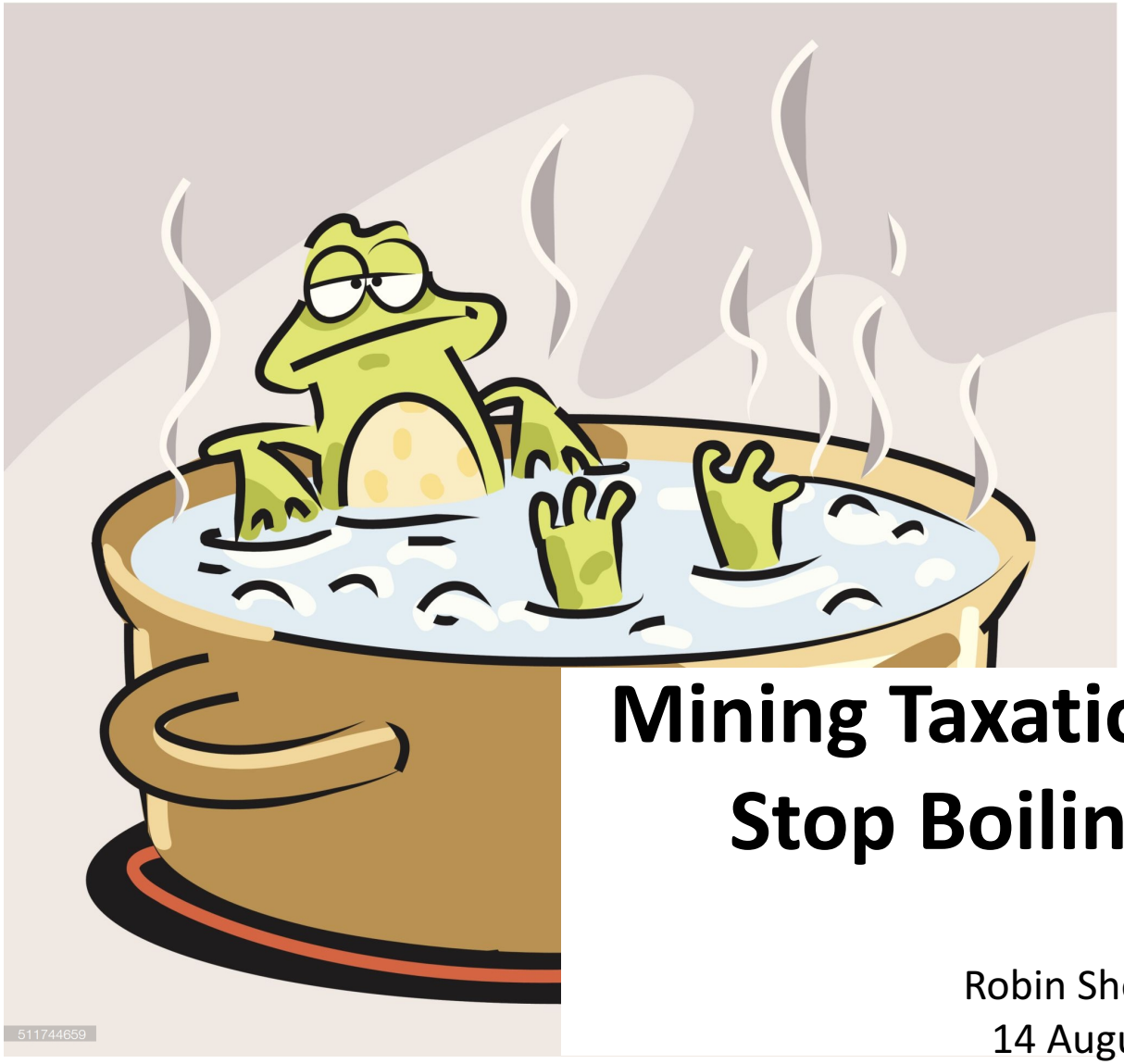


Mining Taxation in Namibia: Stop Boiling the Frog!

Robin Sherbourne

14 August 2019

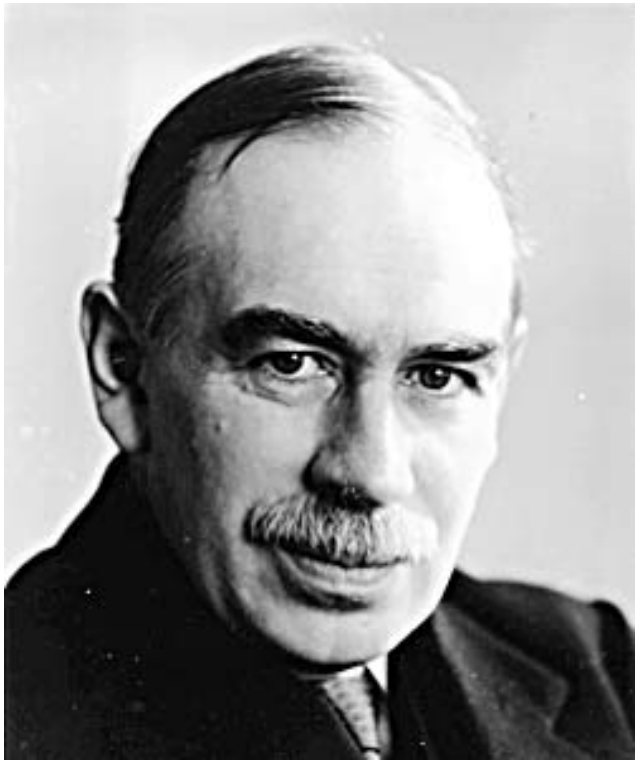
A Personal Note

- Why am I giving this presentation?
- Why are you here to discuss to this presentation?
- Why did the Chamber bring us together?

Disclaimer

The information in this presentation is based on official government statistics (from the Ministry of Finance, the Ministry of Mines and Energy, and the Namibia Statistics Agency) and recognised international sources (Ernst & Young, the Fraser Institute, the IAEA, the Kimberley Process, the London Metal Exchange, Prof James M Otto, PWC, the USGS), supplemented by information from the Chamber of Mines of Namibia where indicated. This information is not provided for the purpose of assisting an investment decision and may not be relied upon for any purpose other than assisting the development of policy by the Government of the Republic of Namibia.

The Challenge of Facts



"When the facts change, I change my mind. What do you do sir?"

John Maynard Keynes

Economist

I hope this presentation is going to challenge you!

Mining 101

General: Six Things to Understand about Mining

1. Mining resources are finite and belong to the the Namibian people
2. Mining is a business which must be profitable in order to make returns for investors (strategic exceptions?)
3. Mining companies are “price takers” on world markets
4. Mining requires lots of money – beginning, middle and end
5. Mining is long-term and risky
6. Mining companies have choices

Namibia's Mineral Resources

"Land, water and natural resources below and above the surface of the land and in the continental shelf and within the territorial waters and the exclusive Economic zone of Namibia shall belong to the State if they are not otherwise lawfully owned."

Article 100

Sovereign Ownership of Natural Resources

Constitution of the Republic of Namibia



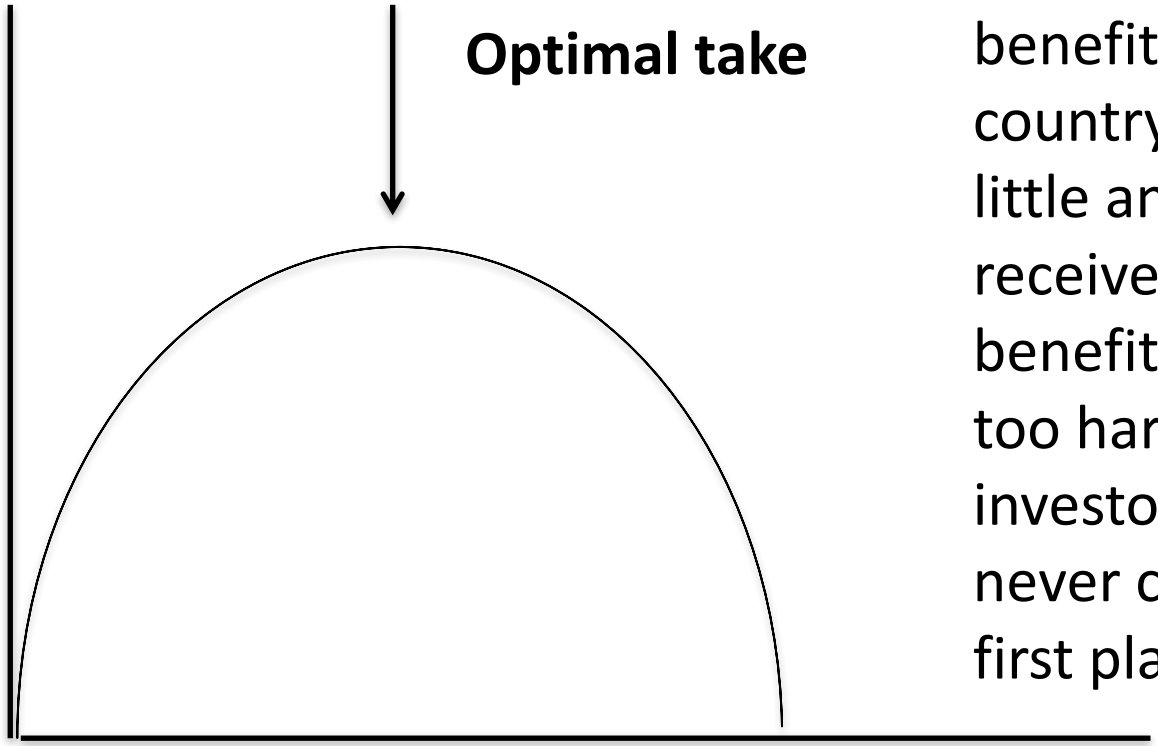
The Deal

1. Resources belong to the Namibian State (Article 100)

2. Government allows companies to explore and mine through the licencing system…

3. …in exchange for benefits to the country: investment, taxes, exports, jobs, skills

Benefits to Namibia

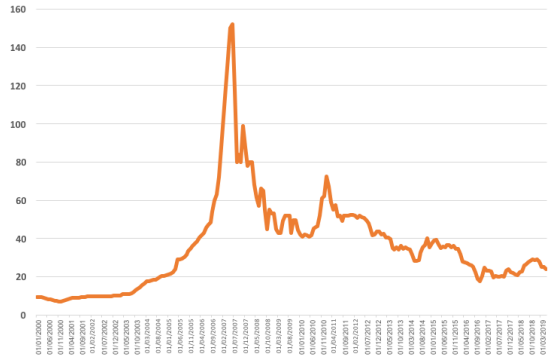


Government's Challenge is to **optimise** the benefits to the country – push too little and the country receives too few benefits but push too hard and the investors leave (or never come in the first place!)

Demands on Investors

Mining's Contribution to the Namibian Economy Must be Seen Against the Backdrop of International Commodity Prices…

Uranium (USD/lb)



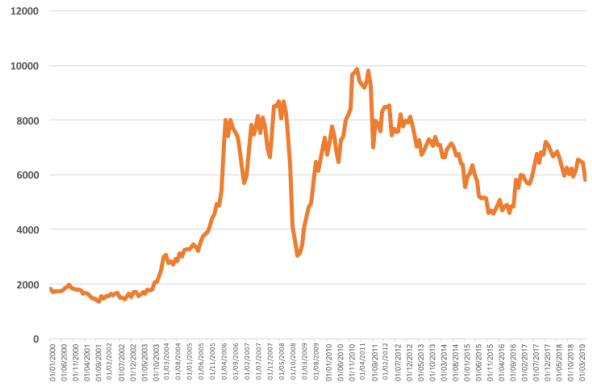
Gold (USD/oz)



Zinc (USD/tonne)



Copper (USD/tonne)



Lead (USD/tonne)



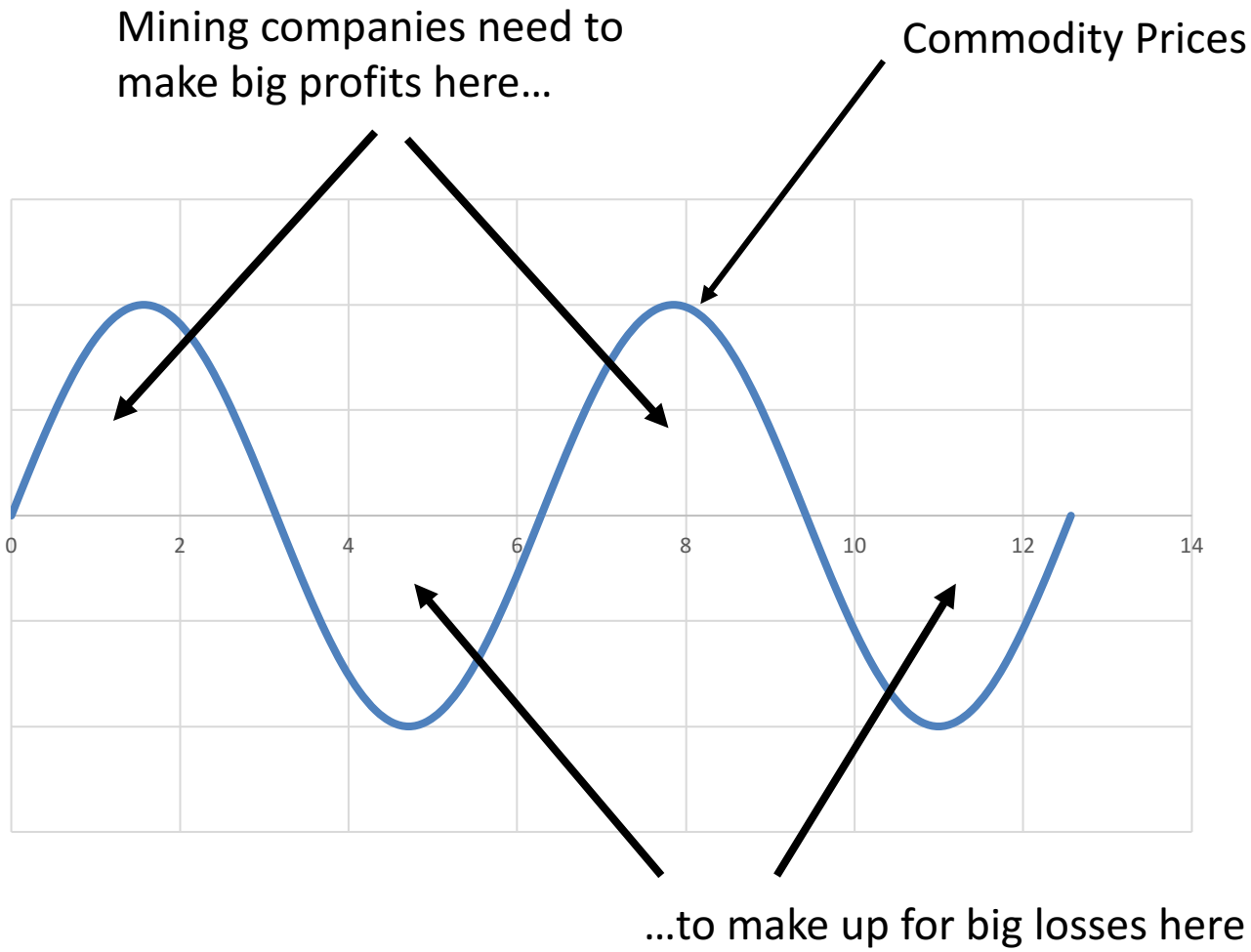
Tin (USD/tonne)



