



EY key contact



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Mineral-rich countries are ensuring that they are extracting sufficient economic rent for the rights of mining companies to exploit their resources. Each month, countries announce increases, or intended increases, in resource revenues via taxes, royalties, beneficiation or state ownership. Yet at the same time, we are now increasingly seeing countries change their laws to encourage mining investment.

EY's monthly update focused on mining and metals summarizes these legislative and taxation changes by country to help you better manage the implications of resource nationalism for your business.

Recent developments by type of resource nationalism

Increases in taxes and royalties

Indonesia	Pakistan	Turkey
US	Zimbabwe	Zambia

Mining reform

Ecuador	Nigeria	Turkey
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Use it or lose it

Ethiopia	Turkey
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Restriction of imports and exports

China	Indonesia	Zimbabwe
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Commodities impacted

Coal — Indonesia, Nigeria, US	Coal — Zambia	Copper — Indonesia, Zambia
Platinum — Zimbabwe	Rare earths — China	Steel — China, Pakistan

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**Building a better
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Resource nationalism by country

China

China abolished export quotas on rare earths as well as tungsten, molybdenum and fluorspar. The tariffs violated terms of World Trade Organization (WTO) membership, and the move comes after China lost a dispute and its subsequent appeal with the organization in 2013.¹

China has also removed an export tax rebate on boron-added steel products from 31 December 2014. The new policy is likely to impact the competitiveness of Chinese steel exports. Boron is the cheapest alloy for steel products and by adding only 0.0008% of boron to a tonne of steel, steel mills were able to secure an export rebate worth five times the cost of the boron. There is unlikely to be much impact as mills have already planned to substitute boron with other alloys, such as manganese, to keep their rebate.²

China has introduced a selenium, boron and tellurium export tax rebate of 13% from 1 January 2015,³ and 9% for copper bars, rods and profiles. China has also increased the export tax rebate for copper foils from 13% to 17%.⁴

Ecuador

Ecuador has made various amendments to its mining code in December to attract investment. These include:

- ▶ Legally recognizing mining companies linked to tax havens
- ▶ Eliminating the 1% registration fee to transfer share participation of 10% or more with voting rights
- ▶ Requiring separate projects to be ring-fenced for tax purposes

This is the third round of amendments to the mining code since it was introduced in 2013.⁵

Ethiopia

The Ethiopian Ministry of Mines has revoked 56 minerals exploration licenses. The licenses were revoked for companies who had left their exploration areas idle for over a year.⁶

Indonesia

¹ "China ends rare-earth minerals export quotas," *The Wall Street Journal*, 5 January 2015.

² "Chinese steel futures dip after export tax loophole closes," *Reuters News*, 5 January 2015.

³ "China introduces 13% export tax rebate for selenium, tellurium," *Metal Bulletin Daily*, 7 January 2015.

⁴ "China introduced 9% export tax rebate for some copper products," *Reuters News*, 5 January 2015.

⁵ "Further changes to mining legislation highlight Ecuadorian government's commitment to attracting FDI in the sector," *IHS Global Insight Daily Analysis*, 13 January 2015.

⁶ "Ministry of Mines revokes 56 exploration licenses," *The Reporter Ethiopia*, 20 December 2014.

As part of the MOU signed in July, Freeport-McMoRan (Freeport) paid a US\$115m "assurance bond" and agreed to develop a US\$2.3b smelter by 2017. The Indonesian Government is asking Freeport to build a second smelter by 2020 at a cost of around US\$1.5b. Freeport has declined to comment as the negotiations are ongoing.⁷

Indonesia plans to increase coal-mining royalties to support an increase in state revenue. The coal royalty will rise from 3% to 7% of total sales for coal with calorific content of less than 5,100 kilocalories per kilogram. Coal with calorific content of between 5,100-6,100 kcal/kg will see an increase from 5% to 9%. The royalty for coal with over 6,100 kcal/kg calorific content will increase from 7% to 13.5%.

