

## Who benefits from mining ?



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# South African nationalisation debate – lasting damage

Miningmx » Opinion » Columnists

## Be very afraid of nationalisation

Brendan Ryan | Fri, 30 Dec 2011 12:00  
First published 3 August 2011.



South Africa's attractiveness as mining jurisdiction (Fraser Institute)

(2008/09) 49

(2012/13) 64

8 in Africa



*“Both South Africa and Zimbabwe are driving social experiments not driven by logic and economy, but by ideology. In the absence of reason, primary industries become the cash cows to fund the un-fundable. The rise of oligarchs in both countries evidences decline”* (Fraser Institute Annual Survey of Mining Companies 2012/2013).

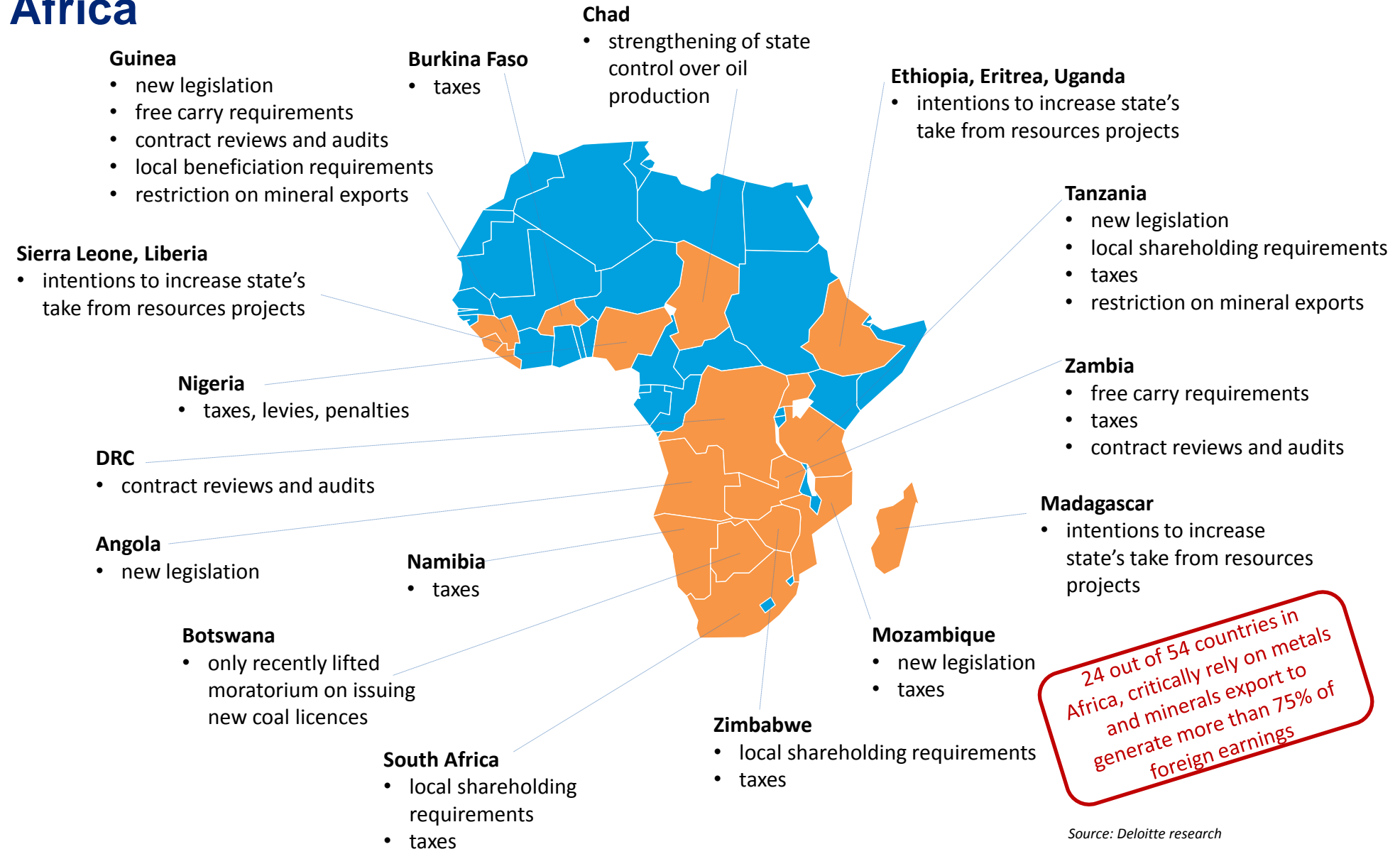
Source: Fraser Institute Annual Survey of Mining Companies 2012/2013

