

June 2015

Mining & Metals

Resource nationalism update



EY key contact



Andy Miller

Global Mining & Metals
Tax Leader
+1 314 290 1205
andy.miller@ey.com

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global EY organization accepts any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, you should seek appropriate advice.

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 royalties and taxes

Romania

Import and export restriction

Indonesia

Government ownership

Zimbabwe

Retreating resource nationalism – return focus to investment attraction

Uganda

Vietnam

Zimbabwe

Transparency initiatives

Australia

Canada

Commodities impacted

Diamonds – Zimbabwe

Tin – Indonesia



Building a better
working world

Resource nationalism by country

Australia

The Australian Government is expected to introduce new measures and penalties to prevent multinationals from avoiding tax via loopholes and profit shifting.

The Government is set to work with businesses to develop a code on greater public disclosure of tax information by large corporates. The code will highlight those companies paying their fair share of tax and be a means to discourage others from engaging in aggressive tax avoidance.

The Minerals Council of Australia has responded with some analysis that reveals that the resources industry already pays a higher tax rate than the Australian average by a significant margin.¹

Canada

It is now compulsory for Canadian resources companies to report payments of over C\$100,000 for government services, including port fees and royalties, as part of new transparency laws. The new Extractive Measures Transparency Act in Canada, which came into effect 1 June 2015, is similar to legislation in the UK and the US. The Mining Association of Canada supports the new rules, saying they put all companies on the same playing field.²

Ecuador

Ecuador has said the country will not change its mining legislation to attract foreign investment. The announcement follows a US\$2b fall in 1Q15 exports. There have been three amendments to Ecuador's mining legislation since 2013, most of which have been investor-friendly.³

Indonesia

Indonesia is considering the introduction of new shipment rules for tin in order to cut out illegal mining and support solder prices. Exporters will have to present proof that the tin originates from government-certified mines, and that royalties have been paid, before it can be shipped. The rule is set to come into effect from 1 August 2015 and is likely, at least initially, to slow supply and boost prices.⁴

¹ "Australia to develop tax disclosure code – Hockey," *Mining Weekly*, 13 May 2015.

² "Mining companies to face more transparency," *CBS News*, 11 May 2015.

³ "President rules out further incentives for Ecuador's nascent mining sector despite depressed oil revenues," *IHS Global Insight Daily Analysis*, 14 May 2015.

⁴ "Indonesia tightens tin export rules to control supply," *Reuters News*, 20 May 2015.

Romania

Romania has increased taxes for mining activities by almost 7%. The move is designed to align the taxes with inflation. The mining prospecting tax has increased from 320 leu (US\$78.66) to 341 leu (US\$83.82) per square kilometer. The mining exploration and exploitation taxes have increased 6.8% to 1,367 leu (US\$336.01) and 34,180 leu (US\$8,402.09) per square kilometer, respectively.⁵

Uganda

Uganda has abolished taxes on mining exploration to encourage investment. Taxing will only start with production as the tax burden on exploration companies can be as high as 39% – a real challenge in a capital-intensive industry.⁶

Vietnam

Vietnam aims to drive greater investment into its resources sector by amending its royalty laws. Following lobbying, The Vietnamese Government has handed down a decree that foreign gold miners can deduct the cost of production before the royalty is applied. Previously, foreign gold miners were subject to royalties of 9%–25% with no provisions for deduction before the charge, the highest tax rate of any mining jurisdiction. Also introduced is a provision allowing miners to undertake activities without requiring a permit unless it is otherwise specifically stated by law.⁷

Zimbabwe

Zimbabwe has suspended its 15% tax on diamond sales. The suspension, noted as temporary, is due to falls in production and prices. The tax was introduced in October 2014, backdated to April of that year. The tax is also being suspended as part of efforts to improve the viability of the mining industry.⁸

Also in diamonds, the Zimbabwean Government is running into resistance to its plans to consolidate the diamond mines operating in Marange. It is said the diamond miners are "seriously" resisting the initiative, and the Government will need to make major compromises to get the miners on board. The consolidation would result in all five diamond mines in Marange being operated as a single company, in which the Government has a 50% equity stake. The process was due to be completed by the end of March, but is still ongoing. Insiders say it may not end up being successful for reasons that include a lack of independence and risk of working with partners.⁹

⁵ "Romania hikes mining taxes by nearly 7%," *Reuters News*, 20 May 2015.

⁶ "Ugandan Government Scraps Taxes on Oil, Gas, Mining Exploration," *Bloomberg Business*, 28 April 2015.

⁷ "Vietnam changes tack on royalties to lure foreign mining investment," *SNL Energy*, 14 May 2015.

⁸ "Zimbabwe suspends tax on diamond sales – letter to IMF", *Reuters News*, 30 April 2015.

⁹ "Gov diamond consolidation plan in limbo," *Zimbabwe Independent*, 15 May 2015.

How EY's Global Mining & Metals Network can help your business

With a volatile outlook for mining and metals, the global mining and metals sector is focused on margin and productivity improvements, while poised for value-based growth opportunities as they arise. The sector also faces the increased challenges of maintaining its social license to operate, balancing its talent requirements, effectively managing its capital projects and engaging with government around revenue expectations.

EY's Global Mining & Metals Network is where people and ideas come together to help mining and metals companies meet the issues of today and anticipate those of tomorrow by developing solutions to meet these challenges. It brings together a worldwide team of professionals to help you succeed – a team with deep technical experience in providing assurance, tax, transactions and advisory services to the mining and metals sector. Ultimately, it enables us to help you meet your goals and compete more effectively.

Area contacts

Global Mining & Metals Leader
Mike Elliott
Tel: +61 2 9248 4588
michael.elliott@au.ey.com

Oceania
Scott Grimley
Tel: +61 3 9655 2509
scott.grimley@au.ey.com

China and Mongolia
Peter Markey
Tel: +86 21 2228 2616
peter.markey@cn.ey.com

Africa
Wickus Botha
Tel: +27 11 772 3386
wickus.botha@za.ey.com

Commonwealth of
Independent States
Evgeni Khrustalev
Tel: +7 495 648 9624
evgeni.khrustalev@ru.ey.com

France, Luxembourg, Maghreb, MENA
Christian Mion
Tel: +33 1 46 93 65 47
christian.mion@fr.ey.com

India
Anjani Agrawal
Tel: +91 22 6192 0150
anjani.agrawal@in.ey.com

United Kingdom & Ireland
Lee Downham
Tel: +44 20 7951 2178
ldownham@uk.ey.com

United States
Andy Miller
Tel: +1 314 290 1205
andy.miller@ey.com

Canada
Bruce Sprague
Tel: +1 604 891 8415
bruce.f.sprague@ca.ey.com

Brazil
Carlos Assis
Tel: +55 21 3263 7212
carlos.assis@br.ey.com

Chile
Lachlan Haynes
Tel: + 562 2676 1886
lachlan.haynes@cl.ey.com

Service line contacts

Global Advisory Leader
Paul Mitchell
Tel: +61 2 9248 5110
paul.mitchell@au.ey.com

Global Assurance Leader
Alexei Ivanov
Tel: +7 495 228 3661
alexei.ivanov@ru.ey.com

Global IFRS Leader
Tracey Waring
Tel: +61 3 9288 8638
tracey.waring@au.ey.com

Global Tax Leader
Andy Miller
Tel: +1 314 290 1205
andy.miller@ey.com

Global Transactions Leader
Lee Downham
Tel: +44 20 7951 2178
ldownham@uk.ey.com

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2015 EYGM Limited.
All Rights Reserved.

EYG no. ERO252

ED June 2015

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com/miningmetals