Speaker (**Mr Job Pomat**) again took the Chair and invited the Member for North Bougainville, **Honourable William Nakin**, to say Prayers:

‘Heavenly Father, you are holy indeed and a fountain of all holiness. We praise you and we thank you. We pray that you bless us all. Bless this country. Today is Parliament seating Father send us your knowledge, honour and guidance. Amen.’

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

**Mr DEPUTY SPEAKER** – Honourable Members, I have to inform the Parliament that the Permanent Parliamentary Committee on Broadcasting of Parliamentary Proceedings met today and resolved that *The National Broadcasting Corporation, EMTV* and *TVWAN* will be allowed to broadcast and telecast live the presentation of the 2017 Budget by the Deputy Prime Minister and Minister for Treasury at 2.00 o'clock this afternoon for television and radio news purposes.

## QUESTIONS

### Distribution of Log Export Levies

**Mr SASINDRAN MUTHUVEL** – I direct my question to the Minister for Finance. My question relates to the log development levy funds.

Can the Finance Minister explain to this Parliament how this latest development levies were distributed?

They told us that this money was still in control of the Finance Department when we requested for it. Therefore, they will not give it to us.

**Mr JAMES MARAPE** – I thank the Governor of West New Britain for his question. I would presume he is making reference to the log export development levy. His province and many other districts have logged and are entitled to it.

Mr Speaker, the log export levy funds are put together for us to distribute to districts and provinces that have logging operations.

In the last Parliament – firstly, let me commend the Treasury Ministry and the National Forests Authority for their partnership in working with us in consultation to distribute the log export levy. Submissions do come in but not directly to Finance.

02/05

Mr Speaker, what we are doing in Finance Department is that we are trying to shift away from old submissions that are in Finance, National Planning Department and the Treasury Department. We want to sit down at the macro level and manage all this by allowing sectors concerned to handle funds that are appropriated in the Budget. In this instance in the LEDL funds, the guidelines are in place as to how project proponents are submitted and we have shifted away from direct proposals by individual landowner companies or individuals as we have always seen in the past that submissions have come directly to Finance, National Planning or Treasury by individuals without proper vetting by authorities concerned, especially where the logging is taking place.

In this instance we are targeting to utilize districts and provincial mechanisms we have in place to vet the project proposals and if it is consistent to the district plan and the provincial plan then the project proposal emanates to the National Forest Authority and they lobby for funds and we remit the funds not to the Forest Authority or individual companies

but to districts concerned and they then can ensure that proper procurement process does take place at those levels of Government.

Mr Speaker that is the process we have in place and again let me commend the Forest Minister and his current National Forest Authority leadership, where they have not being territorial like in the past and tried to take control of the funds but they have allowed this process to take place where we are giving respect to provinces and districts concerned to identify the projects submit for the projects and the process goes from there.

Mr Speaker, having said this, I would advise that this funds are earmarked by law and will continue to be disbursed in partnership with Finance and Forest Departments. But let me appeal to districts and provinces that have forest projects in them that if you submit for projects and as you plan in your district or provincial plans, may I ask you to be considerate of the specific areas impacted by logging operations and that you consider projects that are very particular to those areas so that we don't have cases where landowners come directly to us complaining that the Member has re-diverted specific funds for that project to other projects.

Mr Speaker, I hope those answers are in order and we look forward to working closely with districts and provinces that have logging operations in as far as dispersing LEDL Funds.

**Mr RICHARD MASERE** – Mr Speaker I would direct my Supplementary Question to the Forest Minister –

**Mr SPEAKER** – Honourable Member your Supplementary Question must be directed to the Finance Minister. If not then you can be able to ask a new question.

**Mr RICHARD MASERE** – Mr Speaker my question is in line with the LEDL Funding and it is regarding landowner issue in my district in Ijivitari.

Mr Speaker, there is a particular approval given to a logging company that has moved in to?

**Mr James Marape** – Point of Order! Mr Speaker can the Member clarify whether he is asking a supplementary question or a new question to the Forest Minister.

**Mr SPEAKER** – Honourable Minister the Ijivitari Member is asking a new question to the Minister for Forest.

### **Logging in Ijivitari**

**Mr RICHARD MASERE** – Mr Speaker, my question is a new question and is directed to the Minister for Forest.

Mr Speaker there is a logging company operating in my district in Ijivitari and this company has created a lot of issues.

**03/05**

This logging company has moved in there and it has been operating there before and it has created a lot of issues there.

Mr Speaker, that same logging company has applied under a different entity.

Mr Speaker, the approval that has been granted for that same area is extending into other areas of Tufi District which the local landowners are not aware of this extension into their areas and is creating a lot of concern around my district.

(1) Who is in charge of the forest governance in the province?

(2) What is the process of approval of the projects in the province?

**Mr DOUGLAS TOMURIESA** – Mr Speaker, I thank the Member for Ijivitari for his two important questions.

Mr Speaker, in relation to governance of the forest in the provinces, we have officers on the ground and they represent the National Forest Office through the provincial forest office.

Mr Speaker, let me make it clear here that Provincial Administrators are also Chairmen of the Provincial Forest Board.

So in regards to the process of approving a project in the provinces, it really actually starts with the landowners and in particular, when it comes to the project in Wanigela Collingwood area, it is an FMA Project.

Any project that is approved for development must start with the landowners where their consent must be granted when it comes to that part where an MOU must be signed between the landowners and the developer. After the MOU is signed and an agreement has been reached a Logging Marketing Agreement (LMA) is signed between the landowners and the developer and the provincial government. After that is done it comes to the National

Forest Authority for it to get it through a development plan. That development plan must involve the LLG, the provincial government and the developer must agree with that development plan.

Mr Speaker, before we get into any development plan the departments like Agriculture, especially when there is an FCA Forest Clearing Authority or Forest Management Authority is granted, CIPA must be involved so that any environment damages all must be taken into consideration. So we have to go through the process of interacting with CIPA and Agriculture Department must also be involved if there is an agriculture project coming into that area. We also have to include the Lands Department.

With the project in Wanigela, I have spoken to the Forest Management Team to look at the arrangements again because the other day the Governor of Northern mentioned something true that the project was approved whilst we were all out in the National General Elections. I have asked the Managing Director and the Board Chairman to look at it because I haven't sighted the papers realistically.

Whilst we were all out in the Elections the provincial team, I think it was Mr Vevego, approved it and got the developer engaged.

04/05

His team approved it and brought the developer down, so I have already instructed the national board chairman and the managing director to put a show course notice to put the project on hold while we look at the paper work.

I know we have feedback from SIPA, departments of agriculture and lands respectively, as some of the approvals were never given, while the provincial forest chairman went ahead and approved the projects. We will stop it from there and allow for due process to go through and we will get the project approved in a proper manner involving the Open Member and the Governor. This is so we have clarity and transparency in this project.

### **Supplementary Question**

#### **Unrecognised logging Company**

Mr JOHNSON WAPUNAI –My question is directed to the Minister for Forest. There is a company in West Sepik at Erowaki and they acquired their CA from the West Sepik Forest Authority and they have been working for several years but at this point in time they have gone over their perimeter and are now into my electorate boundary.



**Mr Bryan Krammer** – Point of Order! Supplementary question is provided for under Section 146, to elusive to an answer; the question that the good member is raising is a new issue towards to Minister.

**Mr SPEAKER** –Honourable Member, you point of order is out of order, please continue with your question.

**Mr JOHNSON WAPUNAI** – My question is, they obtained the license in West Sepik but are now in East Sepik and they have exported almost 6 shipments from this area, so I want to know if this is legal or not.

**Mr DOUGLAS TOMURIESA** – I thank the Member for his question. The project is alluded to be a TA area. TA is anything under 500 hectare is approved by the Provincial Forest Board. And I know that they were only allowed for 500 hectares and it was renewed at the provincial level, however, the TRP expired so now they applied for an FMA, so they are able to cover a larger area. Under the TRP arrangement, they can only operate for 3-5 years and after that, you apply for an extension. Since they have applied for a Forest Management Authority, they are looking at a bigger forest area with additional time to log, they are allowed to do logging beyond five years. The application has not come to our attention as yet so when we do receive it, be assured that I will seek audience with you so that the direction now must come as a development option for the district and the province.

**05/05**

The FMA has not come to my attention and if it does, we will address that, but in the meantime, the TRP has expired and we will not renew it. But if the operation is still going, I request you and your Governor to sit with me so that we can discuss to see why the extension is granted.

#### **Reserve Business Activities**

**Mr HENRY AME** – My question is directed to the Minister for Commerce and Trade. This question may have been asked several times on the Floor of Parliament and I would like to know if the National Planning Minister, Mr Richard Maru, when he was the former

Minister in the last Government spoke a lot about SME and the Reserve Business Activities for Papua New Guineans.