Miners breathe sigh of relief with nationalisation debate 'off table'

BY ALLAN SECCOMBE, 21 DECEMBER 2012, 06:32

BusinessDay  
**BDlive**

# A tide of “resource nationalism” is raising globally, notably in Africa

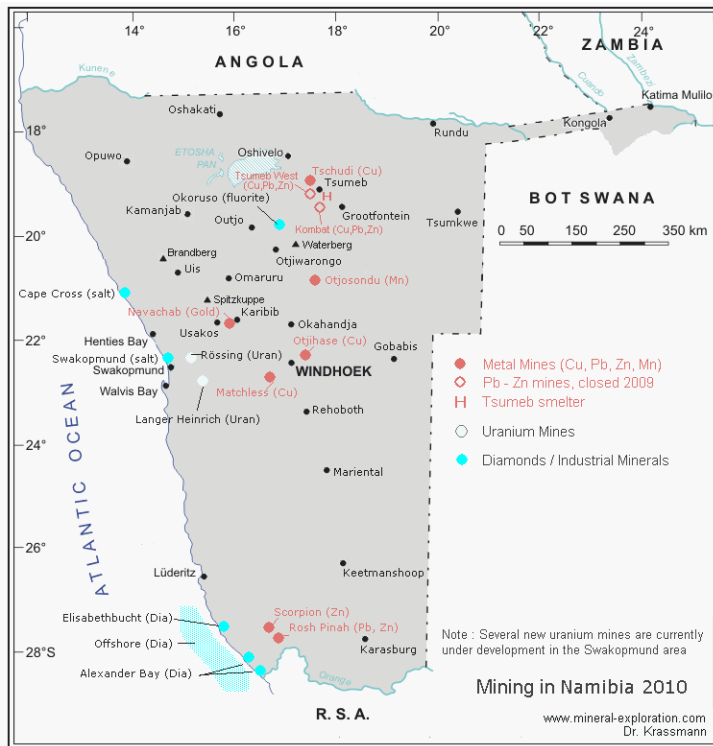


24 out of 54 countries in Africa, critically rely on metals and minerals export to generate more than 75% of foreign earnings

Source: Deloitte research

# The importance of Namibia's mining sector to the country's economy cannot be underestimated

## Namibia's mining sector



- World 4<sup>th</sup> largest uranium production
- World 7<sup>th</sup> largest diamond output
- Other mining: Cu, Pb, Zn, Mn
- Contribution to GDP: 8% - 10%

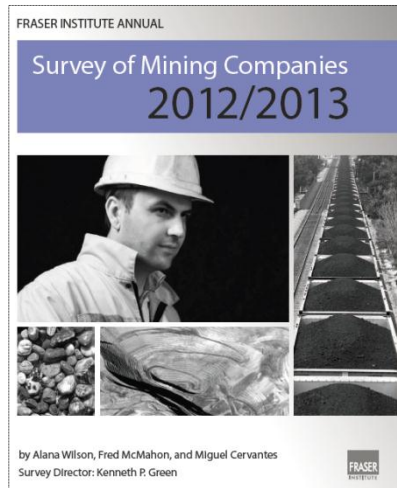
## Namibia's attractiveness as mining jurisdiction Policy Potential Index (Fraser Institute)

Country	World rank					Africa rank 2012/13	Last year move
	2008/9	2009/10	2010/11	2011/12	2012/13		
Botswana	18	21	14	17	17	1	0
Morocco				34	25	2	+9
<b>Namibia</b>	<b>34</b>	<b>37</b>	<b>30</b>	<b>45</b>	<b>30</b>	<b>3</b>	<b>+15</b>
Mauritania				52	36	4	+16
Ghana	35	34	47	43	54	5	-11
Burkina Faso	42	36	24	38	55	6	-17
Zambia	44	52	57	50	59	7	-9
South Africa	49	61	67	54	64	8	-10
Egypt				77	69	9	+8
Niger			43	68	70	10	-2
Tanzania	48	44	61	63	74	11	-11
Guinea (Conakry)			51	83	76	12	+7
Mali	33	27	29	42	79	13	-37
Madagascar			73	59	85	14	-26
Zimbabwe	65	69	71	74	91	15	-17
DRC (Congo)	63	68	77	76	93	16	-17