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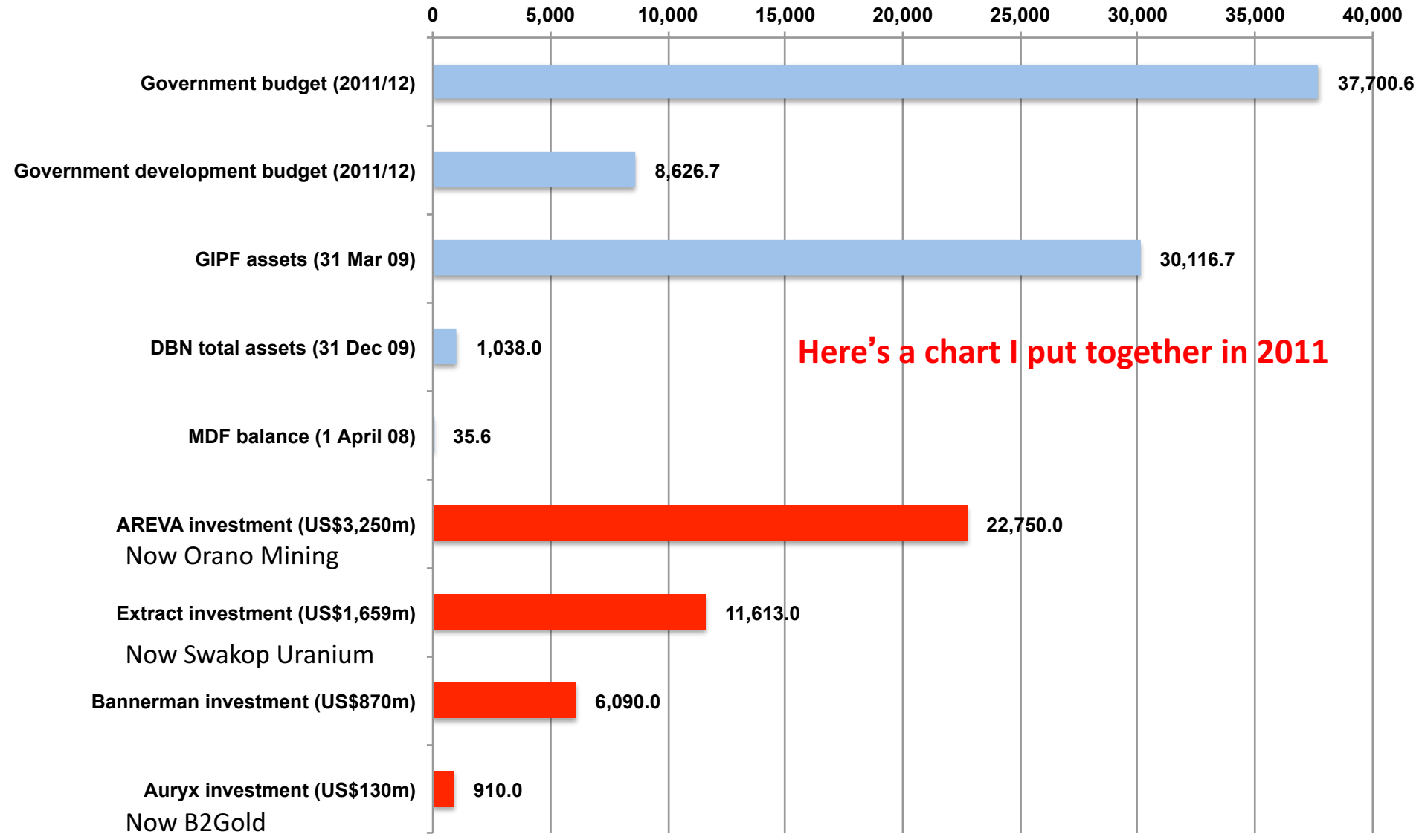
General: Taxing Mining Companies Over the Price Cycle

Mining companies will win big and lose big over the price cycle so profitability must be viewed over the cycle and not in any one particular year



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Mining requires money…and lots of it!



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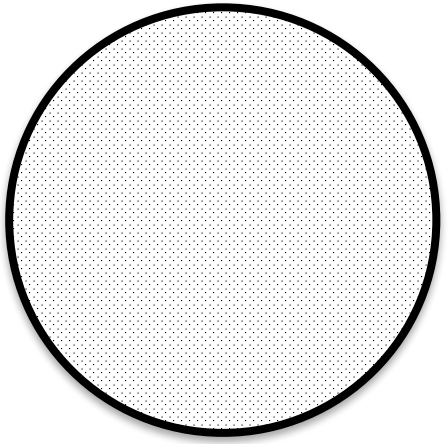


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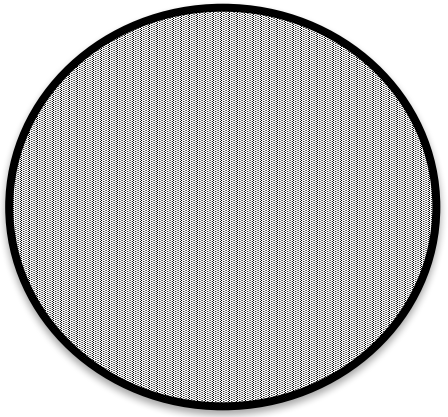
Mining Companies Have Choices

Government policy cannot affect the resource but it can affect the risk of exploiting the resource – especially if the life of mine is decades!

Low grade but low risk



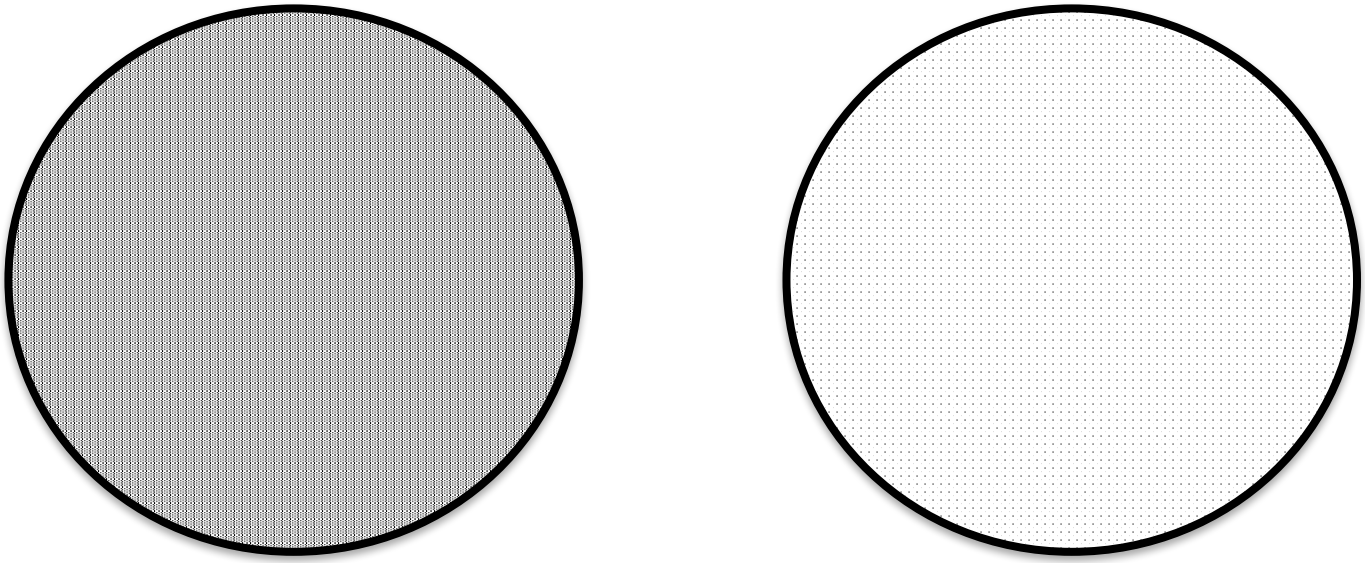
High grade but high risk



But remember:
If we want foreign investors to bring in the billions of dollars of capital needed to explore, develop and maintain world-class mining operations, they must be allowed to make a financial return on their investments commensurate with the risks they are taking.

A Word about Namibia's Mineral Resources

Resource grade is an important determinant of cost

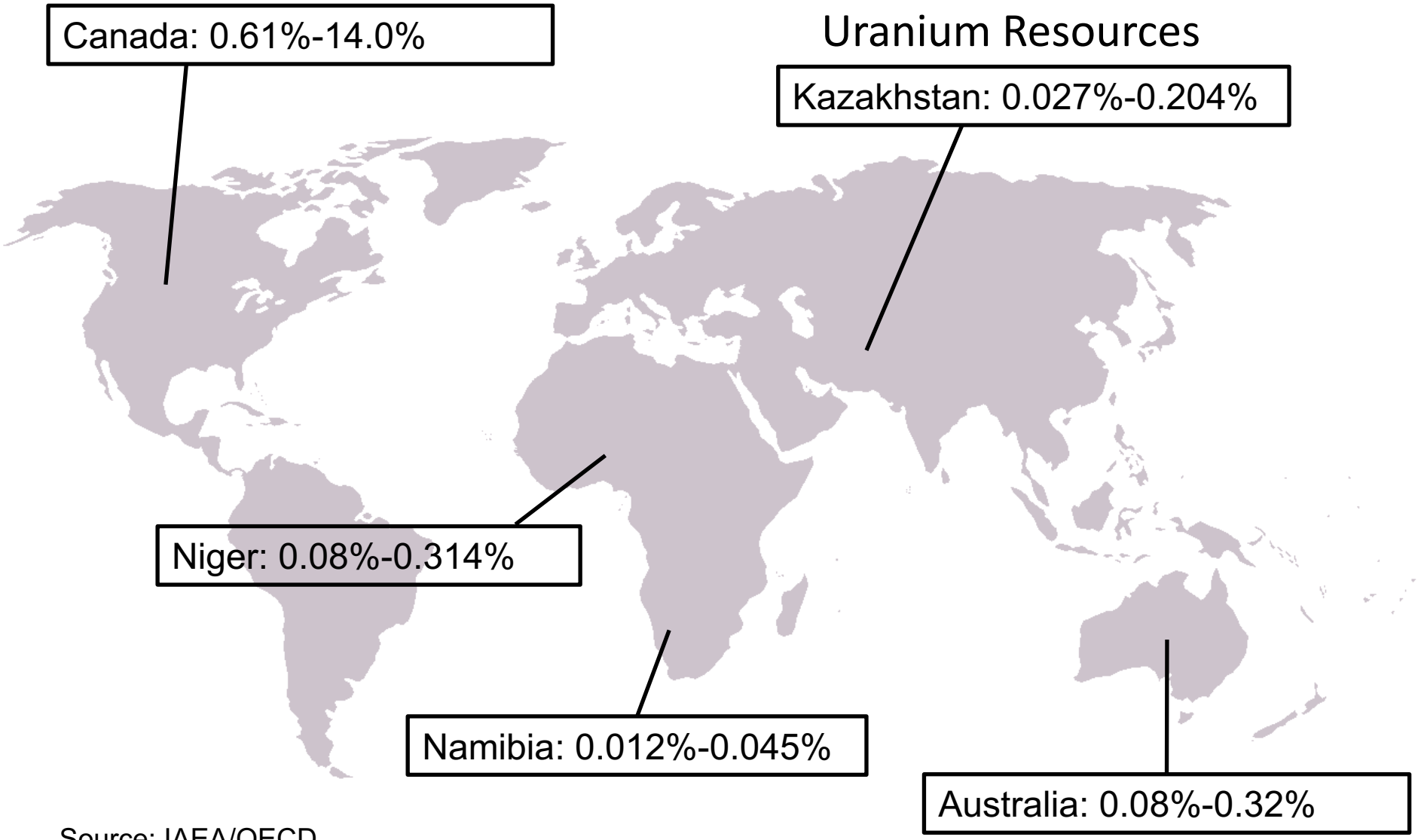


Namibia Certainly has a Special Diamond Resource – the Quality is High but the Quantity is Small

		Production		
Country Name	**Volume, cts**	**Value, US$m**	**Proportion of Value**	**US$ / cts**
Russian Federation	42,614,780	4,112.17	29%	$96.50
Botswana	22,961,298	3,329.39	24%	$145.00
Canada	23,233,988	2,059.91	15%	$88.66
South Africa	9,682,965	1,303.93	9%	$134.66
Angola	9,438,802	1,104.62	8%	$117.03
Namibia	1,948,412	1,010.72	7%	$518.74