I want to ask this question because many outsiders are now running small business activities in Goroka. Businesses where our own people can run and operate but are now run by aliens. I am sure this is happening in all other centres of Papua New Guinea and it is our concern.

My questions are:

(1) Is there any law that covers reserve business activities in our country or not?

(2) If no such laws, can the Government do something to protect the rights of our people to do these businesses to support their families from where they are?

Thank you Mr Speaker.

**Mr WERA MORI** – Thank you Mr Speaker, before I answer I would like to congratulate him for winning the clear mandate of the people of Goroka to represent them here at the Parliament. SME has been a contagious issue in Papua New Guinea and there's a lot of activities going on and there are questionable activities and must be addressed.

As for the question, my predecessor has launched the SME Policy in 2016. I have met with my department from policy and SMEC last week that within the next three or four months, we must come up with a clear definition of what is a clear reserve business activities that can be reserved only for Papua New Guineans. And by March or April of next year, I want to be in a position to bring the Bill to Parliament so that it can be enacted to protect businesses that can be allowed for Papua New Guineans to participate.

Currently, I am not in a position to make any harsh decision because I have to also weigh out the consequences to avoid making bad choices.

In the interest of the State, I will have a Bill in Parliament in the next six months to define what reserve business for Papua New Guinea are. Thank you Mr Speaker.

### **Review Electoral Process**

**Mr PATRICK PRUAITCH** – I rise to ask a series of questions to the Prime Minister in relation to the chaotic 2017 General Elections.

Mr Speaker, you are aware that 2017 General Elections was chaotic in that so many lives had been lost. So much properties worth millions of kina have been lost.

06/05

The length of time to declare the winning members takes so long, and apart from that high powered guns have been used by various factions during elections.

On those basis, Mr Speaker, and is the Prime minister prepared to look at reviewing the current electoral process that we have adapted?

Compared to the 2002 General Elections using the we have first-past-the-post system it took very little time to declare the winners compared to the preferential voting system where it takes too long to declare the winner.

So, is the Prime Minister and Government prepared to review the current Electoral Process that we have in place?

Thank you, Mr Speaker.

**Mr PETER O'NEILL** – Thank you, Mr Speaker, and I thank the honourable Leader of the Opposition for his question. Certainly, this is a very important question and in reflection to the Elections that we have gone through, yes, we have had incidences of violence involved, lots of lives and properties have been lost and a large number of communities have been disrupted as a result of the election related issues.

Mr Speaker, the Government is certainly putting a team together to review the recommendations and observation reports from some of partners who were here observing the elections, in particular the Commonwealth Secretariat and their representation headed by the former Governor-General of New Zealand.

That Report is now with Government and the issues that they have highlighted are not unsimilar to the elections before; the level of violence, intimidation and the voter influences and of course the double voting and all sorts of related issues that were highlighted in 2002, 2007 and 2012 are the same issues that have been brought up again in the 2017 elections.

So, Mr Speaker, one issue about the election is, it is conducted by the Electoral Commission and Electoral Commission is seen as an independent body and a Constitutional Office and of course they are operational under a legislation that is managing the issues by the Electoral Commissioner himself.

So, things like the updating of the common roll, the Government had no role or whatsoever in it because we did not have the powers to go and assist. But these are the sort of issues that need to be corrected and that is why we have given this mandate to the *Constitutional Review Commission* which is being headed by the good Member for

Henganofi, Mr Robert Atiyafa, and I understand that a Member of the Opposition will be on that Commission because we want this to be a bi-partisan approach.

Mr Speaker, the second issue on the reviews that are going to take place is that we are going to send a team to India, headed by Honourable Richard Maru and Honourable Sam Basil. They will lead the government team, including the Electoral Commission and Members of the NID Card System to go and learn about the software and the structures that have been established by the Indian Government that has delivered elections on a timely basis given the size of their population.

Mr Speaker, almost 7 000 people vote in India but the election result comes out in a matter of days because the Government and the Electoral Commission have a software program that they can only give from government to government.

**07/05**

It is important to send a team to get a firsthand view of how that programme is working and also to negotiate with the Indian Government so we can see how we can have access to this software. It is not only going to register every voter and everybody in this country but also update the common roll in a timely manner so we can avoid having ghost names on our common roll. Certainly the review is going to go on.

I personally believe that we should go back to the first-past-the-post system. Counting will not be delayed and the elections can be conducted in the shortest possible time. It will certainly also reduce a lot of costs and the violent incidences that happen right across the country.

The electoral system of the Westminster style of government that we adopted is from the English tradition. In the England today, after 2000 years of elections they still use the first-past-the-post system. I do know why we are rushing into preferential systems. I know we want to have a representation that is reflective of the community and their desire.

Unfortunately our culture and our style of elections and the counting is not conducive to that style. It is evident from the counting of preferences and the legal cases that are now going on before the courts. There are over 70 petitions lodged in courts and it is a clear reflection of the issues that we have in this preferential style of voting we have in our country.

Mr Speaker, I can assure the Opposition Leader that we will certainly do a review and do it early and not wait until the elections so we can all be happy that this is a fair system to

implement well before 2022 National Elections. Parliament will adopt it here so that the reforms can be in place well before that.

### Supplementary Question

#### Common Roll

**Mr JOE SUNGI** – Is the Common Roll above the *Constitution* or below it? The *Constitution* says that all Papua New Guineans above the age of 18 have a right to vote but the electoral roll says that we must enrol before we can vote.

Most of my voters came to the polling booth to vote but were rejected because their names were not on the common roll. Therefore does the Prime Minister and his Government have any plans to fix this issue so it can reflect the *Constitution* that provides the people right to vote when they are 18 and above?

**Mr PETER, O'NEILL** – I can say that the electoral laws are not above the *Constitution*. They are simply enabling legislations which allows the electoral process to take place. It is unfortunate that over the years we have had the practise of thinking that the common roll is the only Bible that we need to follow for elections in our country.

Mr Speaker, the updating of common rolls must be tied into the NID Programme that we are trying to establish in the country. We have to look at India where their programmes have been successful. I am told that the same software and applications have been adopted by about 40 plus countries all over the world.

We are going to fix the legislative deficiencies that does not enable us to participate in the updating of common rolls. We need to tidy up the ID system and common roll so that when we go to elections those young people who are turning 18 can vote. I understand that there are provisions in which if somebody was not on the common roll then they could fill up a form, register and vote. But such things have not happened in 2017 National Elections.

**08/05**

Mr Speaker, it is the application of the enabling legislations that we are not doing properly and as a result we have all these issues in the country. Thank you, Mr Speaker.

### **Functional Grant for ESP**

**Mr ALLAN BIRD** – Thank you, Mr Speaker. My question was supposed to be directed to the Treasurer who is not here, so could I ask the Prime Minister to respond. This question is in relation to the functional grants under the 2017 Budget. I like to think of them as service delivery grants.

Mr Speaker, my province under the Supplementary Budget was supposed to receive a total of K58 million in functional grants. A total of K16 million in warrants was released and we have only received K13 million to date which is equivalent to two months of operation. If the same situation exists for all provinces, Mr Speaker, I believe that that's a total of a billion kina outstanding to all provinces. The close of accounts is in three weeks and the Budget for next year will be handed down this afternoon.

Mr Speaker, for the interest of the Open Members as well, they will be pleased to note that in the absence of the service delivery grants, DSIP is used to plug the gap in service delivery.

Mr Speaker, given this scenario:

(1) Can the Prime Minister assure the people of East Sepik that the K45 million which is still outstanding in functional grants which includes health, education and infrastructure maintenance and so on will be delivered to us in the next three weeks before the close of accounts?

(2) Can the Prime Minister also assure the House that all provinces who have outstanding functional grants will be given those funds before the close of accounts and if not, why were such cuts not made in the Supplementary Budget that we passed in this Honourable House six to eight weeks ago?

**Mr PETER O'NEILL** – Thank you, Mr Speaker and I thank the Governor of East Sepik:

Mr Speaker, those are detailed questions that he is asking and therefore I would ask the Treasurer to respond to the Governor. So can the Governor put his question in writing to the Speaker and I will pass it onto the Treasurer. The Treasurer, unfortunately, is not here because he is in the Press Lockup addressing the Press for the Budget and then he will present the Budget this afternoon. Thankyou Mr Speaker.

## Supplementary Question

### Functional Grants

**Mr GARRY JUFFA** – My questions are directed to the Treasurer who is not here and they are in relation to the matters raised by the Governor of East Sepik.

Mr Speaker, there is this situation, throughout the year we have had to follow up on these functional grants and from this effort we have uncovered rumours that certain provinces are getting their payment while others are not. These rumours come from within the Treasury, Finance and Planning offices and even my own administration.

(1) Can the Prime Minister confirm or deny these rumours?

I am keen to understand.

And I would like to propose that the Ministry put together a matrix that can be furnished on a quality basis detailing who is being paid, when and what is outstanding.

(2) Can the Minister take note and give some sort of undertaking that this can be done?