### Improved rating on

- uncertainty concerning disputed land claims
- availability of labour and skills
- uncertainty concerning the administration, interpretation or enforcement of existing regulations

# Namibia: historically stable regulatory and fiscal environment recognised, but there's concern



## FULL STORY

22.07.2011



## Minister announces new taxes

By: JO-MARÉ DUDDY

**FINANCE** Minister Saara Kuugongelwa-Amadhila yesterday tightened her grip on fiscal policy, introducing a wave of tax amendments to strengthen the money flow into State coffers and prevent Namibia from falling into a deficit trap.

## FULL STORY

17.07.2012

## New tax will 'devastate' mines

By: JO-MARÉ DUDDY

**GOVERNMENT'S** plan to push ahead with an export levy for mines, effectively charging mines up to two per cent tax on their income in addition to an array of existing taxes and royalties, will devastate the industry, the Chamber of Mines of Namibia warned yesterday.

*"Mineral resources data is provided at relatively low cost to industry participants. This creates a junior-senior company level playing field thus encouraging investment".*

**A consulting company, Consultant**

*"Black Economic Empowerment (BEE) rules, the uranium moratorium, and moves by the government to change mining law are toxic to new exploration investment"*

**An exploration company, Company President**

**Namibian export levy on unprocessed minerals soon a reality**

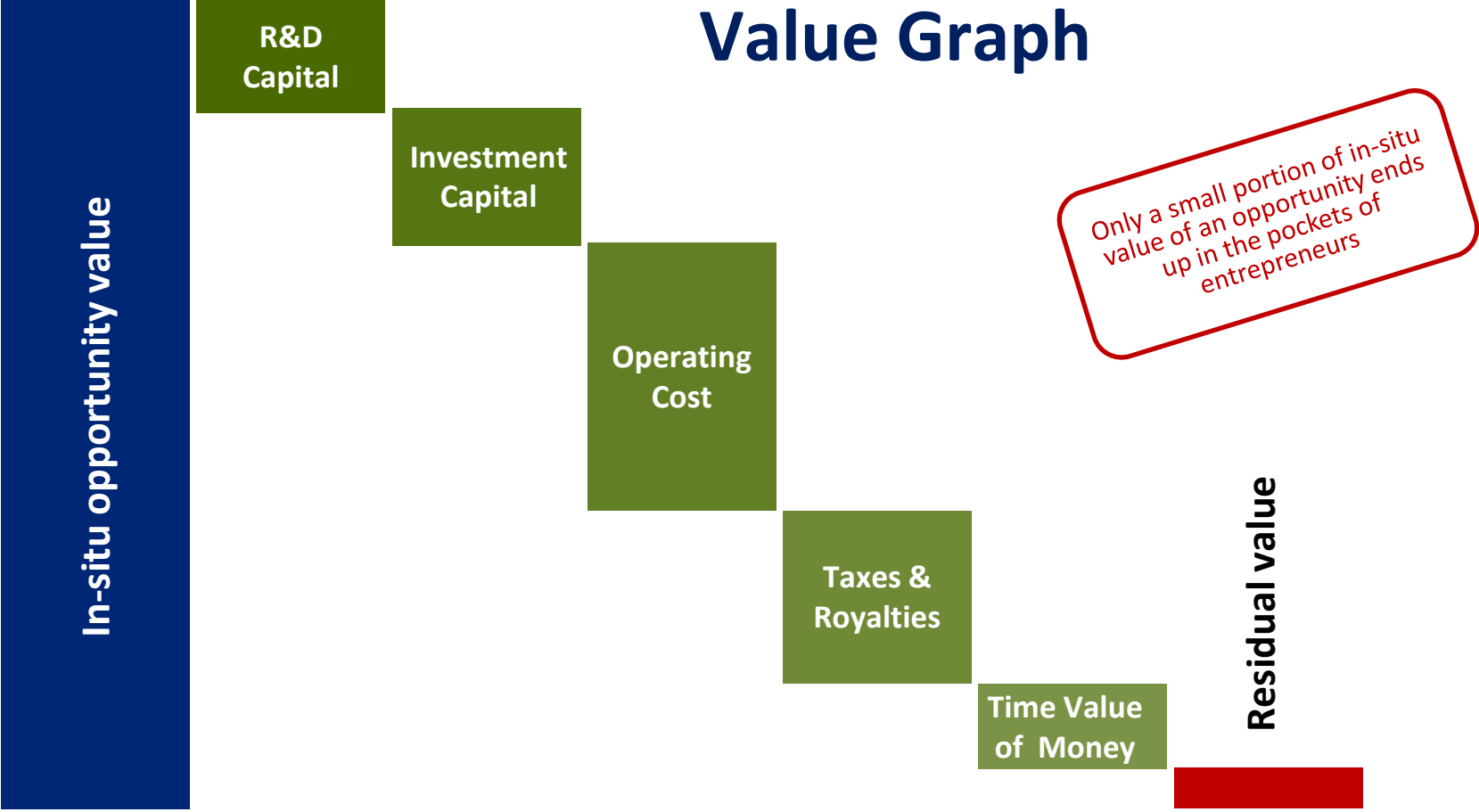
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*"We only want to make sure that we get a fair share from their value (resources)".*

