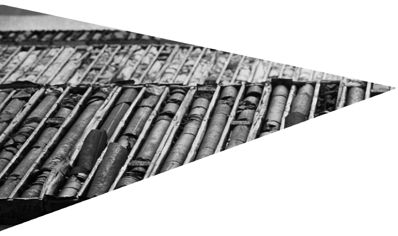
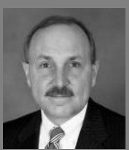
May 2015

Mining & Metals

Resource nationalism update



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 royalties and taxes		
Indonesia		
Government ownership		
Kyrgyzstan		
Mining reform		
Chile (environmental)	DRC (royalties)	Kenya (royalties)
Retreating resource nationalism – return focus to investment attraction		
China	Panama	Zambia
Import and export restriction		
Ghana		
Commodities impacted		
Bauxite – Ghana	Coal – China, Indonesia	Iron ore – China

Building a better
working world

Resource nationalism by country

Chile

Chile is seeing to change its environmental regulations to encourage mining investment. President Michelle Bachelet has appointed a commission, led by the environment minister and including academics and specialists, to create a new environmental regulatory framework within the next nine months. The initiative follows ongoing issues with major mining projects becoming delayed by environmental red tape.[1]

China

China has cut its resource tax on iron ore by 40% to support the domestic industry against cheap and high quality imports. Around 75% of Chinese iron ore miners are running on negative margins at current price levels. The updated resource tax, which came into effect May 1 2015, equates to a tax cut of less than US$1 a tonne for local iron ore miners.[2]

China's Ministry of Finance is also considering reducing the VAT for coal, from 17% to 13%. This would also be a support mechanism for domestic miners allowing them to further cut prices. McCloskey coal estimates Chinese miners would gain RMB12.4/t ($2.02/t) with the cut. While both domestic coal and imports would be impacted by the change, the advantage is that domestic miners will be able to reduce their costs whereas imports would need to adjust to local market prices.[3]

Separately, China is also removing restrictions on investment by foreign companies in copper, aluminium, lead and zinc smelting. The changes came into effect from 10 April 2015 but restrictions will remain on the smelting of tungsten, molybdenum, tin, antimony and rare earths.[4]

Other restrictions to be removed are export taxes on rare earths, ferroalloys, tungsten, molybdenum and indium from May 1, 2015. In addition, taxes on exports of non-alloyed and alloyed aluminium rods and bars are also to be removed. Eliminating the tariffs is part of a more general streamlining process designed to reduce red tape.[5]

Democratic Republic of Congo

The Prime Minister of the Democratic Republic of Congo is looking to review the country's draft mining code in consultation with mining-sector representatives before it is decided on by parliament. The new code proposes royalty increases from 2% to 3.5% for precious metals including cobalt and copper and on precious gems to increase from 4% to 6%. The profit tax will increase by 5% to 35%, and government share in projects will double to 10%. Those holding current exploration contracts will be protected from these changes by a 10-year stabilization clause.[6]

Ghana

Ghana is planning to introduce laws to force the beneficiation of bauxite to a minimum of alumina before export. The policy is part of Ghana's Ministry of Lands and Natural Resources efforts to add value to the country's natural resources. The move is likely influenced by a 10% earnings slump from mineral exports in 2014.[7]

Indonesia

Indonesia has plans to roughly double coal royalties next month, in a move which will impact smaller companies with low grade coal. Royalties are expected to be increased in May 2015 despite the current price slump. The mine ministry in Indonesia says it has taken into account that the increase will result in job losses most likely in Kalimantan. At the same time, the Government is tightening coal port rules in an effort to stop illegal mining; and is considering limiting coal exports to 14 ports throughout the country. In 2014 it is estimated that 75mt of coal worth $2.5b was illegally exported.[8]

Kenya

Kenya is moving to enact a progressive mining law before June 30 to provide greater stability to foreign investors and thus hopefully boost investment. Royalty rates, ranging from 1-12% of the gross sales value of minerals, will be implemented as part of the law. Gypsum and limestone get 1% royalty rate, while coal, niobium, titanium, and rare earth minerals 10%, and diamonds 12%.The law also clarifies how revenue from royalty payments will be expended. Communities where miners are operating will receive 10% of the income, 20% to county governments and 70 % to the national government.[9]

Kyrgyzstan

The Kyrgyzstan Government has announced it no longer intends to nationalize Centerra Gold's Kumtor mine, but does want stronger representation on the company's board. Following pressure to agree to a joint venture or nationalization of the mine, the Kyrgyzstan prime minister has recently said a 50/50 joint venture with Centerra is not in the country's interests. The

[1] "Chile eyes new environment rules to spur investment", Reuters News, 16 April 2015.

[2] China to halve taxes for its local iron ore miners, *The Sydney Morning Herald*, April 9, 2015

[3] "Risks mount for imports into China", McCloskey Coal Report, 17 April 2015.

[4] "China removes restrictions on foreign investment in base metals smelting", *Metal Bulletin News Alert Service*, 18 March 2015.

[5] "China will remove exports taxes on rare earths, aluminium rods and bars on May 1", The Business Times, 24 April 2015; "China ends export tax on rare earths and other metals", *The Financial Times*, 23 April 2015.

[6] "Renewed consultations with mining firms increase likelihood of compromise agreement before DRC's draft mining code becomes law", *IHS Global Insight Daily Analysis*, 22 April 2015.

[7] "Ghana's gold earnings dip 10 pct in 2014 PNA", (Philippines News Agency), 14 April 2015; "Policy to add value to bauxite before export", *Ghana News Agency*, 14 April 2015.

[8] "Indonesia coal royalty hike to cost jobs, increase illegal mining -industry group", Reuters News, 14 April 2015.Indonesia coal royalty hike to cost jobs, increase illegal mining -industry group", *Reuters News*, 14 April 2015.

[9] "New Mining Law in Kenya Set to Attract Foreign Investors*", International Business Times*, 11 April 2015.

Kyrgyzstan Government currently has a 32.7% stake in the Centerra gold mine.[10]

Panama

Panama is reviewing a reform of its mining laws to increase foreign investment. Changes to regulation would include a review of the institutional and environmental framework that oversees mining activities. However with most mining reserves in Panama located on indigenous land, the review means a certain increased risk of protests by indigenous groups.[11]

Zambia

Zambia is returning to a 9% royalty rate for both underground and open-pit operations, and the corporate income tax rate of 30% for mining and 35% for mineral processing. A 15% variable profit tax on income earned from mining operations, when taxable income exceeds 8% of gross sales, has also been proposed. The amendments are to be reviewed when the Parliament resumes in June and should come into effect on July 1 2015. Royalties were increased at the start of the year from 6% to 20% for open pit mines, and from 6% to 8% for underground mines which saw threats of mine closures and job losses as a result of the current challenging environment.[12]

[10] "Kyrgyzstan aborts plans to grab Centerra's Kumtor mine, but wants more say", *Mining.com*, 17 April 2015.

[11] "Panama's mining reform likely to lead to increasing indigenous protests and roadblocks disrupting cargo and transport", *IHS Global Insight Daily Analysis*, 3 April 2015.

[12] "Zambia sets mining royalties at 9% – presidency source", Reuters News, 14 April 2015; "Zambia Said to Revert to 30% Profit Tax for Mining Companies", Bloomberg.com, 14 April 2015; "Zambia seeks to appease mining sector with royalty revision but caution likely to remain until 2016 election", *IHS Global Insight Daily Analysis*, 22 April 2015.

EY's Global Mining & Metals Center

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 Center 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.

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