This is so that all provinces are satisfied that they are getting their functional grants during the year's period. Thank you.

**Mr PETER O'NEILL** – Thank you, Mr Speaker and I thank the Governor of Oro for his questions.

Mr Speaker, I will direct the Treasurer to give a detailed answer on the functional grant issue as soon as he is finished presenting the Budget.

Mr Speaker, the issue relating to the Budgets is simple, because it appears in the Budget does not necessarily mean that the exact amount of funding will be guaranteed to be paid.

09/05

Because it appears in the National Budget, it does not necessarily mean that the exact amount of funding will be guaranteed to be paid but it depends on revenue of the Government.

Mr Speaker, if you look at the issue on DSIP and PSIP and of course all the other commitments that Government has made, we have done our very best to fund them and we have funded every toea that we have committed. So I have no doubt whatsoever, that if there are been distributions of functional grants to the provinces than it will be fair.

I don't believe in the rumours that some provinces are getting more than the others. I won't speculate on this matter but get the Treasurer to make a detailed report. But as far as

the distribution of funds are concerned we are very fair because we are serving our people in those communities.

It's not about politics but we are trying to make sure that the funds that rightly belong to the districts and provinces must get there on time, thank you Mr Speaker.

### **Ownership of Shares for landowners**

**Sir MEKERE MORAUTA** – Thank you, Mr Speaker I direct my question to the Prime Minister and it's in relation to the 4.27 per cent direct ownership allocated to Wellhead landowners and Facility landowners under the Rabaul Umbrella Agreement.

Prime Minister, during the election you were in Mendi and you were reported to have said that after the election those shares will be transferred to the landowners free of cost.

Last week, during Question Time, I raised the supplementary question to the Treasurer and he assured this Parliament that 4.27 per cent is available but Government was looking at vendor financing. And if its vendor financing then it is obviously indicates that it's not available.

Prime Minister, I now have information from reliable sources that the 4.27 per cent direct ownership were allocated to the landowners. And your Government used it as a mortgage to secure some borrowings more particularly UBS loan.

Prime Minister, can you just tell the landowners the real story.

If it's available than can it be transferred free-of-cost and when will it be?

**Mr PETER O'NEILL** – Thank you Mr Speaker, one thing about leaders believing in speculation and gossip is dangerous especially for a senior person like Sir Mekere Morauta. He should stop believing in such nonsense.

Let me answer his last question first, there is no mortgaging whatsoever of any of the shares that we hold in the LNG Project, including the ones held by the State and the ones earmarked for the landowners. Mr Speaker, there is no truth in what the good Member for Moresby North West is saying

The second issue about 4.27 per cent direct ownership, yes, those shares will be transferred to the landowners but it will be done after careful assessment of the clan vetting process and it's taking place now as we speak.



Mr Speaker, we have to identify the rightful landowners who will be entitled to those shares. We are not going to go around giving shares to anybody pretending to be representing the landowners.

Mr Speaker, during the elections when we discussed this issue there were some suggestions that we will be giving some of the shares free to the landowners. And that is by way of heavily discounting it from the prices that were set in the UBS Agreement.

Mr Speaker, no landowner grouping can raise up to US\$250 million per share which equates to be about a billion dollars. And that of course the Somare - led Government set and of course prices that were agreed by the then Minister for Public Enterprises, Arthur Somare, Mr Speaker.

It was to the ignorance of the landowners and that's what precisely happened they were not given a fair deal that they truly deserve

**10/05**

Mr Speaker, there are a lot of other issues that come into the play when we discuss these shares. That includes some of the ministerial commitment that we have committed in the then government that led into hundreds and millions of kina.

Mr Speaker, this is continuously causing us problems like the demands that some of the landowners today are making, but these demands were made outside the agreement we signed with them. This is because ministers, leaders and prime ministers' in the past have gone around committing –

**Mr Bryan Krammer** – Point of Order! Thank you Mr Speaker, in relation to the Prime Minister's comments, the question asked was whether he would give the landowners the free carry.

Mr Speaker, on the 22 of June 2017, the Prime Minister issued a press statement that his government would give the landowner free carry. But the response the Prime Minister is giving now indicates that we are talking about discounting that offer.

**Mr SPEAKER** – The Honourable Member for Madang, your point of order is out of order because the Prime Minister is still answering the question.

**Mr PETER O'NEILL** – Thank you, Mr Speaker. I know that, the young Member for Madang is very eager to participate in every issue and any issue in the country as much as he does on the social media.

Patience is a good thing. This is a virtue that he should learn.

Mr Speaker, 4.2 per cent rightfully belongs to the landowners. What I am trying to tell you is that, on top of that, the Government has an obligation to the landowners worth billions of kina. This Government did not make any commit, it was done by the governments in the past. They have committed hundreds and millions of kina as part of their commitment under the oil and gas projects.

Today, we are finding it very difficult to pay them because they were done outside the agreement, if the Member for Madang cares to listen. It was done outside of the agreements signed with the landowners.

Mr Speaker, as soon as some of these issues were brought up, to satisfy that issue without thinking it through how much it will cost, they made commitment of hundreds and millions of kina. But these ministerial commitments need to be audited and reconciled. The process involved in giving the landowner's shares is through discussions and how we can treat these outstanding commitments.

Mr Speaker, PNG Government cannot continue to go out and give free handouts continuously. That is why it has to be done through a serious negotiation with the landowners. As soon as clan vetting is complete I will starting entering into negotiation with the landowners about all the issues including the 4.27 percent.

Mr Speaker, I am not going to be forced into a contract where it will cost our future generation of this country hundreds and millions of kina which they cannot afford to pay. So I will wait until the clan vetting is completed. As I have said earlier and has started already, the pipeline and some of the other ground field area agreements are ongoing between the landowners and the public servants as we speak today. So the clan vetting process is going on very well and I expect this to be completed in a week or a month, then we can enter into discussion with the landowners.

### **Supplementary Question**

#### **Identity Past and Current Landowners**

**Mr ALLAN BIRD** – I am asking this supplementary question because this will have an implication on my people living around Freda Mine when work commences.

I understand that we will be pumping oil from those wells prior to gas. I also understand that we are very clear on who the landowners were when we gave them approval to pump oil. I am wondering whether these landowners where the oil is been pumped are different to those who own the oil well in the past? Could the Prime Minister enlighten the House and the people of Papua New Guinea whether they are different or the same people?

11/05

**Mr PETER O'NEILL** – I thank the Governor of East Sepik for his supplementary question.

Mr Speaker, we have new landowners in some of the new gas project sites but landowners from the existing oil fields are the same landowners. To identify them and clear that process, it is much easier for the old PDL project areas but the difficulty is where the new projects are starting to be developed.

Mr Speaker, what should have happened even before the gas agreement was signed, the clan vetting process should have been completed by the then Government. Unfortunately, they forced the issue and flew everybody to Kokopo, had discussions there while 3000 to 4000 of our landowners hanging there did not know whether that was the proper clan vetting process or not. Our friends in the National Alliance created this mess for us and we are just trying to fix the mess that they have created.

Mr Speaker, the second reason causing the delay in concluding the clan vetting is that not group of clans but individuals have initiated 10 to 12 different court cases. The court orders that were given covers even the existing landowners. So trying to deal with each of them and set them apart is not an easy task. That is adding onto the confusion and the delays which is causing a lot of anxiety with the genuine landowners.

I can say quite safely that almost 95 per cent to 99 per cent of the landowners want this to be concluded. They want to have access to the royalties that have been parked. From what I have been told it is about K300 million. This money needs to be distributed to the landowners so that they can have access to what is rightfully theirs. Right now, we have a situation where in some tribes, more members have been recruited or have been joining into tribes that were never there before.

So, Mr Speaker, our people need to understand that bringing more members into the tribe does not necessarily mean more money, it means that the split will be even less. They have to understand that we want to look after the rightful landowners in those areas.

## CERTIFICATION OF ACTS

Mr SPEAKER – Honourable Members, I have to inform Parliament that I have in accordance with *Section 110* of the *Constitution*, certified the following Acts made by the Parliament:

1. *Customs Tariff (2017 Supplementary Budget)(Amendment) Act 2017;*
2. *Income Tax (Amendment) Act 2017;*
3. *Papua New Guinea Fiscal Responsibility (2017 Supplementary Budget)(Amendment) Act 2017; and*
4. *Supplementary Appropriation Act 2017.*

Sitting suspended from 12 noon to 2 p.m..

12/05

### 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 – PRESENTATION OF 2018 BUDGET

Motion (by Mr James Marape) agreed to –

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

- a) The Deputy Prime Minister and Minister for Treasury presenting the 2018 Budget and associated Budget Papers.
- b) The appropriation (General Public Service Expenditure 2018) Bill 2017, Appropriation (Judiciary Services 2018 Budget) Bill 2017 and Appropriation (National Parliament 2018 Budget) Bill 2017 being presented together and debated as one.
- c) Separate questions be put on the second and third readings.