**Namibian Minister of Finance Saara Kuugongelwa-Amadhila**

Source: Fraser Institute Annual Survey of Mining Companies 2012/2013

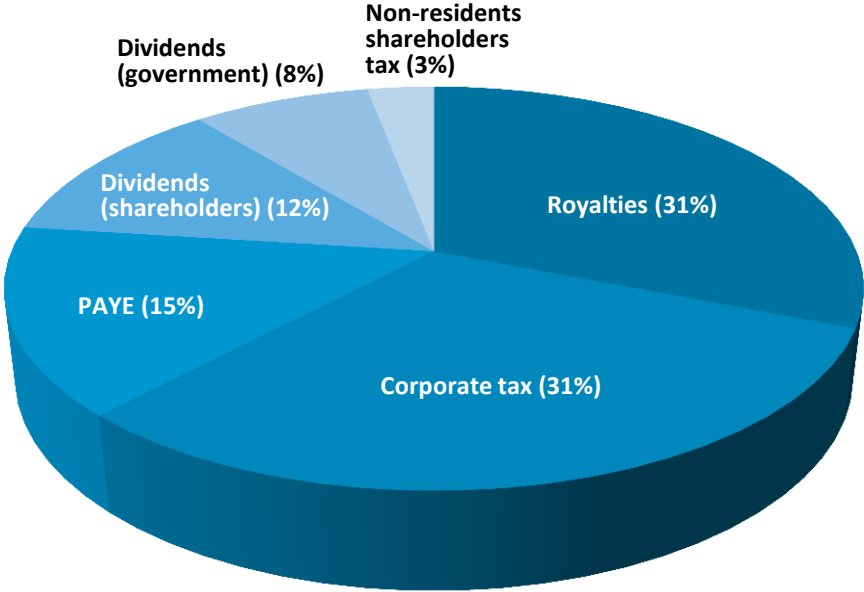
# Where does the mining-generated value go?