Source: Kimberley Process 2017

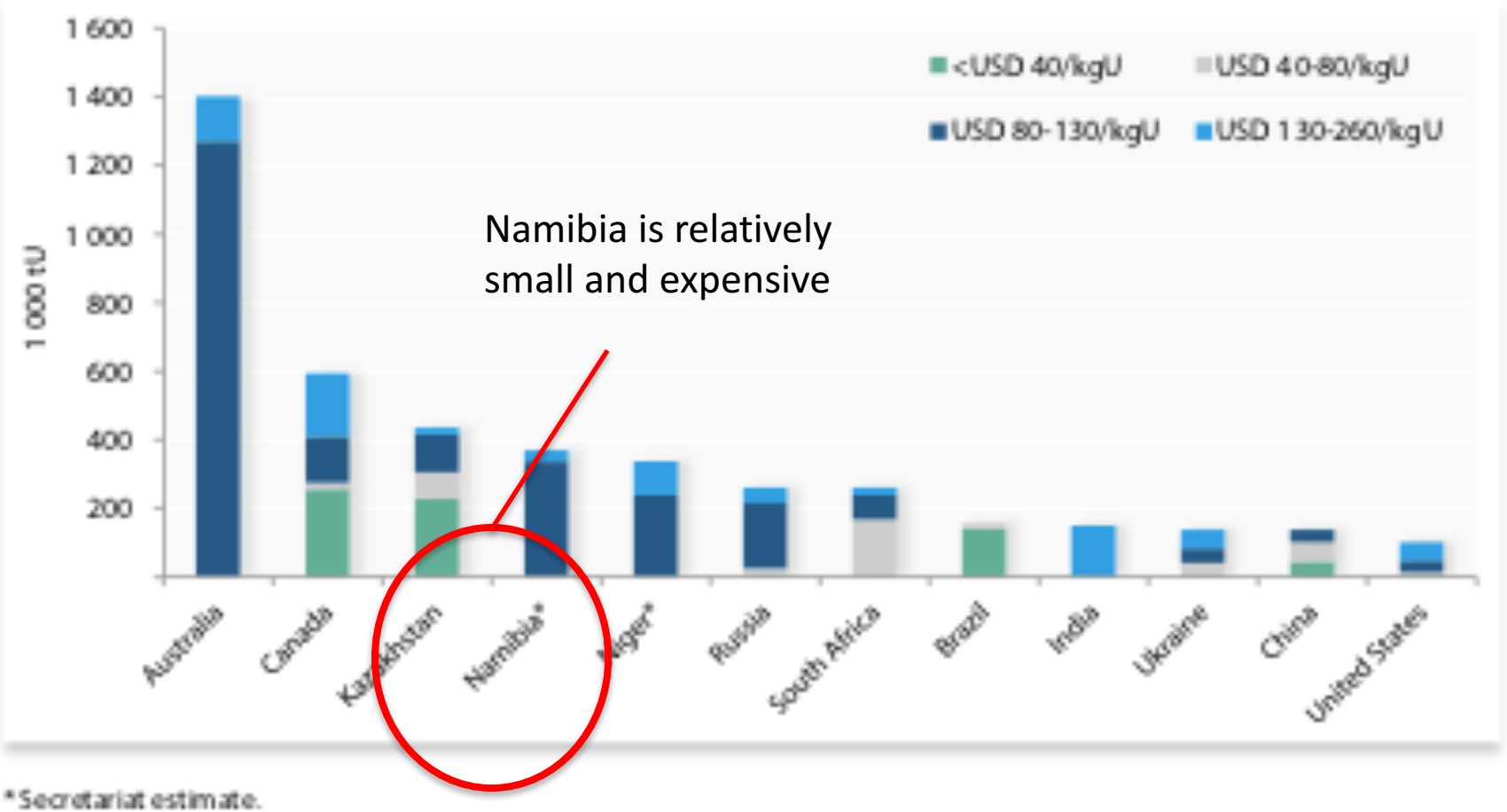
But Many Other Countries Have Better Uranium Resources



Source: IAEA/OECD

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Figure 1.2. **Distribution of reasonably assured resources among countries with a significant share of resources**

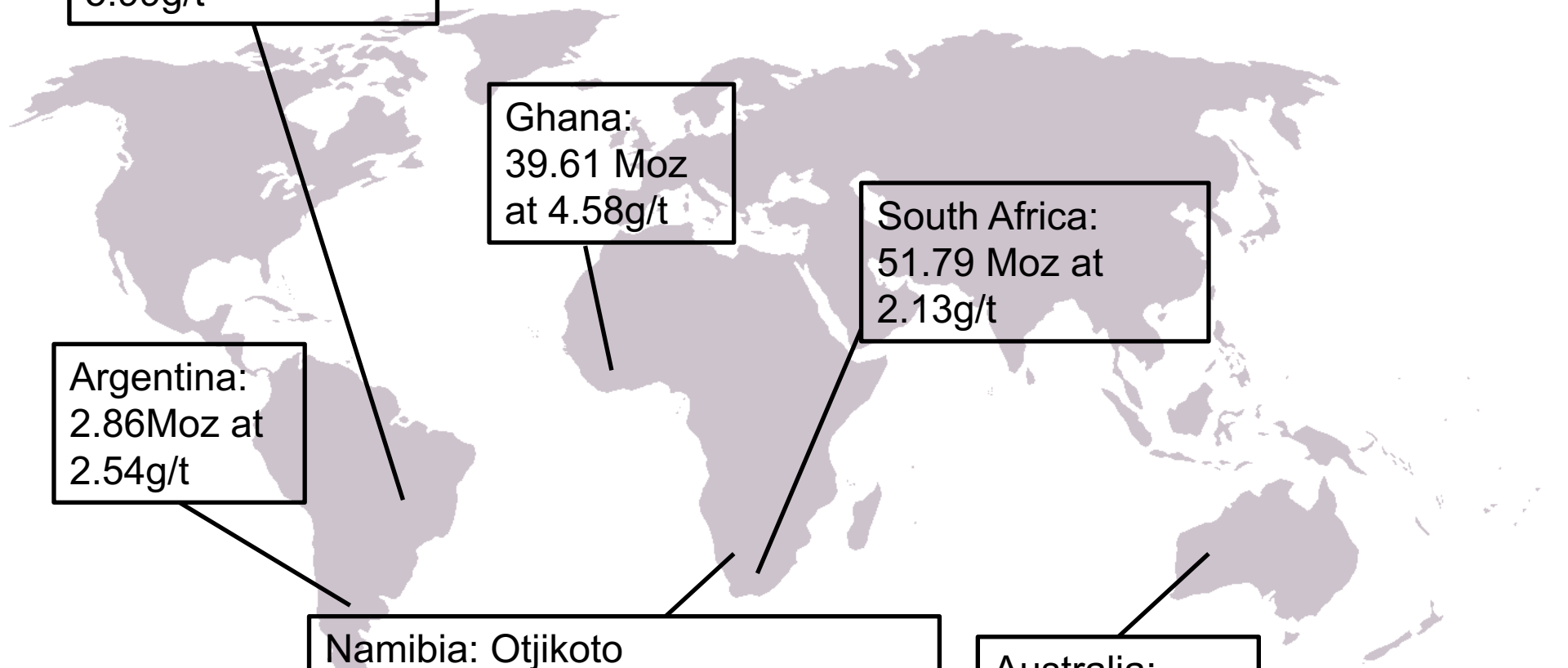


*Secretariat estimate.

From "Uranium 2018: Resources, Production and Demand" (NEA and IAEA)

Our Known Gold Resource Is Limited

Source: AngloGold Ashanti and B2Gold



Brazil:
17.47 Moz at
5.99g/t

Ghana:
39.61 Moz
at 4.58g/t

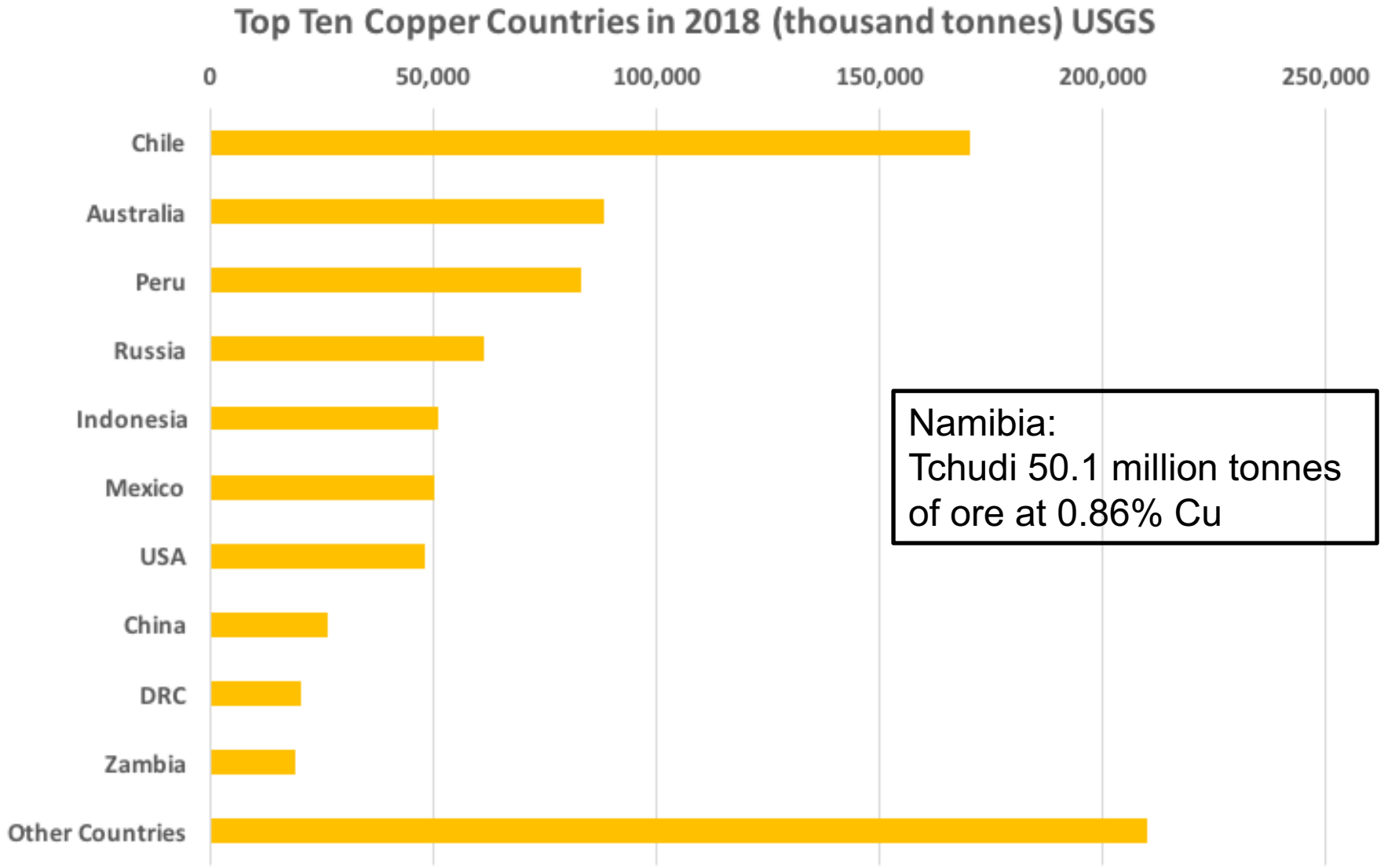
South Africa:
51.79 Moz at
2.13g/t

Argentina:
2.86Moz at
2.54g/t

Namibia: Otjikoto
Probable 0.98Moz at 1.54g/t
Indicated 1.54Moz at 1.24g/t
Inferred 0.31Moz at 2.27g/t