**APPROPRIATION (GENERAL PUBLIC SERVICE EXPENDITURE 2018 BUDGET)  
BILL 2017, APPROPRIATION (JUDICIARY SERVICES 2018 BUDGET) BILL 2017,  
APPROPRIATION (NATIONAL PARLIAMENT 2018 BUDGET) BILL 2017**

**First Reading**

Bills presented by **Mr Charles Abel** and read a first time.

**Second Reading**

**Mr CHARLES ABEL** (Alotau – Deputy Prime Minister and Minister for Treasury) – I  
move –

That the Bills be now read together a second time.

**Mr Patrick Pruiatch** – Point of Order! Mr Speaker, normally the Budget Papers and the Bills are distributed so that the Members of Parliament have the opportunity to view the Bills and the Budget documents while the Minister delivers the speech.

**Mr SPEAKER** – Honourable Opposition Leader, as the Minister is making his speech, the Bills and the Budget documents are all being distributed now.

**Mr CHARLES ABEL** – Thank you Mr Speaker. The Bills are available and they are being distributed as I am reading through the speech now and are being tabled.

Mr Speaker, it is a great honour to stand here as Deputy Prime Minister and Minister for Treasury to present this 2018 National Budget on behalf of our coalition Government to the honourable Members and to the people of this great nation.

Mr Speaker, I thank the Prime Minister, our coalition Party Leaders, Ministers of Planning and Finance, Cabinet, the Government Caucus and the hard working staff of the Department of Treasury Planning and Finance for your efforts and co-operation.

13/05

Not so long ago I stood here and delivered the 2017 Supplementary Budget that was point 1 in the 25 point 100 day plan to kick start the *Alotau Accord II* of this coalition Government. The 2018 Budget, our first substantive annual budget is point 2 of the 100 days

plan. And will be another illustration of our intention to deliver on our promise to maintain fiscal discipline, grow our revenues, and strengthen our economic base, improve governance and act strategically.

Mr Speaker, our Government has taken stock following the National Elections through a consultative process of engagement with stakeholders from Government, the private sector, development partners and community based organisations; this has been important in helping guide our interventions. And in the spirit of partnerships we will continue this open engagement. Following the rapid growth brought about by the commodity boom and the construction of the PNG LNG project, the PNG economy has endured a series of economic shocks, where commodity prices have fallen and remained relatively low with a severe drought in 2015 adding to difficulties.

A foreign exchange imbalance has developed which has constrained economic growth and total government revenue has fallen sharply as a share of GDP at 20 per cent in 2012 to 13.5 per cent in 2016 and is expected to decline further to below 13 per cent by the end of 2017. This together with the aggressive fiscal stance of the government in the last five years, to continue economic stimulus spending up the PNG LNG construction phase. And increase to enable infrastructure, education and health has resulted in larger than indicated budget deficits. Deadstock as a percentage of GDP has climbed from 23 per cent in 2012 to 32.5 per cent in 2016.

Mr Speaker, this was largely intentional through a series of budgeted fiscal deficits; however the economic shocks combined with the growth in the Government operating cost has put pressure on the Government's fiscal strategy. The anticipated windfall from the PNG LNG project which largely underwrote this strategy have not yet materialised. The supplementary Budget measures are expected to hold the GDP at similar levels by the end of 2017 and this is despite further unexpected falls in tax revenues in the final quarter.

In the phase of rising debt levels that result in the domestic financing constraints, the Government has responded to these shocks by cutting the discretionary spending, mostly from the capital budget, which further suppress economic conditions. The shocks have had a much greater impact and initially anticipated and continue to have an adverse impact as we end 2017. Despite these current challenges we need to reflect on the massive investments that have gone into infrastructure, education and health services at national and district level over the last five years.

We need to maintain these gains and continue to realise the benefits of our people through better access to quality education, health services, jobs and economic opportunities. As the international economic outlook is becoming a little more positive, we must use the 2018 Budget as an opportunity to continue to reform, make our government systems more efficient and build a more competitive and broad based economy with less reliance on imports and primary resource exports. And one that is more resilient to external shocks of commodity price fluctuations or climate change.

Mr Speaker, I will now turn to the state of the economy before discussing the 100 days outcomes and the 2018 National Budget. Papua New Guinea as we all know is richly blessed with natural resources above and below ground and in the ocean. Most of these resources are yet to be developed. There are a number of large and significant projects coming on stream that will continue to underpin our economy in the future. We must continue to learn from past experiences to fully realise our Vision 2050 and do it in a smart and reasonable ways as explained.

With 8 per cent of the world's biodiversity, 20 per cent of global tuna stocks, third largest rainforests and all our hydro carbon wealth, with 800 or more beautiful cultures we must manage our population growth and build a smart and self-reliant, sustainable economy with participation and benefit to all. And according to the International Monetary Fund, global economic activities are strengthening with a projected growth of 3.6 per cent in 2017 against 3.2 per cent growth in 2016.

14/05

Mr Speaker, according to the International Monetary Fund (IMF), global economic activity is strengthening, with a projected growth of 3.6 per cent in 2017 against 3.2 per cent growth in 2016. The revised forecast reflects a stronger rebound in growth in advanced economies and a lift in the growth prospects for emerging and developing economies.

In 2018, the global economy is projected to grow at 3.7 per cent. This slight improvement from the 2017 projections is driven by the growth impetus emanating from the emerging markets and developing economies (EMDEs). These economies are projected to grow at 4.9 per cent, reflective of stronger projected activity in China and in Europe. The growth forecast for advanced economies remains unchanged, with lower projected growth for the US, Japan and other advanced economies offsetting higher projected growth in the euro area.

Mr Speaker, while the global economy is showing signs of improvements, the global recovery is incomplete, as growth remains weak in many economies, especially commodity exporting economies. These economies have been hard hit and their adjustment to a sharp step down in foreign exchange earning continues. PNG is no exception, however, our prospects are promising with private sector investment gaining momentum as potential extractive project are nearing financial investment decisions.

Mr Speaker, the domestic economic outlook remains positive. This is despite the commodity market performing below expectations and private sector activities being hampered by the forex imbalance and restrictions on government domestic expenditure in recent years. Our GDP growth in 2017 is still projected at 2.2 per cent in real terms (against 2.7 per cent in the 2017 Supplementary Budget).

Indeed, commodity prices continue to track developments in the global economy. Oil prices have remained around US\$ 50 per barrel for a sustained period although have recently jumped to \$60, and gold prices are lower by 4 per cent, though copper prices are higher by 23 per cent against the 2017 Supplementary Budget projections. Concurrently, lower production from PNG's major oil fields and a further down grade to log production more than offsets the increase in gold production at Lihir and Simberi, and the Nickel and Cobalt at Ramu NiCo.

Mr Speaker, inflation is now projected to decrease to 5.9 per cent in 2017 from 6.8 per cent projected at the time of the 2017 Supplementary Budget. The expected inflationary impact of a slightly weaker kina against the US dollar and Australian dollar with depreciation rates of 0.5 per cent and 2.9 per cent respectively, was offset by the full recovery in food production following the 2015 drought and lower aggregate demand for consumer goods and services.

Mr Speaker, let me now turn to our expectations for the coming year. In 2018, total real growth is projected at 2.4 per cent, marginally higher than this year. Growth will be driven by the non-mining sectors, feeding off the impetus from APEC related spending across the non-mining sectors and continued improvement in the agriculture, fisheries and forestry sector, which reflects an expected good year for coffee and increase copra and copra oil production due to higher global copra demand.

Over the medium term, the PNG economy is also conservatively expected to grow at an average growth rate of 2.4 per cent driven largely by the non-mining sectors as the investment in these sectors gradually materialises. Importantly, Mr Speaker, the current projection does not take into account major pipeline projects such as the Papua LNG,



P'ynang, Wafi Golpu, Frieda Mine and Solwara 1, which once in the construction phase will provide a significant boost to the entire economy. This maintains some conservatism in our approach as compared to recent Budgets. By building the resilience of our economy and our systems, without being overly dependent on these large resource projects, will reduce the impact of volatility from resource projects.

Mr Speaker, turning now to inflation, prices of basic goods and services are increasing which impacts the daily lives of our people.

In 2018, inflation is projected at 6.9 per cent, an upward revision of 1.0 percentage point. This reflects the increase import tariffs and excise rates on specific items in the 2018 Budget, higher spending on goods and services during APEC preparations and Leaders' Summit, and the gradual improvement in domestic economic activity, as well as the gradual improvement in global prices.

**15/05**

Mr Speaker, indeed for 2018, prices of our key commodities are expected to increase modestly from the 2017 levels. The oil prices are expected to increase slightly to US\$51 per barrel in line with further possible controls of production from the Organisation of Petroleum Exporting Countries OPEC and non OPEC countries reflecting the expected improvement in global demand. The Gold price is also expected to move slightly higher in 2018 in its ongoing safe haven demands starting from geopolitical concerns and eventually higher inflation rates.