Source: Deloitte research

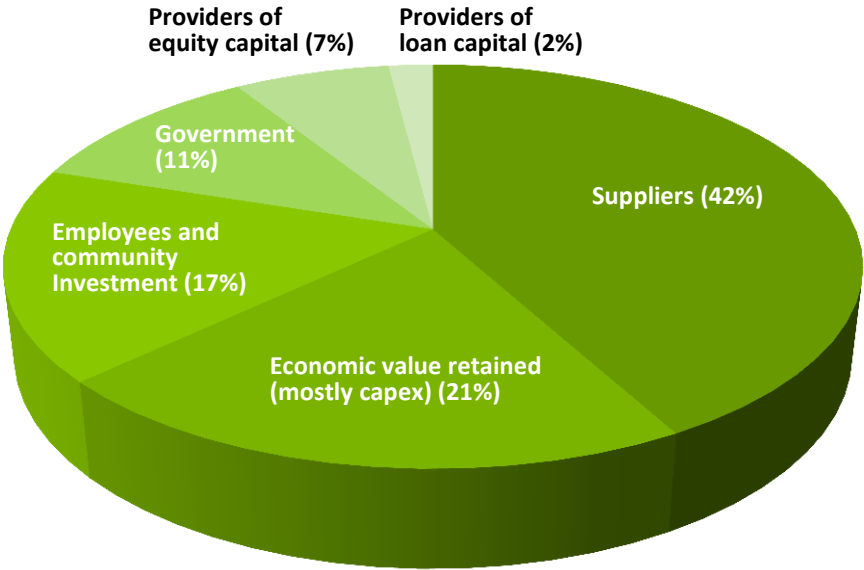
# Who benefits?

**Namibia, 2010**  
**7 major mines revenue (US\$360m)**



Source: Chamber of Mines News (Namibia), Issue 02/2012

**South Africa, 2010**  
**Economic value of mining (US\$49bn)**



Source: Citigroup Global Markets, 29/07/2011

# Redistribution of the mining pie or growing the pie bigger?

State-owned versus private investor

The need for a healthy debate

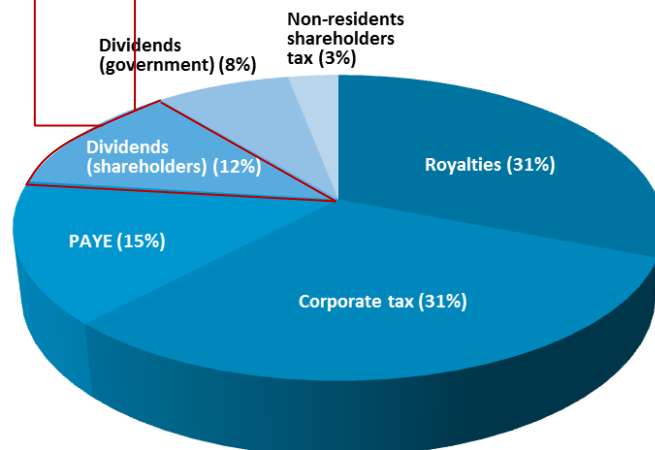
## Private entrepreneur

- Clear objective: maximise shareholder value
- Shareholders scrutiny
- Efficiency and discipline
- Assumes full risk, through the cycles

## State-owned

- Blurred mandate: trade-off between efficiency and policy imperatives
- Management not subjected to the scrutiny of financial markets
- No threat of take-over or bankruptcy

Why would government like to assume greater risk for such an incremental value?