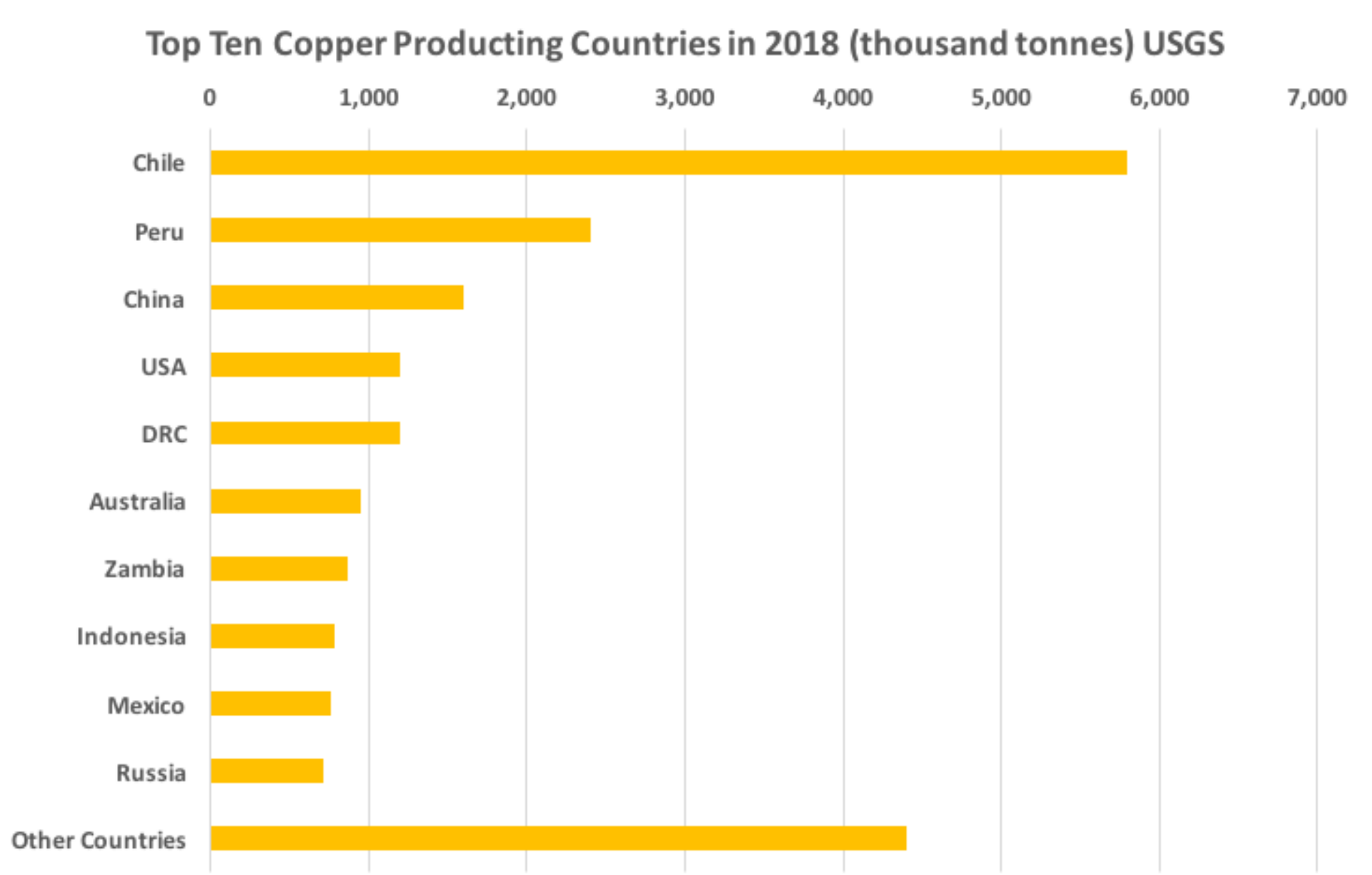
Australia:
11.23 Moz at
1.95g/t

Our Known Copper Resource Is Also Small



Namibia:
Tchudi 50.1 million tonnes of ore at 0.86% Cu

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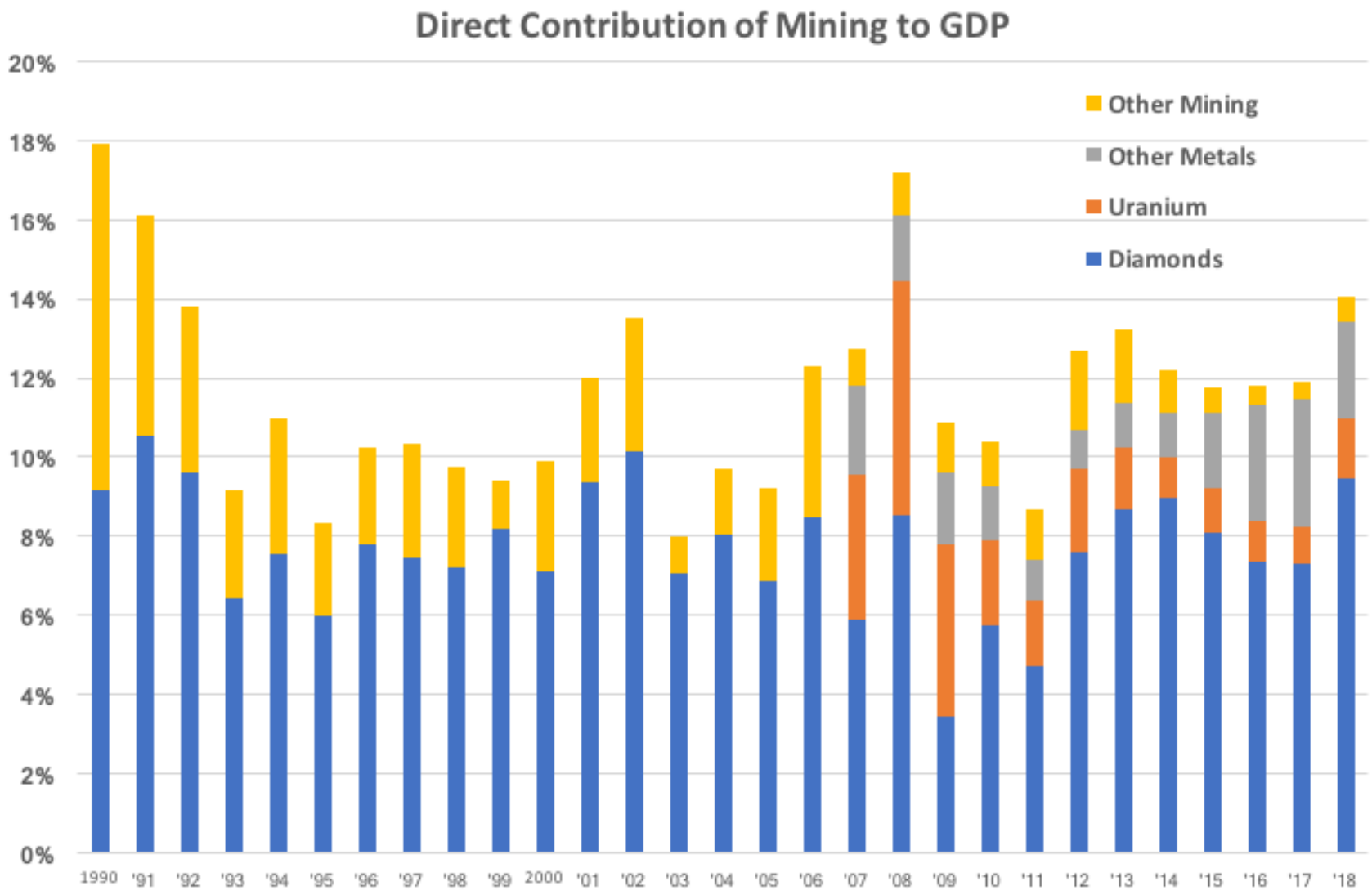

Top Ten Copper Producting Countries in 2018 (thousand tonnes) USGS
0
1,000
2,000
3,000
4,000
5,000
6,000
7,000
Chile
Peru
China
USA
DRC
Australia
Zambia
Indonesia
Mexico
Russia
Other Countries

My conclusion:
Namibia has mineral resources but, with the possible exception of diamonds, they are not especially large or high quality by international standards (certainly no Botswana or Chile).

However, the good news is that while we **CANNOT** influence global commodity markets or what geology has put in the ground, we **CAN** control our investment environment - our tax regime, infrastructure, skills, corruption, and ease of doing business.

A Word about Mining's Contribution to the Economy

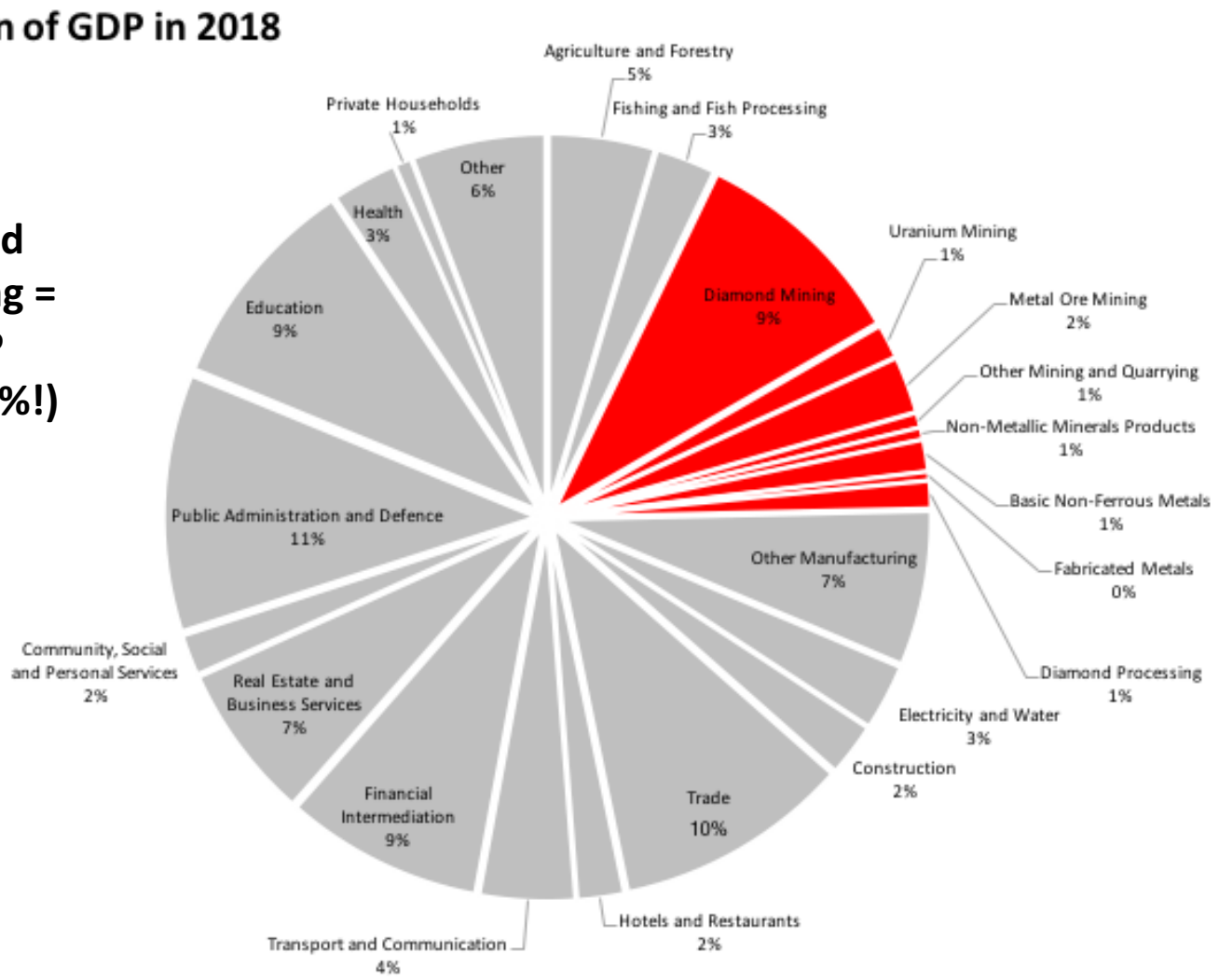
Mining's Contribution to GDP has Changed Over the Years…



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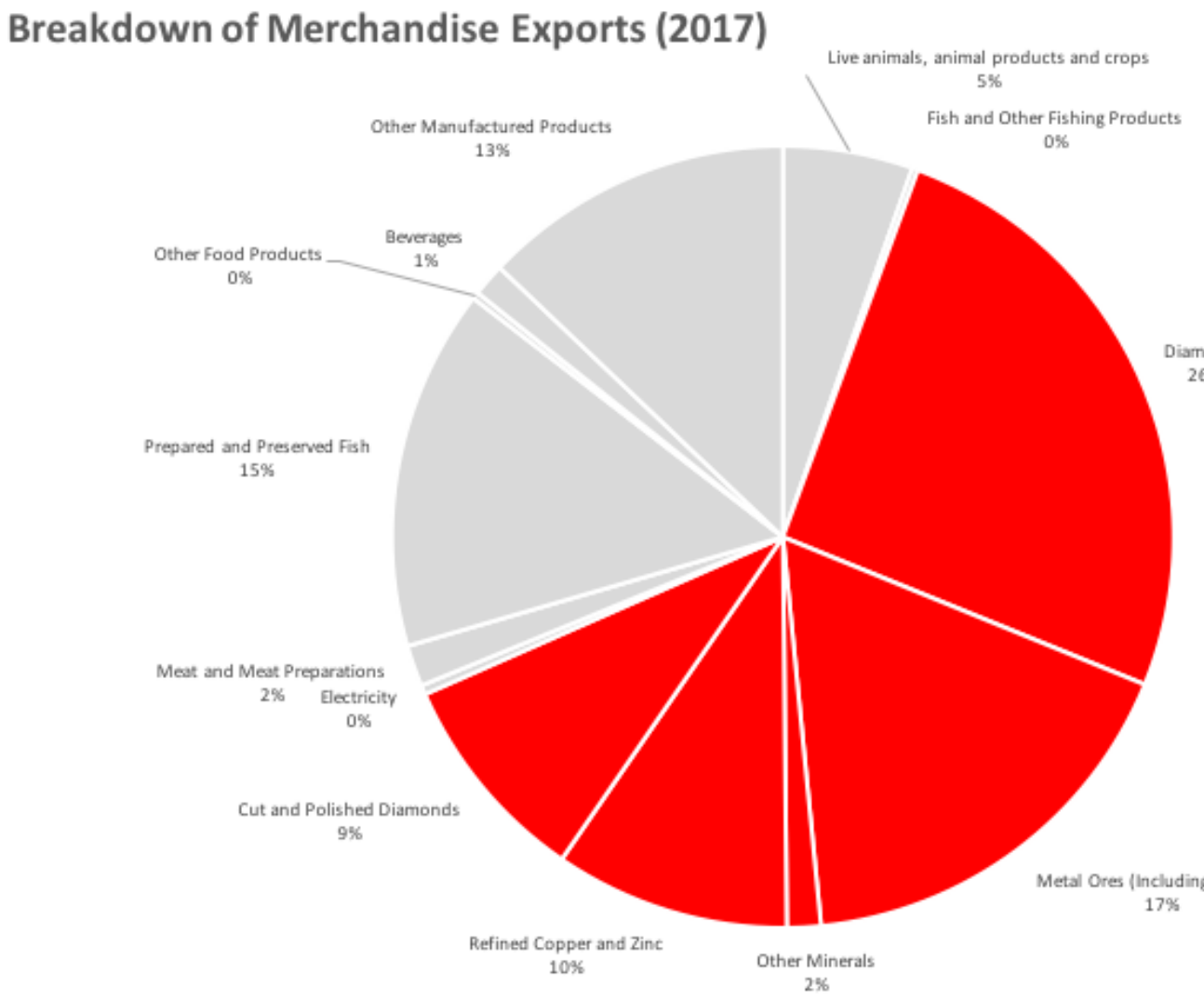
A Greater Contribution than only “Mining and Quarrying”…

Mining plus mining-related manufacturing = 17.4% of GDP (not just 14.0%!)



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…and an Even More Critical Contribution to Foreign Exchange Earnings



Mining plus mining-related manufacturing = 62.8% of exports of goods

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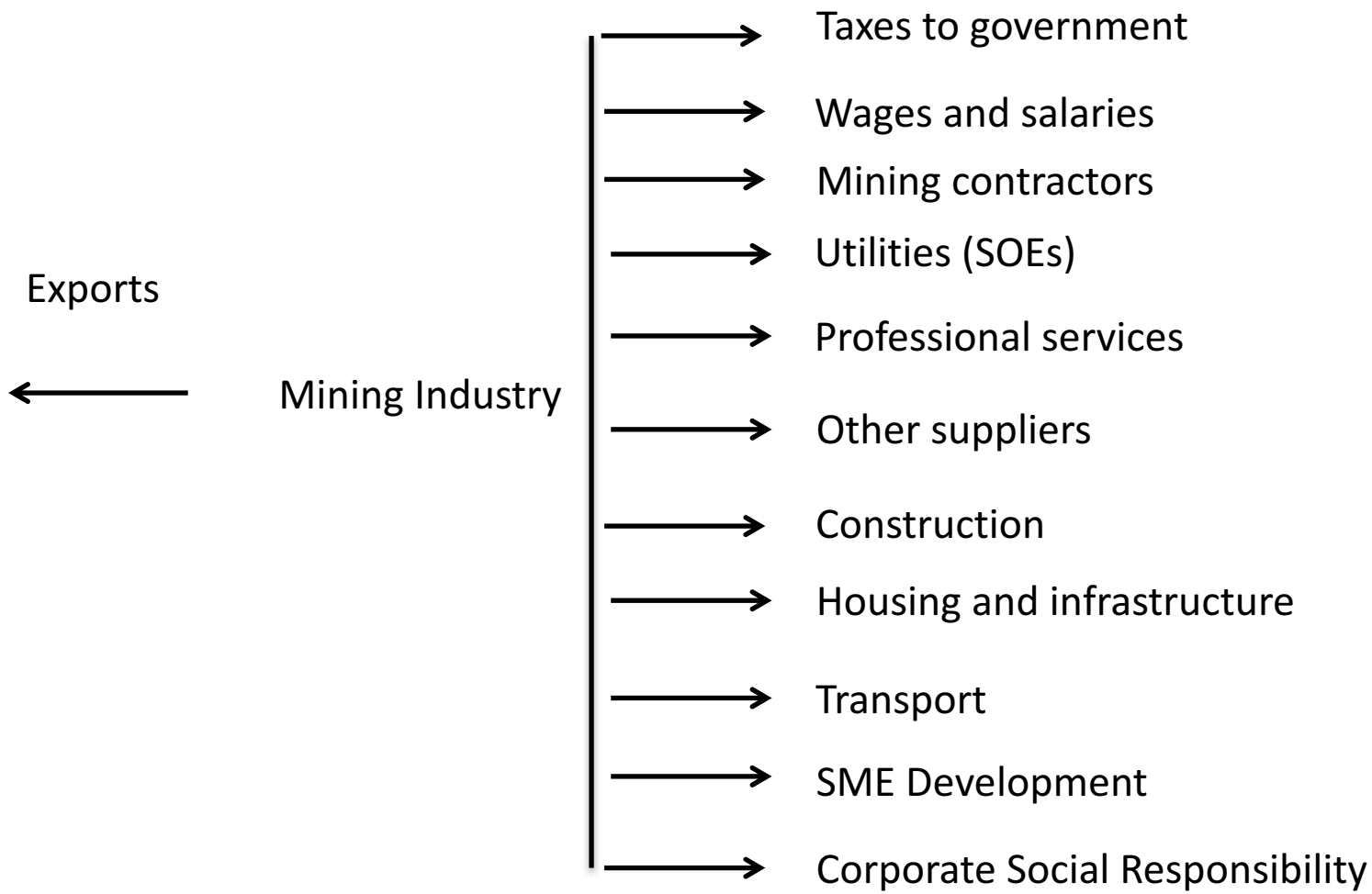
It is also an important source of employment…



Over 16,000 people were directly employed by the mining sector in 2018 and less than 2% were expatriates. At 7 dependents per worker, over 110,000 people are directly dependent on mining!