Mr Speaker, I turn to the 100 Day, 25 Point Plan, which expires on 2 December 2017, and just in order to highlight the intentions of the Government and the specific activities undertaken as I mentioned in Parliament last week I would do this in the Budget speech.

Mr Speaker, we undertook the 100 Day 25 Point Plan, and in like of the prevailing circumstances it was intended to demonstrate proactivity and inspire confidence to kick start the *Alotau Accord II* by undertaking specific activities around; maintaining physical activity and boosting exchange, growing our revenue, strengthening our economic base, improving government and acting strategically.

Mr Speaker, these activities obviously roll into point 1 and 2 of the 25 Point Plan which are and were the Supplementary Budget 2017 and today the 2018 Budget. The intention in points one and two was to maintain physical discipline in the light of the prevailing difficult

circumstances in terms of our budget perimeters, over 2.5 fiscal deficits and that to GDP of 30 per cent so as not to put more stress on government financing and the economy.

Mr Speaker, a number of measures were undertaken to maintain this discipline but primarily as per point 4 is to the understanding of the honourable Members of this Parliament, this service improvement programme was temporarily reduced in 2017.

Point 3 was to have a payroll strengthening and the Organisation Starting and Personal Emoluments Committee (OSPEC), has been reactivated and is progressing a Payroll Audit Exercise and the NID Registration requirement, as explained by the Minister for Public Service in Parliament, last week. This is in response to the primary cost escalations factor of government which is the unsustainable growth in personal emoluments.

Mr Speaker, point 5 was for;

(1) the drawdown of the balance of the Credit Suisse Loan of which two technical requirements would have been met following the Budget session and enabling the final balance to be drawn down. One of those, Mr Speaker, is the laying in Parliament of the necessary documents and I will be doing so in his Budget process enabling the balance of the Credit Suisse Loan US\$190 million to be drawn bringing some significant foreign currency in country and also supporting the financing of the 2017 Supplementary Budget.

(2) To access World Bank and ADB funding for the 2018 Budget and this has been achieved following my trip to Washington where with the World Banks understanding they will provide US\$100 million for debt restructuring in 2018 and another US\$100 million in 2019 and 2020. The ADB is also providing budget support commencing in 2018 for the Health sector of up to US\$30 million. These measures provide financing resources at good terms and bring foreign exchange.

Mr Speaker, point 6, was for;

(1) Oil Search Company to prove a minimum of 50 per cent of the crude oil to the Napanapa Refinery in kina terms, as the refinery was accessing crude oil in dollar terms on a spot market through an agreement and is currently happening.

(2) A transition to gas powered electricity and a Pom Gas 58 megawatt electricity project has been approved by Cabinet and has commenced construction to provide the cheapest in country power source using our own gas and all the shares will be denominated into kina. The new power plant will be owned by Oil Search and Kumul Petroleum and shares will be taken up by MRDC and PNG Power. The availability of domestic gas can catalyse other gas powered initiatives.

(3) In terms of rice production, the rice quota scheme has been delayed and three large scale rice projects are being developed with three separate private sector partners with potential support in the 2018 Budget through the Agriculture Commercialisation Fund.

16/05

Mr Speaker, The Bank of Papua New Guinea to intervene into the foreign exchange market with US\$ 100 million. This is being done and the Bank of Papua New Guinea is also conducting a review of all foreign currency accounts and the obligations of those account holders particularly resource companies to remit excess funds back to Papua New Guinea.

Point 7, Non-Tax Revenue collecting agencies to remit 90 per cent of the revenues to consolidated revenue fund which has commenced with some immediate action with specific agencies and will be reinforced by the Public Money Management Regularisation Bill 2017 which has been approved by Cabinet and will be tabled in Parliament in conjunction with this Budget.

Mr Speaker, in relation to Point 8 and Point 10 relates to Tax Regime Reform and this is being managed through the New Medium Term Revenue Strategy developed in conjunction with IMF the new Tax Administration Bill which is also to be tabled together with this Budget. Measures will commence in this Budget to tidy up the Tax Code and Bank of Papua New Guinea, IRC, IPA and commercial banks are cooperating to enforce compulsory Tax Identification Number requirements for opening bank accounts. The commercial banks have agreed to provide information to the IRC regarding bank accounts being operated in a business manner for further scrutiny.

Mr Speaker, significant funding is provided in the 2018 Budget for both the IRC and the Customs to boost capacity against quantified additional revenue collection.

Point 9 is the establishment of the task forces for IRC, Lands and the Customs and illicit trade. Funding has been provided in the Supplementary Budget and the Attorney General, Labour and Immigration ministers, illicit customs and illicit trade, Lands Minister to Lands Task Force and Treasurer and IRC Task Force.

Point 11, The progress of some significant resource development projects that I have mentioned being Wafi Gopu, the Papua New Guinea LNG expansion and the Papua LNG are all on track for early works pre-feed or feed in 2018. The Western LNG has announced pre-feed work last month.

Point 12, the launch of the new Australian Deferred Grant Funded projects being the PNG-Australia Economic and Social Programme and Angau Hospital Redevelopment Design and the TB Project which is cofounded with the World Bank. The financing documents have been executed already.

Point 13, Power projects. I have mentioned the 58 Megawatt Pom Gas Project which construction has begun. Secondly was the 30 Megawatt PNG Bio-massed projects in Markham with Oil Search which is in progress. Thirdly, the Ramu II 180 Megawatt Hydro Project which has achieved commercial close by a Cabinet decision but is pending financial close due to certain conditions present. Fourthly, the Nairo Brown River Hydro Project is progressing with funding from the World Bank. Fifth is, the Hela Gas Powered Solution which being negotiated with ExxonMobile and Oil Search.

Mr Speaker, in the meantime funding is being provided in this Budget to pull the powerline from Mendi to Hides to provide the missing power and national broadband network telecommunication link. To access power to the communities in Hela from the Ramu grid and surplus from the existing Tari generator.

Point 14, on impact projects. I just mentioned about the National Broadband Telecommunication domestic network but Point 14.1 is the International Submarine Cable that the Australian Minister and our Prime Minister have jointly announced that the Australian Government will be funding the submarine cabling from Sydney to Port Moresby and Port Moresby to Honiara. Papua New Guinea will own 100 percent of the submarine cable between Sydney and Port Moresby while 50 percent between Port Moresby and Honiara. Mr Speaker, this will substantially increase reliability and lower the cost of communication data into Papua New Guinea some 25 times.

Point 14.2 was the Pacific Industrial Marine Industrial Project. We have had to develop a new financing agreement which I signed recently with the China Exim Bank as it was an existing Exim Bank project.

Mr Speaker, number three was the Sepik Plain Agriculture Project together with Baiyer Valley and the Central Plains identified for large scale rice production as described earlier.

17/05

Point 15 The commencement of the US\$1 billion upgrade of the Highlands Highway of which the Project Management Unit has been established at the Department of Works and contracts have been advertised for supervisory contractors. Work will commence in 2018.

Point 16, The Gerehu 3B Affordable Housing Pilot Project, where 1762 allotments are being made available and free to qualifying citizens. The earthworks has been completed power and water services are now being constructed. Together with the concessional funding at BSP this will make housing accessible to ordinary Papua New Guineans and drive construction and employment. It can provide an example to duplicate in other centres.

Point 17 for the commencement of the new Enga Provincial Hospital construction and Mount Hagen Hospital Public Private Partnership redevelopment plan in 2018. And I believe this is going ahead.

Point 18, for the ceasing of the closed tender financing which Cabinet has approved and the bringing forward the National Procurement Authority Bill which is ready to come back to cabinet after changes were requested by Cabinet.

Point 19 requires audited accounts for SOEs and statutory authorities by mid-2018.

As Treasurer, I will be tabling all the reports for the agencies under my responsibilities as soon as they are cleared by Cabinet. And they are before Cabinet. That is the up-to-date ordinary financial account for all the agencies under my responsibility.

Point 20, to have all prescribed boards appointed. This is underway particularly under the State Enterprise Minister and the Agriculture Minister.

Point 21, refers to freeing up landowner resource benefits;

i) The PNG LNG landowners vetting issues are ongoing but royalty payments to the plant site landowners has commenced and it is anticipated to shortly resolve the pipeline landowner first payments and progress to conclusion of the clan vetting at the gas fields.

ii) The OK Tedi landowner CMCA and Non-CMCA have funds held in Trust that have been cleared by the Courts and I am waiting on the advice from the Justice Department to authorise some of the pending contracted works against those funds.