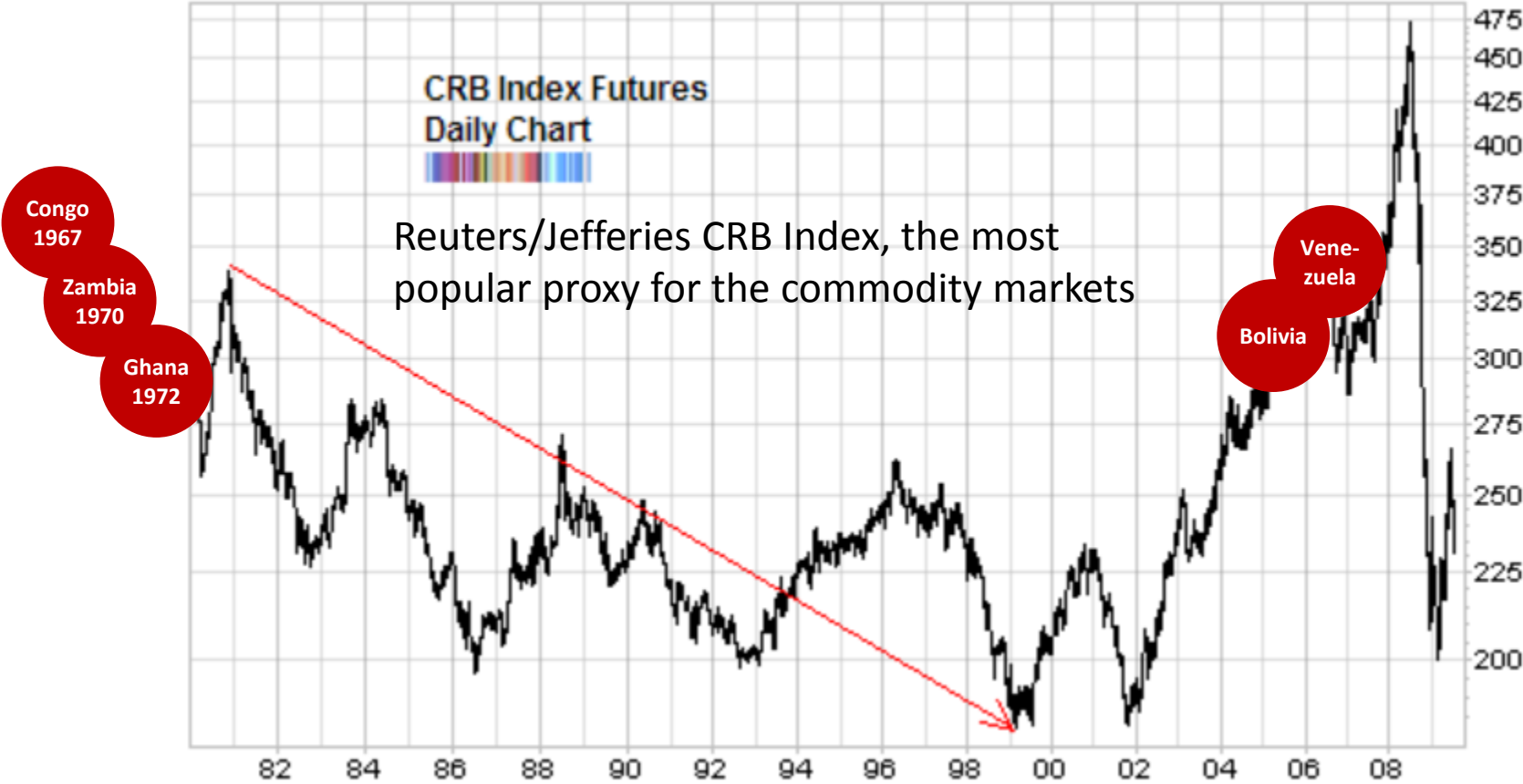


Rank	country	Distribution of family income - Gini index	Date of Information
1	Namibia	70.7	2003
2	South Africa	65.0	2005
3	Lesotho	63.2	1995
4	Botswana	63.0	1993
5	Sierra Leone	62.9	1989
6	Central African Republic	61.3	1993
7	Bolivia	59.2	2006
8	Haiti	59.2	2001
9	Paraguay	56.8	2008
10	Brazil	56.7	2005
11	Bosnia and Herzegovina	56.2	2007
12	Panama	56.1	2003
13	Guatemala	55.1	2007
14	Chile	54.9	2003
15	Colombia	53.8	2005
16	Honduras	53.8	2003
17	Hong Kong	53.3	2007
18	El Salvador	52.4	2002
19	Papua New Guinea	50.9	1996
20	Zambia	50.8	2004
21	Niger	50.5	1995
22	Swaziland	50.4	2001
23	Gambia, The	50.2	1998
24	Zimbabwe	50.1	2006

- Jobs?
- Community development?
- Fair distribution?
- Financial sustainability?