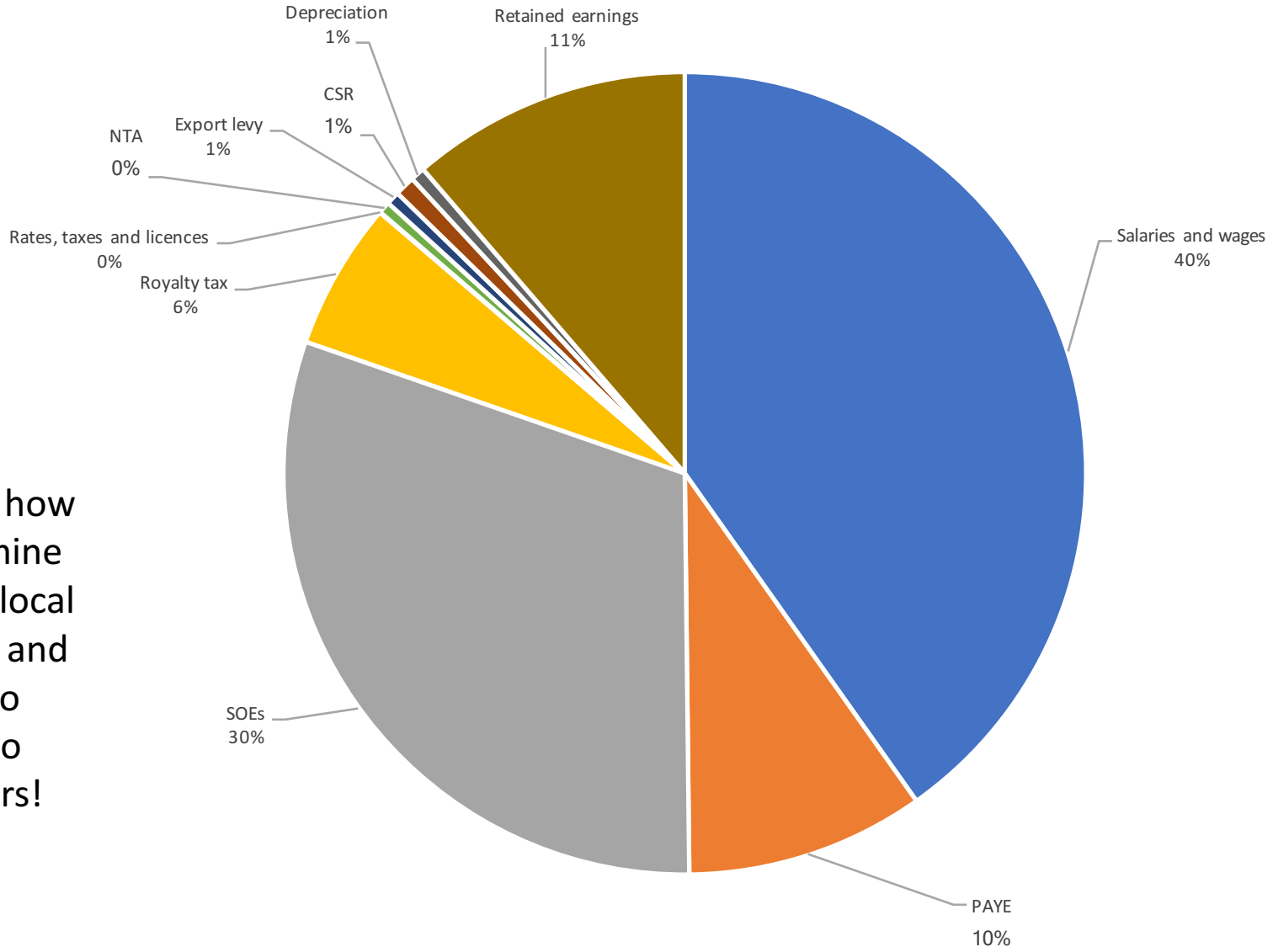
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…but this isn't the whole story



+ skills and technology transfer!

Rossing Uranium Value Added Statement 2018



This shows how one large mine boosts the local economy – and there are no payments to shareholders!

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The total impact of mining sector on the economy is huge…

- Contractors working on and off site
- The number of suppliers (including SMEs)
- The mines are major clients of SOEs especially NamPower, NamWater, TransNamib, Namport, Telecom and MTC
- Each employee has an average of 5-7 dependents
- Mining creates demand for housing and other services
- Whole towns depend on mining for their existence (Rosh Pinah (Roshkor), Oranjemund, Arandis, Karibib, Tsumeb… even Swakopmund)

The total impact of mining sector on the economy is huge…

"We concluded that for every N$1.00 spent by the uranium producing companies as part of their cost of sales, 81 cents will be injected into the economy via the multiplier. According to our study, this amounts to approximately N$2.6 billion which is considerable for a N$78 billion economy."

Simonis Storm Securities

The Namibian Uranium Industry: Economic Impact and Counter Valuation

November 2010

The total impact of mining sector on the economy is huge…

Direct backward linkages	0.553
Total backward linkages including indirect impacts	1.568

In other words, every N$1 million increase in mining output gives rise to a N$1.568 million increase in output elsewhere in the economy. The converse is also true when a mine closes.

Glenn-Marie Lange, Klaus Schade, John Ashipala and Ndeutala Haimbodi

"A Social Accounting Matrix for Namibia 2002"

NEPRU Working Paper No.97 (2004)

The total impact of mining sector on the economy is huge…

Every AUD1 million increase in mining output gives rise to a AUD1.67 million increase in output elsewhere in the economy. The converse is also true when a mine closes.

Australian Bureau of Statistics

My conclusion:
Although mining in Namibia will never be the source of hundreds of thousands of jobs, it remains the bedrock of the Namibian economy.



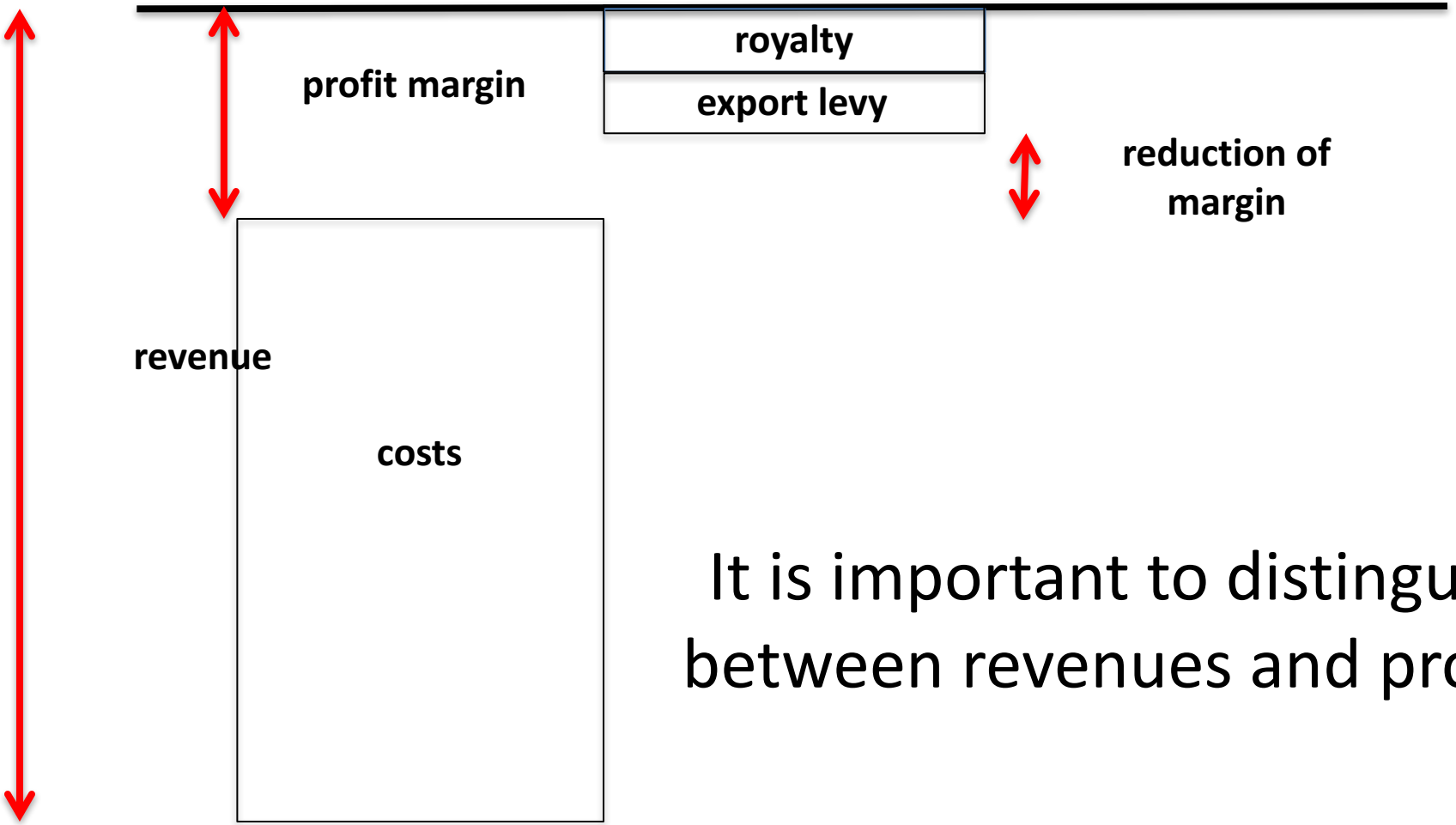
Despite few world-class resources, mining is THE critical industry for Namibia's export-oriented economy

We should therefore make a special effort to nurture the industry and ensure the investment climate remains competitive

We need to take extra care when making changes to our long-term mining investment climate

Namibia's Mining Taxation Regime

World price – mines are “price takers”



It is important to distinguish between revenues and profits

Namibian Mining Sector Fiscal System Analysis prepared by International Expert Prof James M Otto for Extract Resources, June 2011

1. Most comprehensive review of Namibia's mining taxation regime

2. Systematic international comparison of all mining taxes

3. Modelled impact of tax system on Effective Tax Rate (ETR) and Internal Rate of Return (IRR) for generic uranium mine

Comprehensive Comparison of Taxation Regime

Tax Type/Incentive
Income Tax Rate
Property Tax on Land
Royalties
Import Duties
Export Duties
Tax Stabliisation
Government Free Equity
VAT
Witholding Tax on Dividends
Witholding Tax on Loan Interest
Witholding Tax on Foreign Services
Surface Rentals (Exploration and Mining)
Tax Holidays
Community Costs
Loss Carry Forward
Capital Costs
Exploration Costs
Development Costs
Feasibility Costs
Ring-Fencing

Namibia's Tax Regime – Corporate Income Tax

Observations on Corporate Income Tax:

"Over the past two decades there has been a general lowering of income tax rates, and it is now uncommon to see a corporate income tax rate higher than 35%. There has been a trend to lower income tax rates, particularly in nations where tax avoidance is high. Many nations have a rate between 20% and 35%. **The rate of income tax in Namibia is exceptionally high (37.5% on most mines) and is one of the highest rates applied anywhere in the world. Most nations apply uniform rates to all types of corporate taxpayers but in Namibia, mines pay at a higher rate."**

Namibian Mining Sector Fiscal System Analysis

prepared by Prof James M Otto for Extract Resources, June 2011

Namibia's Tax Regime - VAT

Observations on VAT

"Value added tax is becoming widespread and largely has replaced general sales tax in most nations. Typically, mining nations handle VAT in two ways. Where the mineral produced is sold for consumption within the country the normal VAT system is applied. **However, where the output is exported, the sales transaction is free of VAT (zero-rated or exempt) and there is a way for VAT to be negated on inputs (exemption, zero-rated, refund or credit scheme). The approach in Namibia follows the typical approach with VAT applying in the normal way if the mineral is sold for local consumption, but if the product is exported, the sale is zero-rated and input VAT is refundable.**"

Namibian Mining Sector Fiscal System Analysis

prepared by Prof James M Otto for Extract Resources, June 2011

Namibia's Tax Regime – Export Duty

Observations on Export Duty

"Almost all nations have exempted minerals from export duties or zero-rated mineral export categories. It is probable that many mining companies avoid investing in nations with appreciable export duties. Like most nations today, Namibia does not impose export duties on most minerals."

Namibian Mining Sector Fiscal System Analysis

prepared by Prof James M Otto for Extract Resources, June 2011

Namibia's Tax Regime – Excess Profits Tax

Observations on Excess Profits Tax

"Very few nations impose excess profits taxes on mines. Such taxes, regardless of their form, are viewed very negatively by investors. When profits are high, companies pay more income tax. Many mines lose money when commodity prices are low and may require funds saved from higher price periods to remain in business. It is usually in the interest of both the investor and the government to keep a mine open so that future revenue flows will occur. Unlike a petroleum producing field, mines are not easily opened, closed and reopened. Namibia, like most nations, does not impose an excess/additional profits tax."