Point 22 proposed to suspend amendments to the *Lands Act*, the *IPA Act*, the *Agriculture Investment Act*, the *Agriculture Administration Adjustment Act*, and the *Mineral Resources Authority Act* and the *Mining Act* to allow further consultation. This has begun and the Lands Minister has already responded with some changes that has been approved by Cabinet giving

more time for the incorporation of incorporated land groups. Which was concerning the agriculture sector. We have ongoing dialogue with the mining industry. .

Point 23 refers to the *National Energy Authority Bill*. This should refer to the *Petroleum Authority Bill*, which is being finalised for Parliament.

Point 24 refers to the progressing the *Population Policy* and funding has been provided in the 2018 Budget under the Sustainable development Program at the Department of National Planning for this.

Point 25 refers to the Medium Term Development Plan 3, to be published in 2018. This is the five year development plan under the *National Planning Act* and indicator for the Government of the day which will incorporate the United Nations Sustainable Development Goals.

### ***2018 Budget***

Mr Speaker, I will now turn to the 2018 Budget, with the theme ‘Review our Priorities, Refocus our Energies, Reinforce our Strengths’

Mr Speaker, the current Government is committed to delivering the *Alotau Accord II*, as commenced through the 100 Day Plan. This Budget is the second component of this Plan. In particular, greater emphasis is given to the revenue reforms to arrest the general decline in government revenue and lift it decisively in 2018 to fund priority expenditures in education, health, infrastructure, agriculture, tourism and SMEs. This should spur economic growth, generate jobs and empower our people through meaningful engagement in economic activities to better themselves.

The Government will continue to invest in key national infrastructure programs in 2018, particularly the Highlands Highway, coastal jetties, the missing link roads program, hydro and gas power stations, and the international submarine cable project.

These are important transformational projects that will reduce the cost of doing business, improve market access for rural farmers and improves and lower the cost of communications for business and consumers.

**18/05**

Promoting structural reforms is another key policy area of this Government. This is focused on reducing the costs of trade, lowering the cost of services such as power and communications and encouraging local food production to replace imports and building a

more resilient economy with less reliance on the extractive industry. The APEC Summit in 2018 will allow PNG to showcase its readiness for enhanced capital and trade flows.

### *2018 Fiscal Outlook: Revenue and Expenditure Revenue*

Mr Speaker, the 2018 Budget will mark the first year of the implementation of the new Medium-Term Revenue Strategy 2018-22. Revenue – excluding grants – as a percentage of GDP has declined over the years from around 20 per cent in 2012 to 13 per cent in 2017. A major effort in this revenue strategy is to halt this decline in the revenue to GDP trend and lift revenue levels substantially in 2018 and then stabilise the revenue trend to around 14.0 per cent of GDP over the projection period.

This will comprise strengthening the revenue administration agencies to increase compliance, broadening the tax base, some new tax measures and adjustments to the tax mix. It will also mean rethinking our approach to resource project agreements and scrutiny of the arrangements around fisheries and forestry. We need to identify why our GDP growth is not being matched with a corresponding growth in revenue.

The 2018 Budget forecasts an increase in non-tax revenue, through transferring un-used balances from revenue collecting agencies to the Consolidated Revenue Fund (CRF) and also transferring 90 per cent of the revenue collections of revenue generating agencies over 2018 to the CFR. The increase in non-tax revenue also includes an increase in dividend payments as a result of an expected improvement in the performance of public corporations.

Mr Speaker, the 2018 total revenue and grants Budget is projected at the K12, 730.7 million an increase of K1, 751.5 million or 16.0 per cent compared to the 2017 Supplementary Budget estimates. A number of the revenue increases are one-off in nature and these will be utilised to fund adjustment costs such as clearing outstanding arrears and funding one-off expenditure categories such as APEC. The Government recognises the folly of locking in higher expenditure patterns over the longer term based on one-off revenue measures that will not be able to be sustained. The increases in the capital Budget will be based on the revenue measures that will be able to be sustained.

In this respect, with the new revenue strategy major tax head contributions to revenue are expected to increase above 2017 levels with Personal Income Tax collections expected to reach K3.2 billion, Company Tax K1.9 billion, Mining and Petroleum Tax K179 million, Gaming Machine Tax K174.4 million, Dividend Withholding Tax K137.4 million and Interest Withholding Tax K84.2 million. For the Indirect Taxes, GST is expected to reach

K1.9 billion, Excise Duty K782.3 million, Import Excise K395.1 million, Export Tax K330 million and Import Duties K296.1 million.

Non-tax Revenues are expected to be substantially higher comprising fees and charges which are expected to reach K175.2 million. Dividends from state-owned enterprises and mining and petroleum projects which are expected to reach K1.3 billion. The breakup of the dividends are: National Fisheries Authority K400 million; Kumul Petroleum Holdings Limited K300 million; OK Tedi K200 million; Bank of PNG K150 million; Kumul Consolidated Holdings K100 million; National Gaming Control Board K75 million and Motor Vehicle Insurance Limited K25 million.

In addition to this, the newly introduced 90:10 statutory transfer rule will generate an additional K565 million comprising one-off receipts from the National Fisheries Authority of K400 million, National Gaming Control Board K75 million, Kumul Consolidated Holding K40 million, Mineral Resource Authority K30 million, National Maritime Safety Authority K10 million and the Conservation and Environment Protection Authority K10 million.

Grants from donor agencies are expected to total K1, 024.6 million in 2018. Donor Grants are subjected to movements in the exchange rates and policies of donors.

19/05

Mr Speaker, in terms of taxation measures, consistent with the new Medium Term Revenue Strategy (MTRS) and guided by the *Alotau Accord II* and the Government's 100 Day Plan, the 2018 Budget introduces a number of revenue policy measures. These measures are aimed at improving revenue collections through greater compliance, broadening the tax base to increase revenue more equitably and efficiently and making tax administration simpler and more effective. I would not like to present the Honourable Members with the five major revenue measures:

1. Strengthening Revenue Raising Agencies.

Mr Speaker, while improving revenue policy has the potential to raise revenue, increased revenue collection depends very much on the effectiveness and efficiency of the revenue administration. The Government's focus for 2018 is to strengthen the revenue raising agencies – IRC and Customs – through the establishment of a large tax payer office to focus on increased compliance of large tax payers for IRC and for PNG Customs to engineer a concreted lift in compliance and collections.



In this space, Mr Speaker, I would encourage the honourable Governors to work with the Provincial Tax Office to establish an Interim Compliance task force to improve GST collections as I understand there is significant GST compliance issues out in the provinces. This measure will assist provincial governments with increased funds as 60 per cent of the net GST collection eventually goes back to the provinces.

In 2018, Mr Speaker, in partnership with Industry Associations, we will operationalise a Revenue Taskforce, as noted earlier, this will be overseen by the Office of the Attorney General. The investigative focus will be on disrupting organised syndicates through prosecutions and asset/revenue collection.

### 2. Removal of the Training Levy and Double Deduction for Training.

Mr Speaker, the 2018 Budget removes the training levy and double deduction for Training incentives as they have outlived their purpose. In this modern commercial environment companies already have an incentive to train and up-skill their employees to add value to their businesses to remain competitive.

### 3. Reforms to Import Tariff and Excise on Diesel.

Mr Speaker, this Budget suspends the last phase of the current tariff reduction program, increases import tariffs on refined petroleum products and other imported products to strengthen and support domestic manufacturing.

There has been significant concerns raised by PNG manufacturers on the still competition coming from imported goods. Hence, the Government, in an effort to support employment through local manufactures increased import tariffs on certain items in the 2017 Supplementary Budget.

This Budget continues to support local manufactures by a further moderate increase to import tariff rates on items that are produced in PNG and items that have significant health risks, while some basic items that are not produced in PNG are set to zero.

Furthermore, the Government is concerned that the existing Import Parity Pricing model is largely benefiting importers of refined petroleum products to make excessive profits from imported petroleum products. In response, the Customs Tariff Rate for Diesel and Petrol is set at K0.10 per litre.

This Budget also introduces a further increase to diesel excise to 23 toea from 10 toea to align the rates more with petrol excise. There is merit in this alignment because both diesel and petrol vehicles are contributing to the overall wear and tear of the road network and it is important that all road users pay their fair share of excise.

#### 4. Realign Export Duty Of Unprocessed Old-growth Logs to Capture Resource Rents at Varying Log Species.

Mr Speaker, the progressive log export tax is a deliberate policy measure. International commentators have confirmed that the volume of logs leaving our shores is not matching the benefits that should be received. The progressive tax should encourage the establishment of downstream processing facilities and for additional spin-off economic activities.

In addition, Mr Speaker, there are some areas that have high valued log species while others may have low value species logs and therefore the taxation treatment is unfair. Furthermore, it is known that most logging companies in PNG are in prolonged tax loss situation, hence they do not pay corporate income taxes.