Nigeria

To qualify for a coal-mining license in Nigeria, companies must now possess a bankable and tenable coal-fired power plant. The country is using the new condition to run power plants using coal from the blocks they plan to develop. The policy fits with Nigeria's goal to have a diversified fuel mix for power generation from 2015. The country at the moment is very reliant on gas, which is prone to vandalism.⁸

Pakistan

Pakistan has imposed a 15% tax on imported steel products, including billets, bars and wire rods, and a 5% tax on imported cold-rolled coils (CRCs) and galvanized plated sheets. The tax is designed to counter dumping and protect local steelmakers. However, there are rumors that it may not be enough as Chinese steel producers may seek to further cut prices to "nullify the impact."⁹

Turkey

Turkey has submitted its new mining law to Parliament. The law will give the Ministry of Energy and Mineral Resources greater influence in mining projects under way, creating a requirement for ministerial approval for changes to projects that previously could have been approved by the regulator's local representative. Key points of the bill include:

- ▶ New powers for the ministry to restrict development on environmental, economic or planning grounds
- ▶ Fines for non-production for three out of five years, or production below 10% what was listed in the original license application
- ▶ Fines for not submitting reports on time
- ▶ Stricter safety requirements; a qualified engineer will be required at most mines
- ▶ Increased costs of license-holding

⁷ "Freeport should build two new Indonesia copper smelters by 2020 - gov't," *Reuters News*, 23 December 2014.

⁸ "FG Releases New Conditions for Coal Blocks Licensing," *ThisDayLive.com*, 20 January 2015.

⁹ "Pakistan's breakers welcome steel duty," *IHS Maritime*, 19 January 2015.

▶ A scaled royalty introduced differing for each commodity¹⁰

platinum mined in Zimbabwe are insufficient to financially justify the construction of a refinery.¹⁵

US

A new draft law will see US coal companies pay royalties on coal sales from public land to the international market. The rule is currently subject to a 60-day public comment period. The rule addresses a loophole in the royalty system for export coal leased on federal land, mostly in the Powder River Basin. Coal currently has a royalty at a minimum of 12.5% and is normally taxed based on domestic sale prices rather than the usually higher overseas prices.¹¹

Zambia

The new Zambian President, Edgar Lungu, will not reduce or eliminate the change that raised royalty rates on open-pit mining from 6% to 20%. The tax, which came into effect from 1 January, is affecting most copper miners in Zambia; over 50% are operating at a loss.¹²

Talks are taking place between the Government, unions and mining company executives over how to share mining proceeds without damaging the industry. Barrick has said that it continues to have discussions and is hopeful that they may find a solution that would allow the mine to continue operating.¹³

Zambia has exempted imports of cobalt concentrates from value-added tax (VAT). Zambia is the second-largest exporter of cobalt in Africa and has until recently been claiming VAT refunds in excess of US\$600m on cobalt and copper exports. Many miners import cobalt concentrates into Zambia to process from countries, such as the Democratic Republic of the Congo, so the exemption will come as a relief and prompt several miners to return to the spot cobalt market.¹⁴

Zimbabwe

Miners are seeking clarity from the Zimbabwean Government over a 15% export duty on unrefined platinum, which was proposed in 2013. The duty, aimed to increase in country beneficiation, was not due to come in until January 2017, allowing time for smelting and refining plants to be built. However, a recent finance bill proposes introducing the duty from 1 January 2015. The duty could have a profound impact on the industry, cutting the cash margins from \$182/oz to \$17/oz. Additionally, there are concerns that the volumes of

¹⁰ "Turkey law signals shifting ground," *Mining Journal*, 9 January 2015.

¹¹ "Federal regulators propose closing 'loophole' in export coal royalty rules," *SNL Energy*, 19 December 2014.

¹² "Zambia's new leader to keep polemic mining tax," *Mining.com*, 26 January 2015.

¹³ "Zambia, Mining Companies Enter Copper Tax Talks; Barrick Gold Says It Might Keep Lumwana Mine Open," *The Wall Street Journal Online*, 19 January 2015.

¹⁴ "Zambian government exempts cobalt concentrate imports from VAT," *Metal Bulletin*, 14 January 2015.

¹⁵ "Mining firms seek clarity on Zimbabwe platinum export tax," *Reuters News*, 30 January 2015.

EY's Global Mining & Metals Center

With a volatile outlook for mining and metals, the global sector is focused on cost optimization and productivity improvement while poised for value-based growth opportunities as they arise. The sector also faces the increased challenges of changing expectations in the maintenance of its social license to operate, skills shortages, effective execution of capital projects and elevated government revenue expectations.

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