Namibian Mining Sector Fiscal System Analysis

prepared by Prof James M Otto for Extract Resources, June 2011

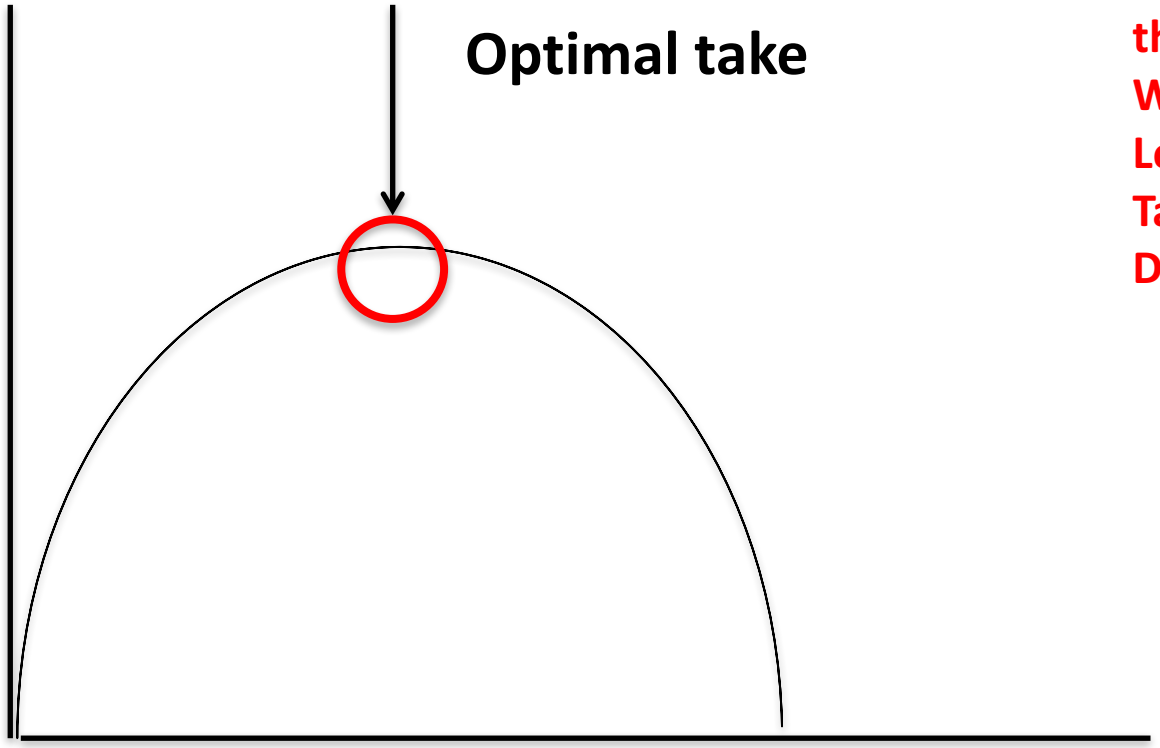
Otto Report Conclusion

"Based on well-accepted measures of comparison, internal rate of return (IRR) and overall effective tax rates (ETR), it was determined that the current Namibian system is internationally competitive, and offers a fair sharing of revenues between the miner and the government. **ANY INCREASE IN TAXATION, OTHER THAN A WELL-CRAFTED EXCESS PROFITS TAX, COULD SHIFT THE FISCAL SYSTEM INTO A "HIGH TAX" JURISDICTION WHICH OVER THE LONGER-RUN, COULD RESULT IN LOWER GOVERNMENT REVENUES AS COMPANIES SEEK TO INVEST THEIR CAPITAL ELSEWHERE.**"

Namibian Mining Sector Fiscal System Analysis

prepared by Prof James M Otto for Extract Resources, June 2011

Benefits to Namibia

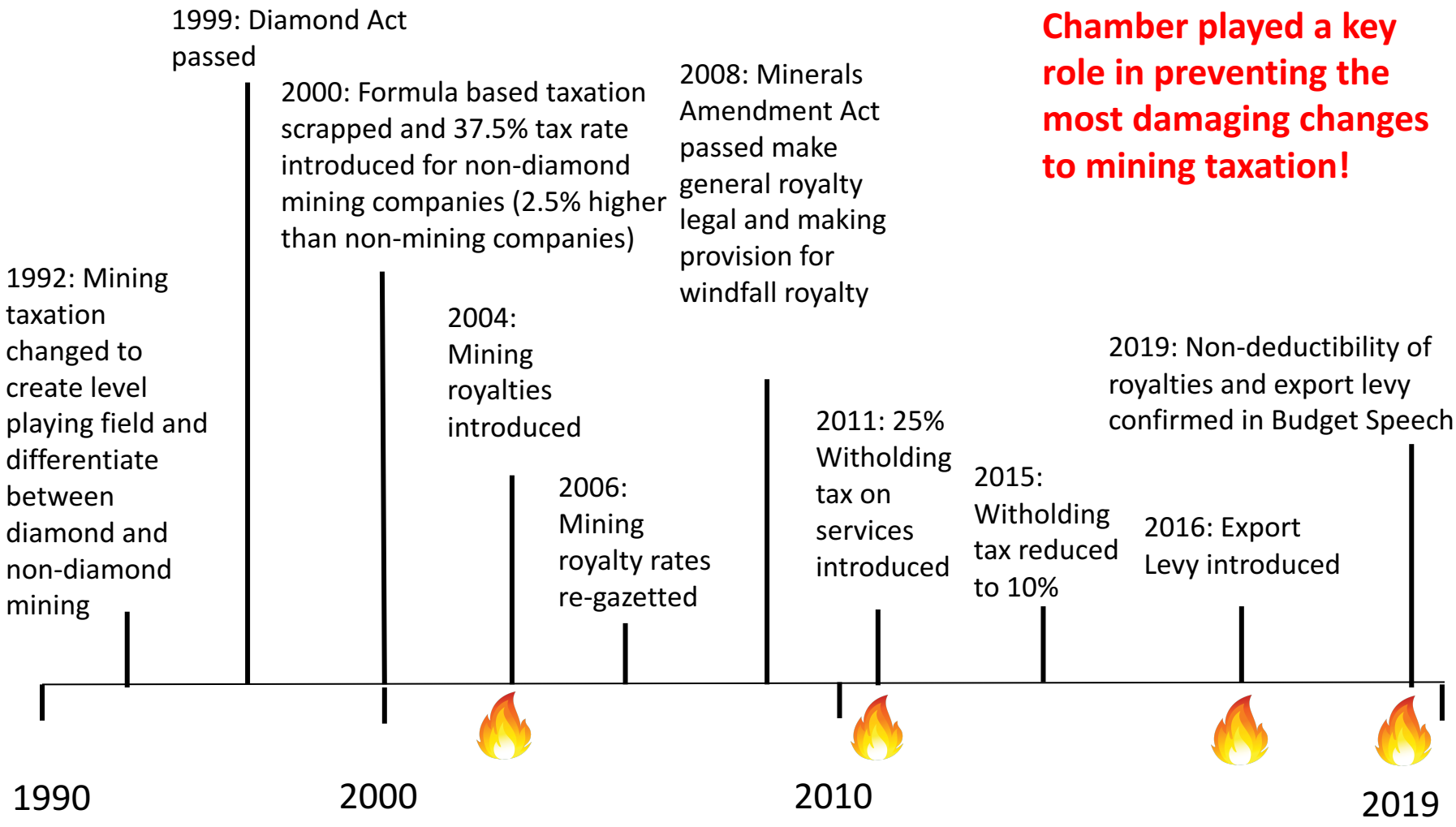


Namibia was at the optimal point WITHOUT Export Levy, Withholding Tax and Non-Tax Deductability

Demands on Investors

My conclusion:
At the time of Prof Otto's study in 2011,
Namibia's mining tax regime was near optimal.

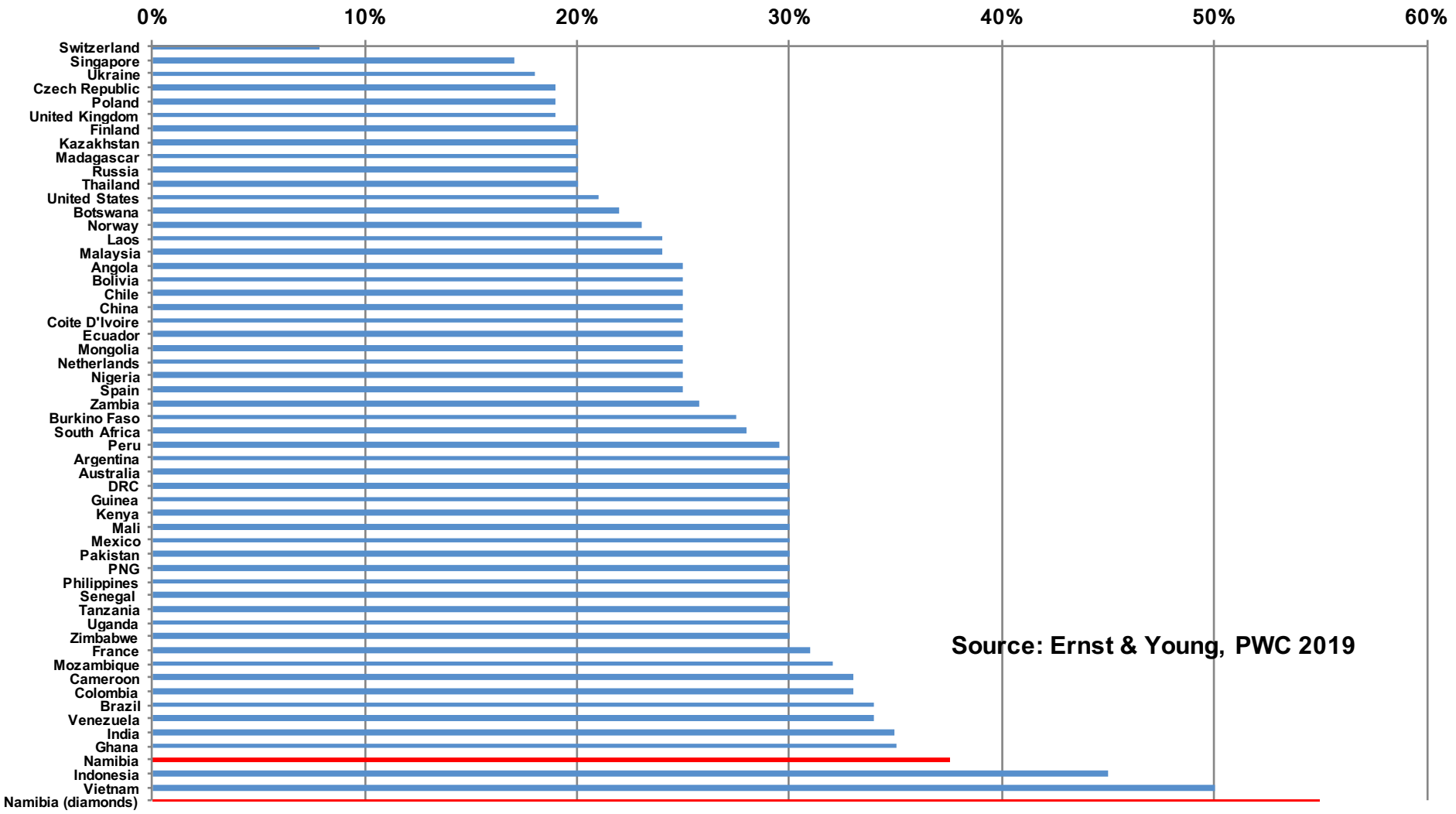
Mining Taxation Timeline



Chamber played a key role in preventing the most damaging changes to mining taxation!

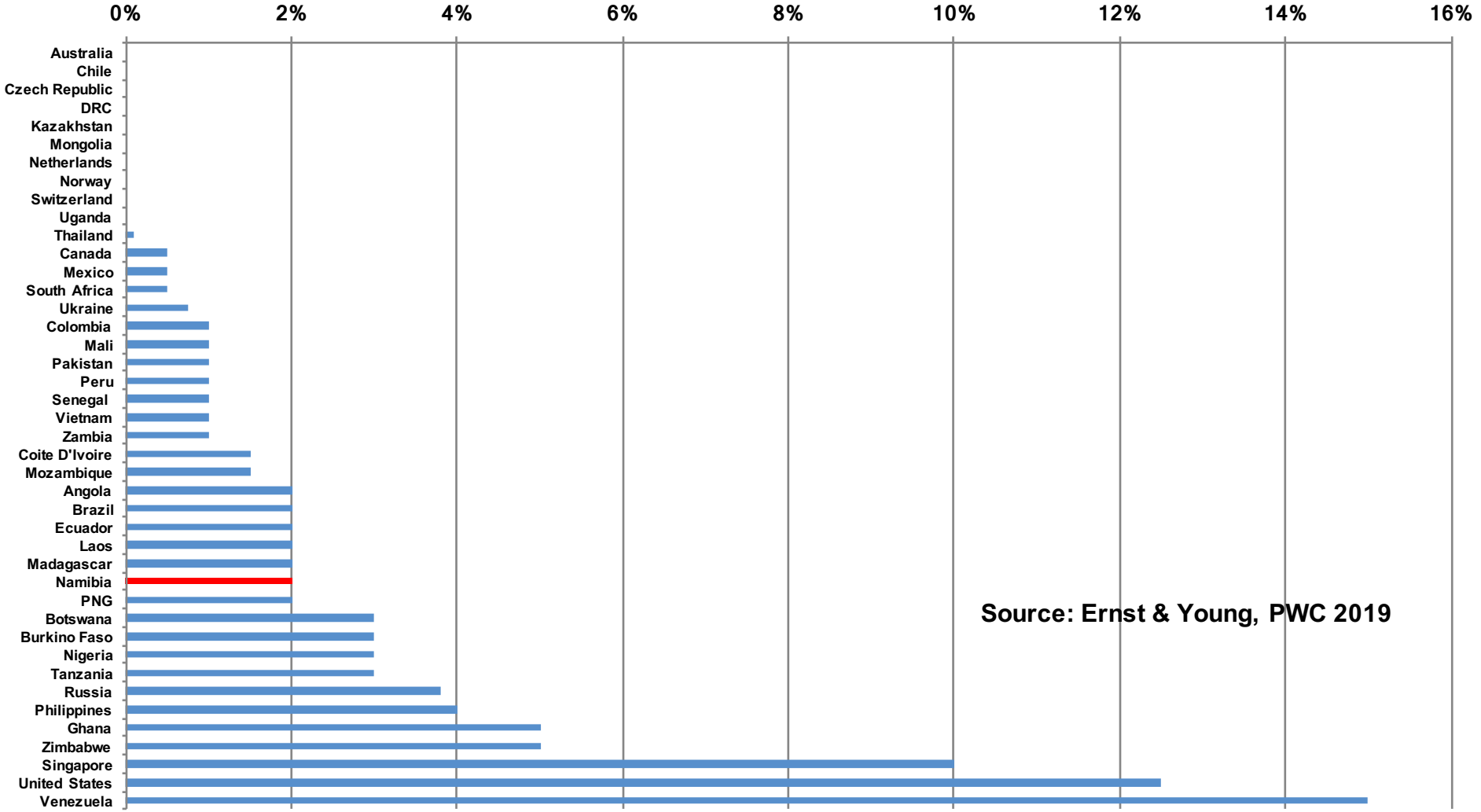
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Corporate Income Tax