#### 5. Tax Administration Bill.

Mr Speaker, before I talk about the other minor policy tax measures, I would like to inform that this Budget also introduces measures to simplify tax administration through the announcement of a Tax Administration. The Bill sets out common procedures for the main taxes, gives greater consistency between the administrative rules for the different taxes and more certainty on taxpayers' obligation and rights. This is again a milestone achievement in the *Alotau Accord II* and first step towards simplifying and modernising tax regime consistent with the 100 Day Plan.

**20/05**

Mr Speaker, the 2018 Budget also introduces other minor tax policy measures to increase efficiency of the tax system and also to enhance tax compliance through clarifying the taxation law and simplifying tax administrative procedures and processes for the benefit of tax administration and taxpayers.

Some examples of amendments that are introduced to clarify the taxation law relate to defining terms primary production as applicable in the agriculture sector and resources as applicable in the mining and petroleum sector whilst other minor amendments to introduce efficiency in the tax system relate to increasing tax thresholds for sending money overseas and allowing the Commissioner General to declare landowner resource trusts.

The amendments to increase tax compliance relate to 'pay now and litigate later policy,' introducing a specific bribery offence provision to make tax administration officials more accountable and transparent and making registering taxpayer identification numbers as a legal requirement.

Mr Speaker, this Budget will also introduce a number of amendments to modify the 2017 Budget measures. Drafting issues led to unintended consequences and impinged upon other legislation, with possible impacts upon some commercial agreements that may have deflected the intended policy objective. This Budget will clarify drafting structures to give full effect to the policy intend of the measures.

In relation to termination benefits for employees, Mr Speaker, the tax treatment has been amended so rather than being taxed at their respective top marginal tax rate the treatment will be the same as superannuation payouts.

### **Expenditure.**

Mr Speaker, on the other side of the ledger, total government expenses for the 2018 Budget is also being prepared in a difficult fiscal environment and a number of structural impediments around the management of personnel emoluments and goods and services will need to be addressed.

The intention is to reduce total expenditure as a percentage of GDP from 18.4 per cent in 2018 to 16 per cent by 2022.

To improve expenditure productivity, the 2018 Budget will focus initially on areas that have, in the past, exceeded expenditure appropriations which by necessity forced substantial reductions in the capital and development budget to meet financing and other constraints. This led to very low productivity in service delivery and public investment levels – both key lifting economic growth and improving the lives of the people of Papua New Guinea.

However, the Government is mindful of the fact that the projected revenue increase in 2018 is partly driven by one-off non-tax gains; those revenues will be used to clear arrears and complete on-going projects and reforms to ensure that they do not add pressure on the fiscal space over the medium term.

The 2018 Budget expenditure envelope is set at K14 717.9 million. This is comprised of K10 074.0 million in operational expenditure and K4 643.9 million in capital expenditure. Compared to the 2017 Supplementary Budget estimates, the Budget envelope is projected to increase by K1 862.3 million (or by 14.5 per cent) with some of the increase in expenditure being allocated to the major task of clearing arrears and, therefore, will not be required to be sustained over the subsequent projection period.

Total income including grants in the 2018 Budget is estimated to be K12 730.7 million and with total expenses and capital expenditure appropriations set at K14,717.9 million, this

results in a financial requirement of K1 987.3 million, which will maintain the deficit at 2.5 per cent of GDP – the same rate as in the 2017 Supplementary and 2017 Budget.

Importantly, within expenditure envelope, expenditure on Personal Emoluments has been reduced by 3.2 per cent and grants reduced by 16.7 per cent. These reductions have been more than offset by a modest increase in goods and services appropriations, up by 5.2 per cent; public debt interest up by 14.4 per cent and capital expenditure up by 59 per cent.

Despite a modest reduction in 2018 appropriation, Personal Emoluments expenditures remain significant and the actions in this Budget will bring control over this category in 2018.

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Mr Speaker despite a modest deduction in 2018 Appropriation, personal emoluments expenditure remain significant and the actions of this Budget will bring control over this category in 2018 and over the Medium Term. This item will be on a decreasing trend from 6 percent of GDP to 4.5 percent by 2022.

The Governments drive is to clear accumulated areas while other operational expense allocation such as travel and subsistence have been reduced significantly.

The increase in public debt reflects the higher debt level and the shortening of average maturity of the Treasury Bill Portfolio.

The increase in the Capital Budget from 28 percent of non- resource revenue to 28 percent by 2022 reflects the Governments decentralization objective manifested in full funding for the Services Improvement Program and additional appropriations to support Public Sector Investments as well as leveraging counterpart funding to increase the drawdown of donor loaning funding projects.

Mr Speaker, a large proportion of the 2018 Budget is appropriated to the provinces through the SIP and GST distributions. Followed by the Administration Sector, Debt Servicing, Health, Education and Law and Justice Sectors.

Mr Speaker in decentralization, this Government is about distributing Fiscal resources in a way that facilitates essential services reaching our people. In this Budget the provincial sector receives K3.9 billion or 26.7 percent of the total Budget which is the largest share of the total Budget.

Major Appropriations include PSIP include K220 million, DSIP K890 million and Ward SIP K64.4 million.

Mr Speaker in terms of economic growth in 2018 has seen the highest increase some K385.7 million in the 2017 Supplementary Budget to K665.9 million or a 72 percent increase. Much of the increase is captured in the capital component with an increase of over 140 percent.

Mr Speaker, this reflects the Government's commitment towards boosting the economy for example in 2018 Budget the Government has maintained its support for the renewable resource sector for allocating a significant amount of funding to the ongoing activities such as the productive partnership in Agriculture Program, National Cattle Breeding Farm. Trade Subsidy for Coco and Coffee, Strategic Defence against Coffee Berry Bora and the Regional Coco Nursery Project.

An agriculture commercialization fund is established in the sum of K100 million and further funding is provided to the National Development Bank at K100 million for SME landing.

The Peoples Micro Bank receives K20 million. K50 million is provided for Industrial Centre Development particularly to support SME incubation centres.

Tourism will benefit for the first time from a loan from the World Bank of US\$20 million which will be partially drawn in 2018 with counterpart funding from the Government of Papua New Guinea of K8 million.

Mr Speaker the Education sector is the key to delivering quality primary, secondary and tertiary education through the Department of Education and Department of Higher Education, Research Science and Technology and the National Universities and Colleges. A total of K1.2934 billion has been allocated to the Education Sector in 2018 of which is 8.8 percent of the total Budget and is an increase of 13.3 percent from the 2017 Supplementary Budget.

Of the total Budget K1025.7 million is operational and K267.7 million is Capital Expenditure.

The Tuition Fee Free Policy is maintained at K602 million.

Mr Speaker, current investment priorities include Investment in Community Education Initiative, Nursing Education and Training and Teachers Technical and Business Colleges, Establishment of Poly Technique and National University and to complete the transition from Out-Come Based to Standard Based Education.\

Mr Speaker the focus on Technical and Vocational Education Training TVET is to establish a centre of excellence to produce the required trade skills to meet industry needs and empower youths to engage in private sector activities.

This will ultimately contribute in increase of productivity of human capital and greater participation in the economy.

Mr Speaker, in the 2018 Budget Health Sector is allocated K1505.9 million which is 10.2 percent and is a increase of 14 percent from the 2017 Supplementary Budget. From the total Budget K1044.3 million is allocated for operational and K461.7 million is for capital expenditure.

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K266.1 million has been allocated for medical supply procurement and distribution processes. This Government remains focused on delivering an efficient and effective health system that achieve international accepted standards of health services that are accessible by the people across the country.

The key priorities of the sector are noted to have made significant progress in achieving the health targets and improving indicators over the recent years and this should continue to be supported by the National Government and development partners. The current focus on provincial hospitals should be complemented by efforts from provinces with the provincial authorities to ensure that basic infrastructure in districts and LLGs exist and are adequately funded through the operational component.

Provinces and districts should fund the majority of the infrastructure need at the provincial, district and LLG level. Financing of the health sector has increased significantly over the last five years and are focused on improving the infrastructure of the national and regional referral hospitals and provincial hospitals which is critical. The Port Moresby Heart and Life Style Disease Institute received K30 million as does the Angau Cancer unit. And a new program for district hospital development gets K50 million.

Mr Speaker, programs and projects implemented in 2017 will continue for the year 2018. These transport programs include the continuous investment of the upgrading and maintenance of the national priority roads plus construction of missing links, district commodity roads and the Civil Aviation Development program (CADIP). In the medium term, roads, bridges, ports and airports and airstrips will be targeted towards the untapped economic potential areas to stimulate economic growth.

In 2018, the transport sector will receive K937.5 million which is two per cent higher than in the 2017 Supplementary Budget and makes up 6.4 per cent of the 2018 Budget. This consists of K642.3 million in capital and K294.9 million in operational expenditure. The

ADB funded Highlands Highway rehabilitation program commences in 2018. Rural jetties get K20 million, oil palm roads get K15 million, rural airstrips get K6 million. In terms of the APEC meet in 2018, and since 2014 a significant amount has been invested in this event and in 2018 the Government has allocated K300 million with much of it geared towards the administrative and logistics preparation.