# Metals and minerals resources – favourite nationalisation target, especially at the top of the cycle

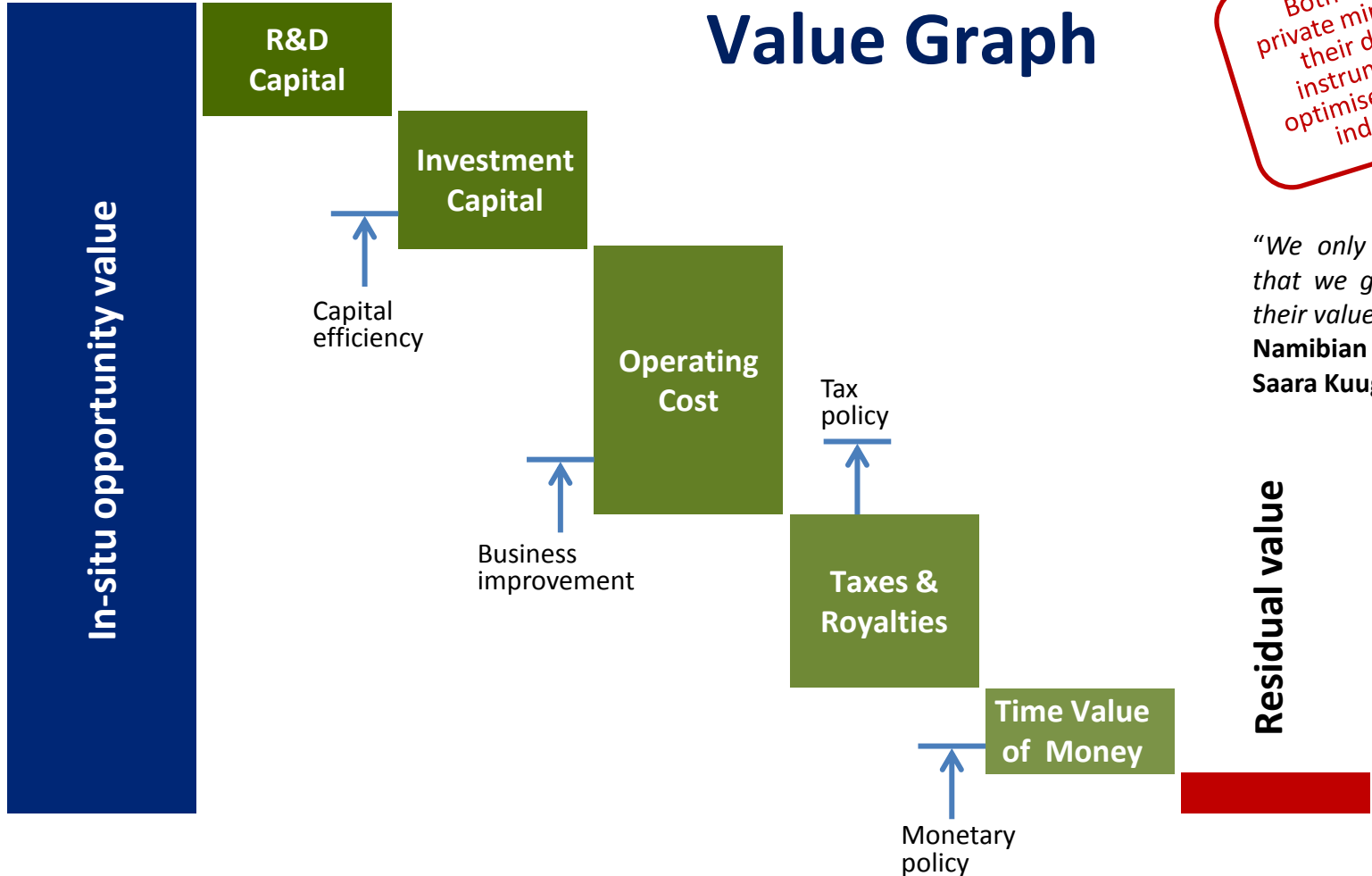


Source: Natural Resources, 14/07/2009, [www.tradersnarrative.com](http://www.tradersnarrative.com)

# The debate should shift from re-distribution of relatively insignificant residual value to identifying and removing impediments to growth of the mining industry

Both the state and the private mining sector have at their disposal multiple instruments and tools to optimise components of the industry value graph

*"We only want to make sure that we get a fair share from their value (resources)".*  
**Namibian Minister of Finance**  
Saara Kuugongelwa-Amadhila



# Mistrust between governments and mining business – challenge and opportunity

## Challenge

- A significant level of mistrust from the host governments on the continent, business often accused of exaggerating cost and not declaring correct production levels to avoid taxation
- Governments often talk to business through the media, often expressing perceptions rather than factual state

## Africa – investment frontier for mining

- Significant reserves of 60+ metals and minerals
- 30% of the world's entire mineral reserve
- Major producer of PGM, Au, U, diamonds, Mn, Cr, Ni, and Co
- Africa's production represents only about 8% of the global mineral production (most exported in a raw form)
- Underexplored: exploration expenditure in Africa – U\$5/km<sup>2</sup> (U\$65/km<sup>2</sup> in Canada, Australia, and Latin America)