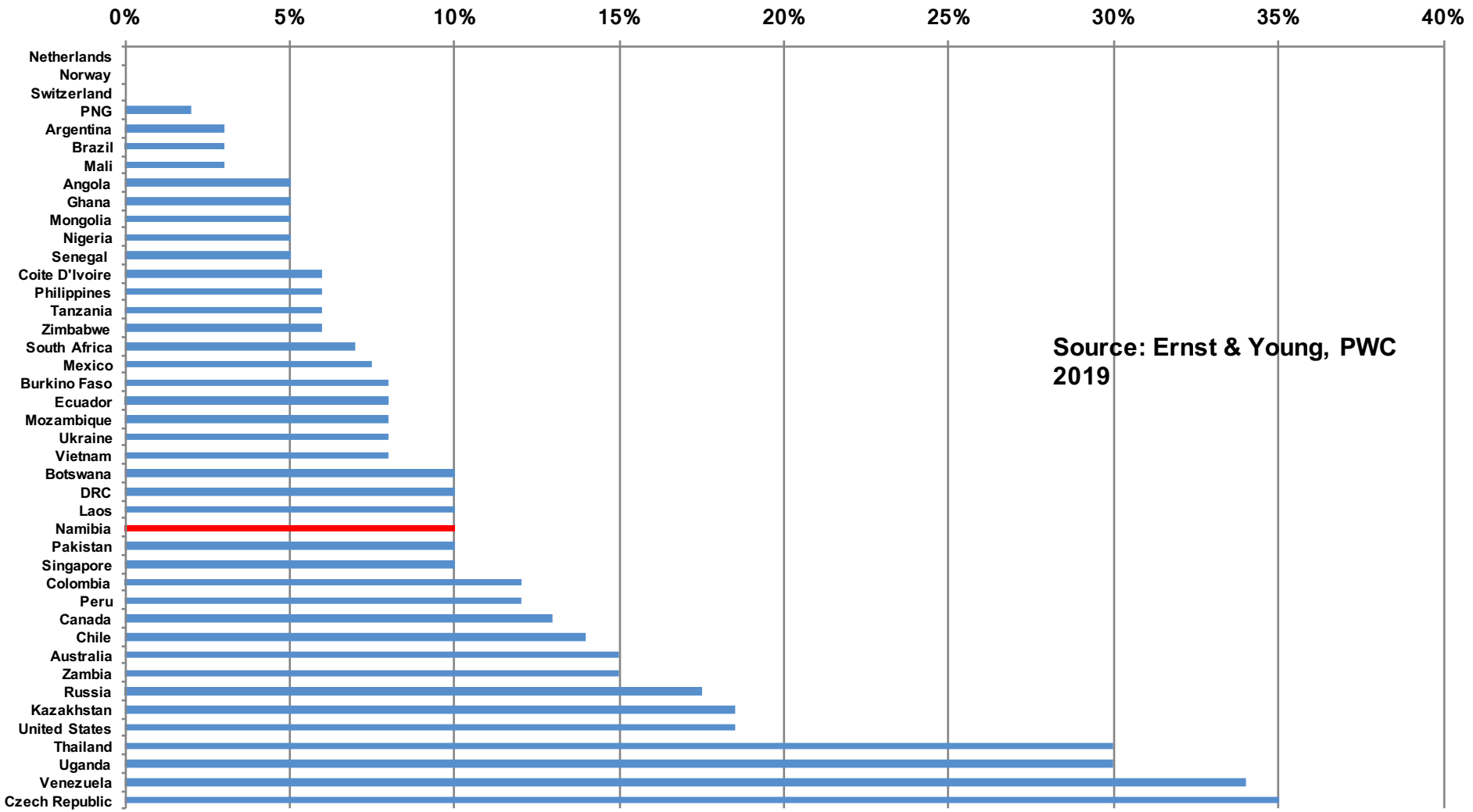
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Lowest Royalty Tax Rate



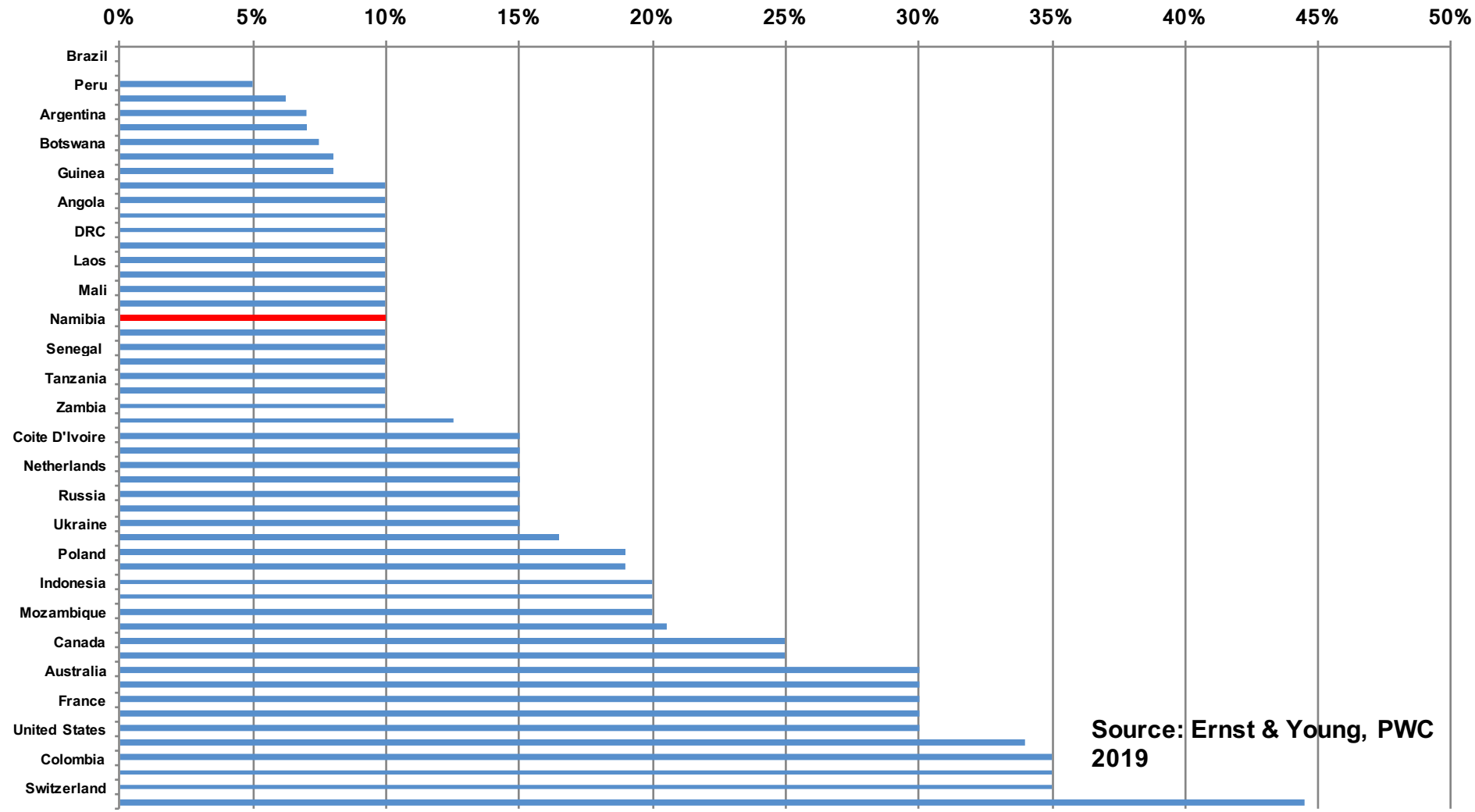
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Highest Royalty Tax Rate



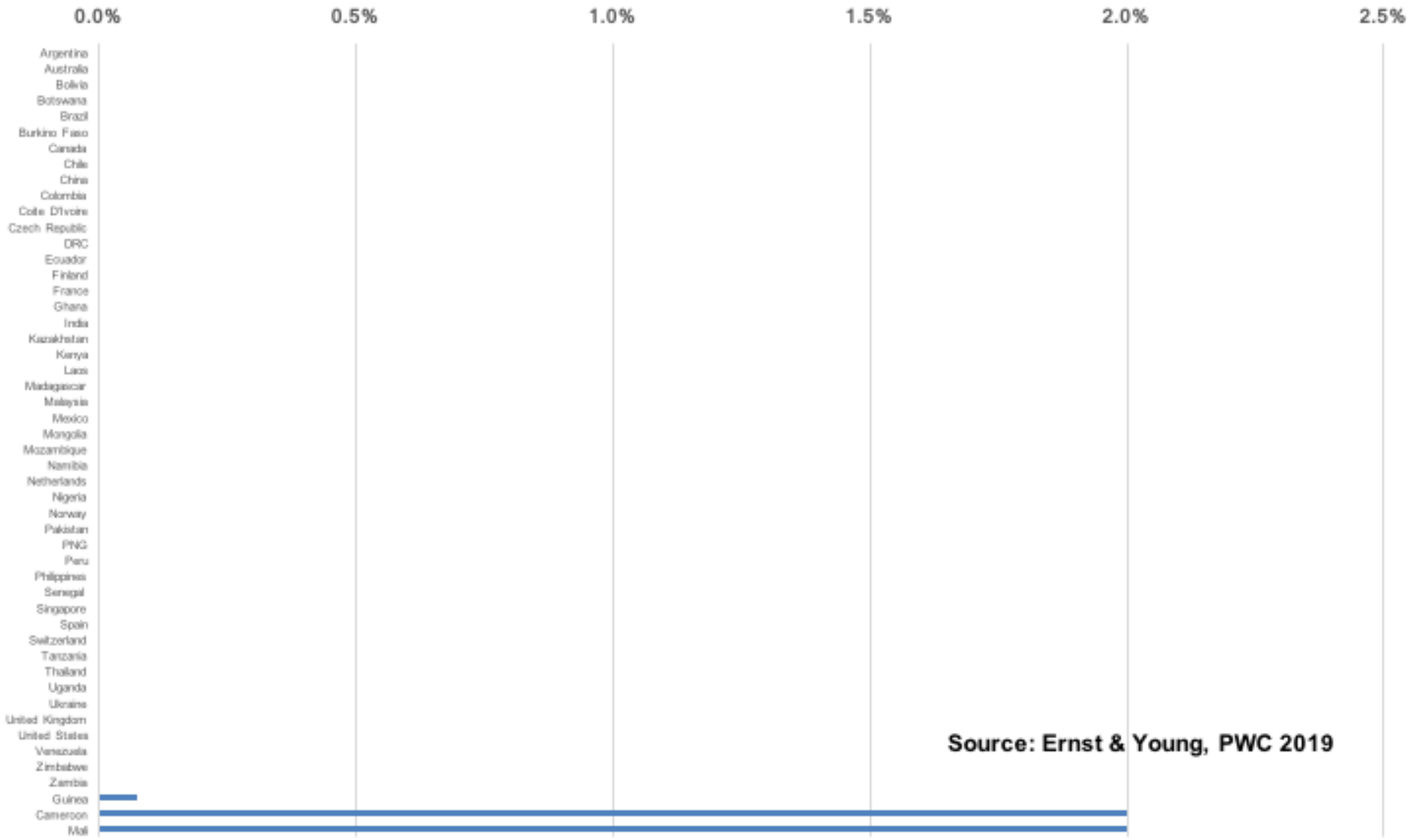
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Dividend Withholding Tax

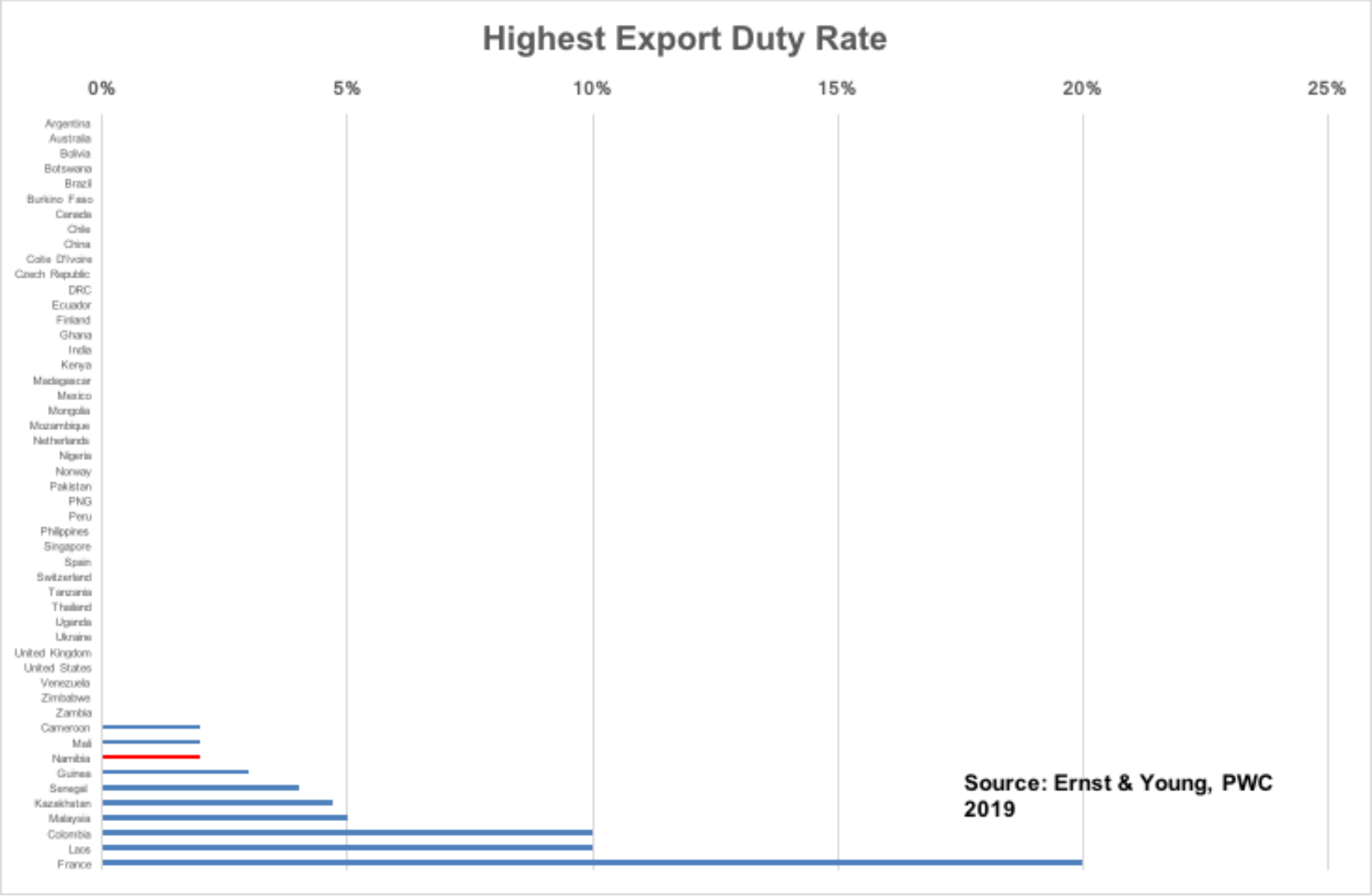


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Lowest Export Duty Rate



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Namibia's Current Mining Tax Regime

- 2-3% royalty rates (on gross sales) – mining companies
- 10% royalty rates (on gross sales) – diamond mining companies
- 0.25-2% export levy (on gross sales) – mining companies
- 37.5% corporate tax (on profits) – mining companies
- 55% corporate tax (on profits) – diamond mining companies
- 10%-20% withholding taxes on dividends (Non Resident Shareholders Tax)
- 10% withholding taxes on services

- "Accelerated depreciation" of investment spending over three years
- Unlimited "carry forward" of losses

My conclusion:
Even before the latest proposals, Namibia's mining tax regime had become less favourable to investors since Prof Otto's study in 2011.