Mr Speaker, I also like to point out that the Department of Community Development along with K25 million from the Australia is getting a total of K40 million primarily for programs associated with gender equality, gender based violence and an awareness on sorcery related violence, TB and HIV.

The 2018 financing and public debt. The estimated net financing requirement for 2018 is K1 987.2 million, commensurate with a new MTDS 2018-2022 this budget deficit has projected to finance through external and domestic sources comprising K1630.4 million from external sources and K333.8 million from domestic sources. Net domestic financing will comprise K30.2 million from treasury bills and K343.6 million from treasury bonds.

The external financing will be financed from concessionary budget support, from the ADB and the World Bank. Commercial financing through the inaugural US dollar bond program and some minor external loans and the remaining balance of K337.4 million in net terms from concessional donor program loans.

The financing requirement for 2018 will result in total government debt reaching

K25 807 .6 million by the end of 2018, equivalent to 32.2 per cent of GDP. By the end of 2018 the composition of total debt is projected to comprise of domestic debt of 22.1 per cent of GDP or K17 723 million, an external debt of 0.1 per cent of GDP or K8 084 million, predominantly loans from multilateral, bilateral and commercial creditors.

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Mr Speaker, with adverse revenue trends being halted and expenditure trends being rebalanced and placed on a declining trend trajectory, the 2018 fiscal deficit or net borrowing requirement is projected to be K1 987.2 million or 2.5 per cent of GDP. This translates into a debt to GDP ratio of 32.2 per cent which is within the 30-35 per cent boundaries prescribed in the *2017 Amended Fiscal Responsibility Act (FRA)*, which is consistent with a declining medium term debt target of 30 per cent by 2022. This approach is supporting the adjustment to a new fiscal and economic reality while ensuring the continuous delivery of services.

In addition, the Government is required to target a zero-average annual non-resource primary balance over the medium term.

Regarding the SWF, although it is yet to be operationalised, it remains a critical part of our medium term strategy in building the country's economic resilience and mitigating the impact of commodity price movements. Progress will be made towards its operationalisation in 2018 to increase our readiness should enhanced fiscal revenues materialise.

Government over the medium term, starting in 2018 will promote value for money and efficiency through a number of reforms including:

- Improving the management of personnel emoluments, through the work of OSPEAC,
- Reducing leakages by implementing the amalgamation programme and reforming procurement,
- Improving the selection of capital projects by creating the committee led by Planning to evaluate financial and economic impacts of each projects,
- Merging National Departments and Agencies
- Management of Manpower and Personnel Emoluments Ceilings and
- Industrial Pay Fixation Agreements.

Some of these reform initiatives are aimed at reducing inefficiencies, rebasing the size and function of the public service, and re-aligning public sector agency functions and responsibilities to avoid duplication of roles and responsibilities.

On the back on the upcoming APEC meetings, PNG will embark on a number of structural reforms, as the Government will continue to partner with key stakeholders in removing barriers to doing business and investment in PNG in specific sectors such as aviation, communication and SMEs.

Central to this set of reforms are the recommendations captured in the Consumer and Competition Framework Review and the Financial Services Sector Review which will be endorsed and implemented in 2018. Also, the Department of Treasury and Bank of PNG are focusing their efforts on improving access to finance through micro-finance, SMEs finance and greater financing including programmes.



### *Economic and Fiscal Risks*

Mr Speaker, although the global economy has improved, inherent uncertainties in this recovery climate will still pose a risk for the PNG economy, particularly if commodity prices fall below current levels.

On the domestic front, the noticeable imbalance in the foreign currency market also poses a considerable risk to economic activity and the inflation outlook. Greater coordination between fiscal and monetary policies is needed, as well as a preparedness to inject the required amount of foreign currency into the system to ease market demands. In this respect the Government's 100 Days Plan has prompted the BPNG to inject US\$100 million over the period of the Plan to ease foreign exchange pressures.

Natural phenomena such as weather-related issues and landowner issues and other events can substantially affect output and government revenue, notably through their impact on extractive projects and agriculture production.

Mr Speaker, a number of fiscal risks continue to be present and have become more critical over recent years including:

- Slower than expected implementation of large investment projects could impact adversely on overall economic growth and anticipated revenue growth.
- Failure to reverse the declining trends in revenue collections and failure to implement reforms plans in particular on on-tax revenue that will adversely affect the 2018 budget and the medium term.
- Failure to control rigid expenditure categories such as personnel emoluments will prevent fiscal space from being created to support more efficient public investment levels and,
- Failure to address and control level of arrears, particularly at year end tend to add to fiscal risk which undermines budget execution and debt management.

Finally, Mr Speaker, heavy reliance on domestic borrowing with an increasingly short duration gives rise to rollover risks and potentially volatile interest rates and interest costs to the Budget.

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Finally, Mr Speaker, heavy reliance of an increasingly short duration gives rise to roll over risks potentially volatile interests rates and interest costs to the Budget.

Nevertheless, we are confident that the Medium Term Debt Strategy with the renewed focus on shifting the portfolio towards external borrowing will mitigate these risks.

In conclusion, Mr Speaker, overall the 2018 Budget is a forthright step towards strengthening the resilience of the PNG economy to withstand future economic shocks. It lays the groundwork for fiscal consolidation and it will reignite the economic growth momentum and boost optimism for the future.

Importantly, it will shift focus to generating jobs and business opportunities for our people in agriculture, tourism and SME's and it provides the platform to showcase the best of PNG to the world at the upcoming APEC summit.

Mr Speaker, it is an opportunity to "Review our Priorities, Refocus our Energies and Reinforce our Strengths".

I commend the 2018 Budget to the honourable Members and to the people of Papua New Guinea.

Thank you, Mr Speaker.

Debate (on motion by Mr Ian Ling Stuckey) adjourned.

## **CUSTOMS TARIFF (2018 BUDGET)(AMENDMENT) BILL 2017**

### **First Reading**

Bill presented by Mr Charles Abel and read a first time.

### **Second Reading**

**Mr CHARLES ABEL** (Alotau – Minister for Treasury) – I move –

That the Bill be now read a second time.

Mr Speaker, this are part of the documentation and bills to support the 2018 Budget that I have explained at some length previously.

Debate (on motion by Mr Ian Ling Stuckey) adjourned.

**EXERCISE TARIFF (2018 BUDGET)(AMENDMENT) BILL 2017**

**First Reading**

Bill presented by **Mr Charles Abel** and read a first time.

**Second Reading**

**Mr CHARLES ABEL** (Alotau – Minister for Treasury) – I move –

That the Bill be now read a second time.

Mr Speaker, it is part of the supporting appropriations for the 2018 National Budget.

Debate (on motion by **Mr Ian Ling Stuckey**) adjourned.

**GOODS AND SERVICES TAX (2018 BUDGET)(AMENDMENT) BILL 2017**

**First Reading.**

Bill presented by **Mr Charles Abel** and read a first time.

**Second Reading**

**Mr CHARLES ABEL** (Alotau – Minister for Treasury) – I move –

That the Bill be now read a second time.

Mr Speaker, again supporting legislation for the tax.

Debate (on motion by **Mr Ian Ling Stuckey**) adjourned.

**INCOME TAX (2018 BUDGET)(AMENDMENT) BILL2017**

**First Reading**

Bill presented by **Mr Charles Abel** and read a first time.

**Second Reading**

**Mr CHARLES ABEL** (Alotau – Minister for Treasury) – I move –

That the Bill be now read a second time.

Mr Speaker, this is the Bill that provides for the amendments required to the Income Tax Act for the 2018 Budget purposes.

Debate (on motion by **Mr Ian Ling Stuckey**) adjourned.

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**INCOME TAX (SALARIES OR WAGES TAX)(RATES)(2018 BUDGET)  
(AMENDMENT) BILL 2007**

**First Reading**

Bill presented by **Mr Charles Abel** and read a first time.

**Second Reading**

**Mr CHARLES ABEL** (Alotau – Deputy Prime Minister and Minister for Treasury) – I  
move

That the Bill now read a second time.

Mr Speaker, this is further supporting legislation amendments to support the 2018 National Budget.

Debate (on motion by **Mr Ian Ling Stuckey**) adjourned.

## **OIL AND GAS (2018 BUDGET) (AMENDMENT) BILL 2017**

### **First Reading**

Bill presented by **Mr Charles Abel** and read a first time.

### **Second Reading**

**Mr CHARLES ABEL** (Alotau – Deputy Prime Minister and Minister for Treasury) – I  
move

That the Bill now be read a second time.

Mr Speaker, this is also related to the amendments required for the 2018 National Budget.

Debate (on motion by **Mr Ian Ling Stuckey**) 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.

### **ADJOURNMENT**

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

That the Parliament do now adjourn.

The Parliament adjourned at 3.50 p.m..