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Mining & Metals

Resource nationalism update

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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			
Government ownership			
Kyrgyzstan	Zimbabwe		
Mining reform			
Cameroon (loss of export duty rebate)	Kenya (new royalties)		
Retreating resource nationalism – return focus to investment attraction			
Australia	China		
Import and export restriction			
India	Indonesia		
Commodities impacted			
Bauxite – Indonesia	Coal – India	Diamonds – Zimbabwe	Iron ore – China

Building a better working world

Resource nationalism by country

Australia

The Australian Senate has passed the Exploration Development Incentive (EDI), which will allocate A$100m over the next three years so that investors in early-stage exploration projects can receive tax breaks for expenditure by the explorer (similar to Canadian flow-through shares). Previously, these costs were only claimable after adequate revenue was generated. The scheme, limited to junior miners, will initiate on 1 July 2015.[1]

Cameroon

A new mining code bill is currently before the Cameroon Parliament, following a consultation period in early March between government representatives, the mining sector, development partners and the public. The code has been revised following calls that the 2001 mining code was too favorable for miners and did not benefit the other stakeholders sufficiently.[2]

China

China is expected to reform its iron ore resource tax this year and move from a volume-based tax to a price-based tax. There are reports that China's Central Government has drafted a reform plan to be put to the State Council, which will reduce the tax burden on iron ore miners operating at the upper end of the cost curve. China's miners paid an average tax rate of about 25% in 2013.[3]

India

India has increased the import tax on metallurgical coke, iron ore and steel from 1 April 2015. The move is designed to support local miners in competition with cheap Chinese imports. The metallurgical coal tax will be increased from 2.5% to 5% and the iron and steel duty will be increased from 10% to 15%. The duty increase will add US$4 –US$5/t to coking coal prices, for example. However, in contradiction to this move, the Indian Government has plans to double the tax on coal production as part of an initiative to reduce greenhouse gas emissions. From 1 April, coal production tax has been increased by 200 rupees (US$3.20) per ton. Proceeds from this tax will be used in the promotion of clean energy.[4]

In another move to support the domestic coal sector, India has opened up coal mining to Indian and foreign private companies with the passing of two new laws. The Coal Mines Special Provisions Bill and the Mines & Minerals Development and Regulation (MMDR) Bill allow the mining and sale of coal by private companies on the open market, thereby ending a state monopoly. Previously private companies could only mine coal to use as fuel in their own factories, i.e., they were captive miners.[5]

Indonesia

Indonesia could ease its export ban on bauxite, which aimed to force miners to develop smelting and processing facilities in the country. Export restrictions may have to be eased to accelerate bauxite smelter development by making available capital fund the construction. There are suggestions of a guarantee bond to develop smelters being paid to the Indonesian Government, allowing them to export concentrates again after paying an export tax and a bond as a sign of good faith. If bauxite miners have a minimum 30% construction completed on the smelter or refinery, they can secure a license to resume some exports to help fund the rest of the construction.[6]

With relation to the copper export ban, the Indonesian Government will not be renewing Newmont Mining's copper export permit unless the company manages to reach an agreement with Freeport-McMoRan to invest in its planned smelter. "For an export permit extension for Newmont, we are still awaiting an agreement between Freeport and Newmont," said Indonesia's Coal and Minerals Director General Sukhyar.[7]

Kenya

Kenya plans to enact a new mining law later in 2015 to provide investors with greater stability and incentive to invest. The new Mining Bill should be passed through the Senate before 30 June 2015. Under the new law, the Government will impose royalty rates from 1% gross sales value of industrial minerals to 10% for coal, titanium ores, niobium and rare-earth elements, and 12% for diamonds.[8]

Kyrgyzstan

The Kyrgyzstan Government is putting further pressure on Centerra Gold to form a joint venture for its Kumtor gold mine within a month. Centerra has been in discussions with the Government for almost a year about a deal in which the Government would swap its 32.7% stake in Centerra for a 50% stake in a joint venture which would control the Kumtor mine. Kyrgyzstan's Parliament has now voted to oblige the Government to finalize talks within a month, failing which the mine could be nationalized. Kumtor is a vital asset for the

[1] "New tax breaks for junior explorers pass Senate," *Australian Mining*, 5 March 2015.

[2] "Planned revision of Cameroon's mining code likely to raise taxes and include local content requirements," *IHS Global Insight Daily Analysis*, 18 March 2015.

[3] "Report: China expected to impose price-based resource tax on iron ore in 2015," *SNL Energy*, 10 March 2015.

[4] "India raises metallurgical coke import tax to 5% from 2.5%," *Platts News*, 2 March 2015; "India to double tax on coal," The Hill, 2 March 2015.

[5] "India Inc cheers as coal mining opens up to Indian and foreign private companies," *The Economic Times*, 21 March 2015.

[6] "Indonesia may ease bauxite export ban to help fund refineries," *Reuters News*, 23 March 2015.

[7] "Indonesia give Newmont three weeks to strike smelter deal," *Reuters News*, 2 March 2015.

[8] "Mining law to provide stability for investors in Kenya," *Business Day Live*, 25 March 2015.

country, accounting for 7.4% of its gross domestic product and 15.5% of industrial output last year.[9]

Zambia

After calling for a "win-win" resolution with miners by the end of March, the new Zambian President has directed the finance and mining ministers to change royalties by 8 April 2015. The new tax regime, implemented in January this year, saw royalties on open-pit mining increased to 20% from 6% and underground operations royalties to 8% from 6%. After much debate and the threat of mine suspensions, President Lungo has suggested the negotiation of interim fiscal arrangements for operations on a case-by-case basis or the identification of potential legal or regulatory modifications to the existing 2015 fiscal regime that could be readily passed and implemented. A more extreme option would be the return to the 2014 fiscal regime while it defers the implementation of the 2015 fiscal regime.[10]

Zimbabwe

Zimbabwe is set to nationalize all diamond mining companies into a consolidated mining company. The Zimbabwe Government will hold a 50% shareholding in the consolidated company and the other 50% will be shared among the companies currently holding mines. The companies' shareholding will be determined on the basis of both size of operations and a valuation of their equipment. The merged diamond company will include Murowa Diamonds, the only remaining Rio Tinto asset in Zimbabwe.[11]

[9] "Kyrgyzstan threatens to nationalise Centerra mine if no deal soon," *Reuters News*, 26 February 2015.

[10] "Zambian president appoints committee to end mining tax impasse, raising likelihood of compromise agreement," *IHS Global Insight Daily Analysis*, 16 March 2015; "Zambia's President signals aim to change mining royalties," *Reuters News*, 26 March 2015.

[11] "Zim to nationalise diamond mines," *Fin24*, 12 March 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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