## Opportunity

- Frequent engagement with the regulators, fact-based messaging
- Establish your value in your mining jurisdiction: higher taxes lead to lower local investment but mining create jobs, enhance local infrastructure, reduces poverty, disseminates advanced technology, boost inter-regional trade and spurs economic growth – the impact of abandoning the region will be dire
- Continue building relationships: co-managing through a downturn is a strong way to show your commitment to priority investments; by focusing on items required for efficient ramp-up when the cycle returns, companies can strengthen their relationships with national and local governments
- Discuss and educate political leaders on mining, at the highest leadership level but also at the 2nd tier political leaders and the public servants – to ensure policy consistency regardless of current political leadership
- Work together as the industry, if mining companies want to get good representation by their national Chambers they need to be active, principled and contributing members
- Mining companies in different regions must band together to lobby local governments and meet with key officials to negotiate mutually beneficial regulation; before this can work, mining companies must establish a strong in-country presence bolstered by senior executive involvement, and include NGOs, unions and other key country stakeholders in the negotiation process.
- All miners share similar challenges across the continent, but all battling these alone – African Chamber of Mines?

# APPENDIX (1/2) – Alternatives?

## GOVERNANCE OF MINERALS ASSETS

- Create a super-ministry of the economy (or a ministerial cluster)
- Concession of all “known” mineral deposits by public tender against developmental criteria (through a separate professional agency)
- Grant exploration licences only over areas with no known deposits
- Reserve “partly known” deposits for a state mining company (SMC) or for public tender
- Conduct a forensic audit of the mineral rights conversion process (to reclaim the mineral assets “that were recklessly given away”)
- Discourage speculation (flipping) by imposing a 50% capital gains tax on exploration rights transferred before mining commences
- Require state approval for the transfer of any exploration right
- Impose a “use it or lose it” regime, setting minimum expenditure and minimum work requirements to ensure genuine exploration

## STATE MINING COMPANY

- Combine all state holdings in the mining sector into one SMC, under the super-ministry of the economy
- Mandate SMC to develop strategic minerals and supply them into the local market at competitive prices
- Grant SMC all exploration rights in respect of these minerals

## BLACK ECONOMIC EMPOWERMENT (BEE)

- Require a combined BEE and state minimum holding of 30% of voting shares (rather than a 26% minimum BEE holding – SA requirement)
- Combine SMC’s, trade unions’ and BEE holdings into a special purpose vehicle, to promote developmental goals and to acquire a controlling stake in companies that mine strategic minerals

# APPENDIX (2/2) – Alternatives?

## FISCAL ENVIRONMENT

- Introduce a resource rent tax (RRT) of 50% on all mining, triggered once the investor has made a “normal return” (example: 15%)
- Standardise the mineral fiscal regime, replacing the gold mining formula tax with corporate income tax and RRT for all minerals
- Reduce mineral royalty rates to 1% of revenue
- Introduce a “foreign shareholding withholding tax” of 30% to discourage investments from tax havens (the standard rate in the 2012 budget is 15% - SA)
- Abandon the proposed carbon tax or reconfigure it, possibly by having a higher RRT linked to carbon emissions
- Deploy RRT revenues to a sovereign wealth fund, to be used for fiscal stabilisation, developing regional trade and infrastructure, and investing in mineral discovery, development and management

## BENEFICIATION

- Identify “strategic minerals” to be supplied into the economy at cost-plus prices or, at most, export parity prices (iron ore, coal, base metals and platinum group metals, among others)
- Prohibit the sale of platinum without Treasury approval (like gold)
- Impose export tariffs for destinations outside the European Union
- Impose infrastructure tariffs (rail, port or energy surcharges) on all mining and refining companies that practise import parity pricing
- Condition all coal licences and exports on meeting national power needs, and reserve all unallocated or lapsed coal rights for Eskom

## SUPPLY ENVIRONMENT

- Include “local content” milestones in all concessions or licences
- Eliminate BEE “fronting” for foreign suppliers, by basing the BEE purchase requirements on local content rather than total value

**Deloitte.**