Now in 2019 a Further Tax Measure is Being Proposed which will Apply to Non-Diamond Mining Companies:

Budget Speech 2019 (Section 68):

"disallow deductibility of royalties [and export levies] for non-diamond mining entities"

Income Tax Draft Bill 2018 (Amendment of Section 24 of Act No. 24 of 1981):

Deductions not allowed in the determination of taxable income

(b) by the addition of the following paragraphs after paragraph (h)

(i) any tax, levy, royalty or similar charge other than municipal rates and taxes and Value Added Tax;

This is a very unusual proposal!

“Almost no nations except Namibia levy export duties on minerals. Most nations do allow deduction of royalties when calculating taxable income but there are a handful few that do not.”

Prof James M Otto

Current Tax Proposal

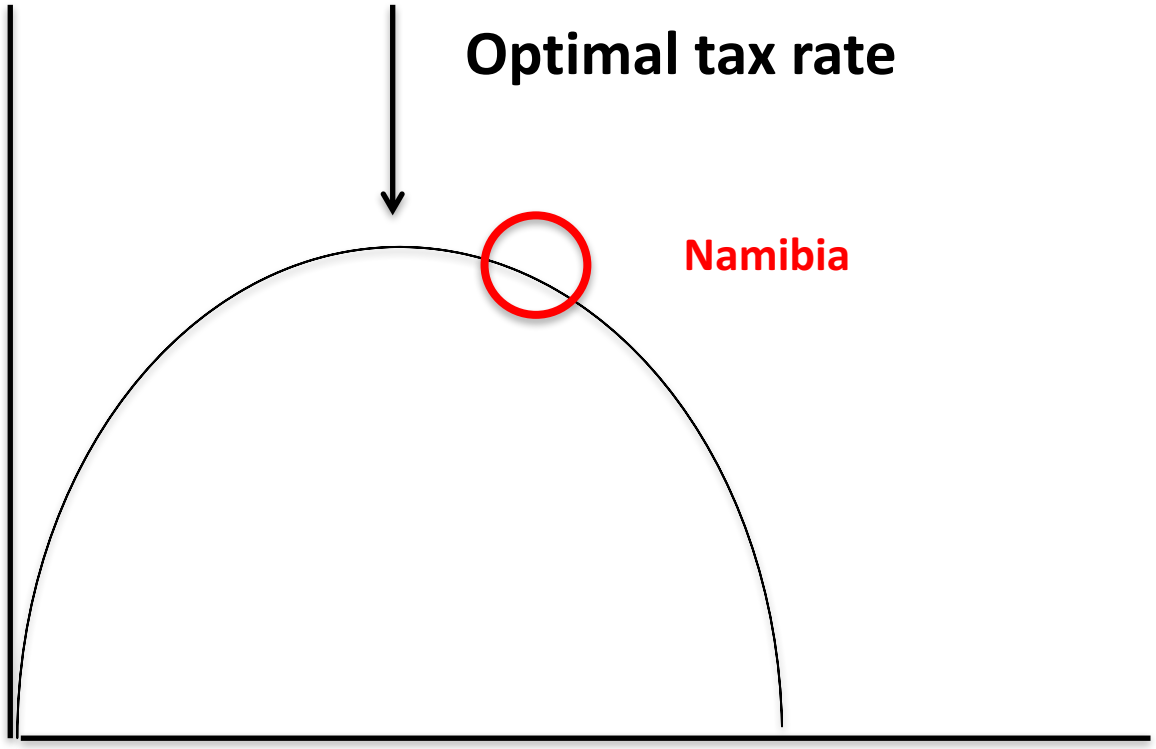
Is it part of a carefully crafted tax strategy designed to optimise revenue and investment from the mining sector over the long-term?

OR

Is it simply a short-term measure to address the general fiscal situation?

We have seen no evidence that it is the former

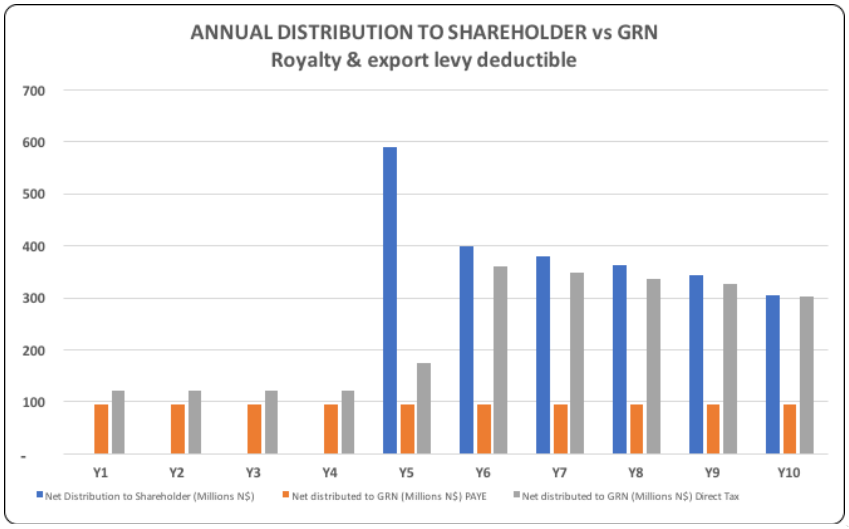
Tax revenue

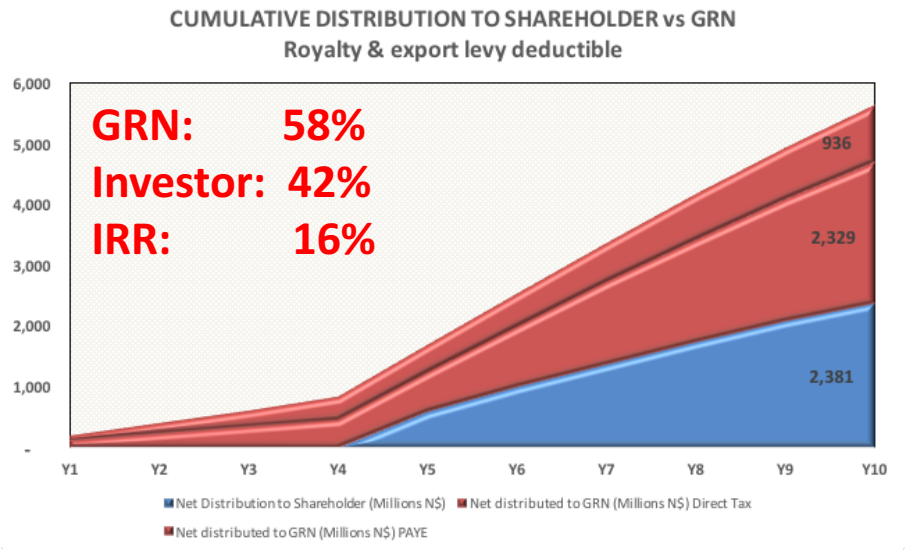


Further Modelling Work: Generic Gold Mine

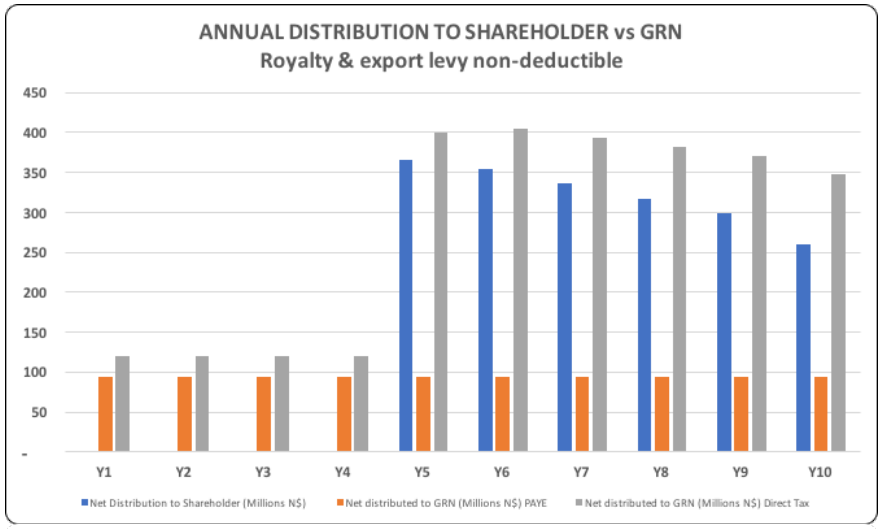
- Generic gold mine of average grade
- N$3bn investment
- N$600m annual wear and tear
- N$3bn revenue
- 10 year Life of Mine
- PAYE included
- Wider economic effects not included
- Best case scenario

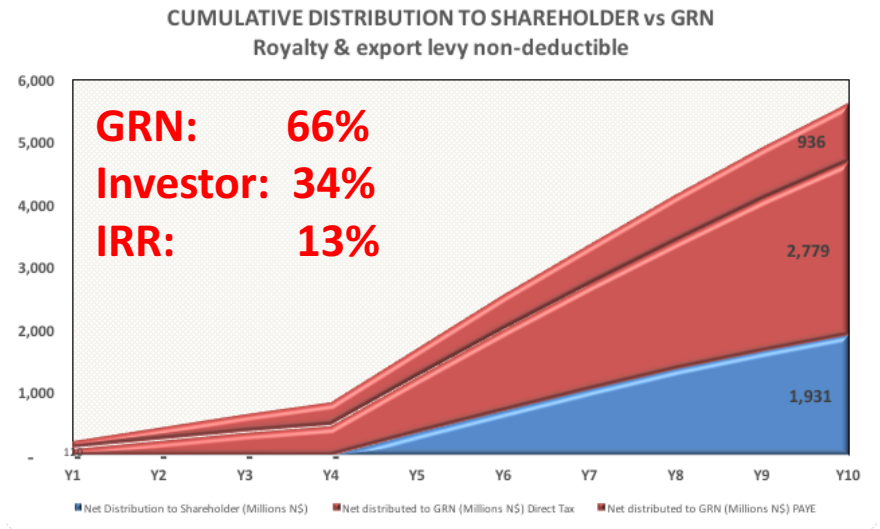
Deductible





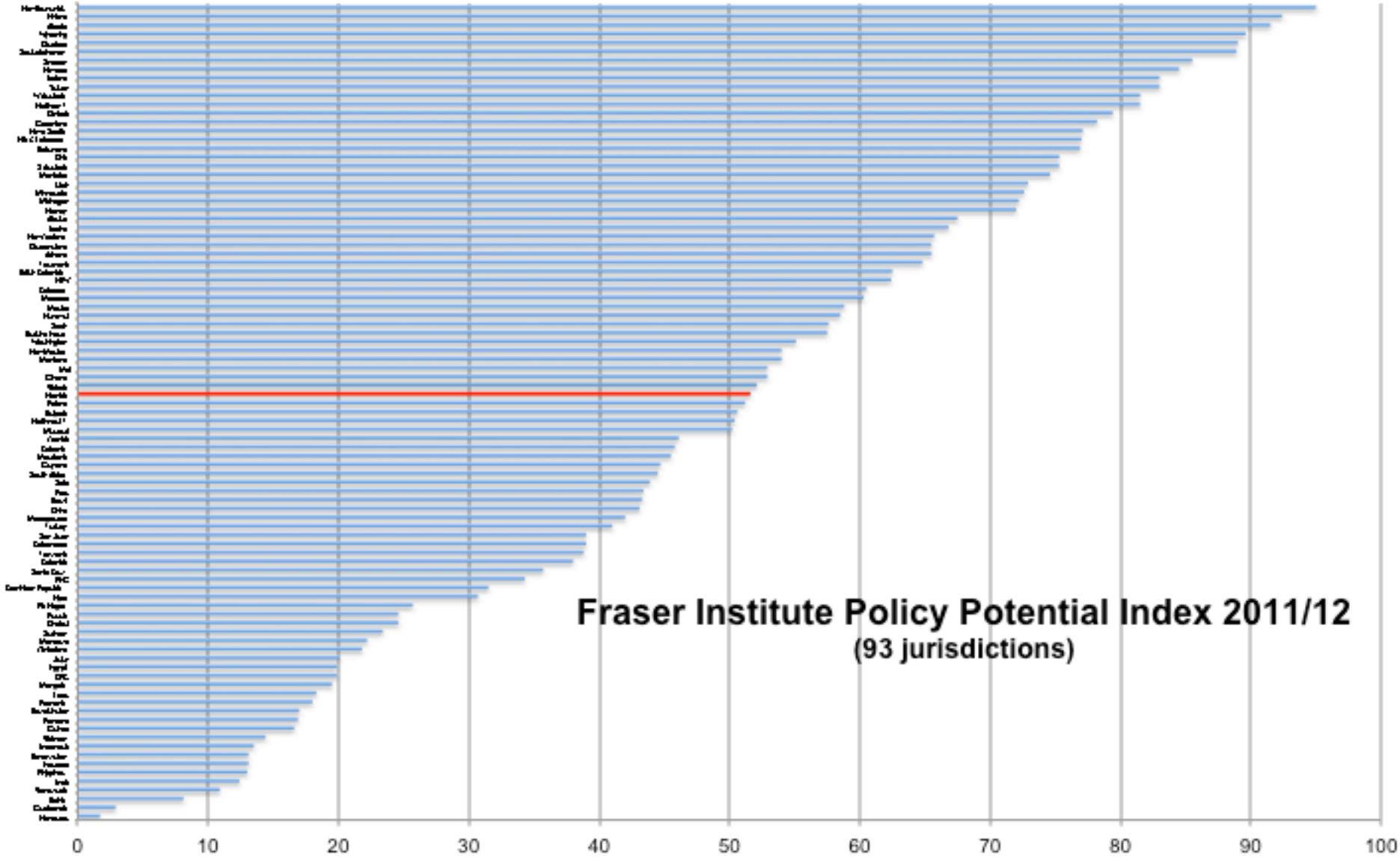
Non-Deductible

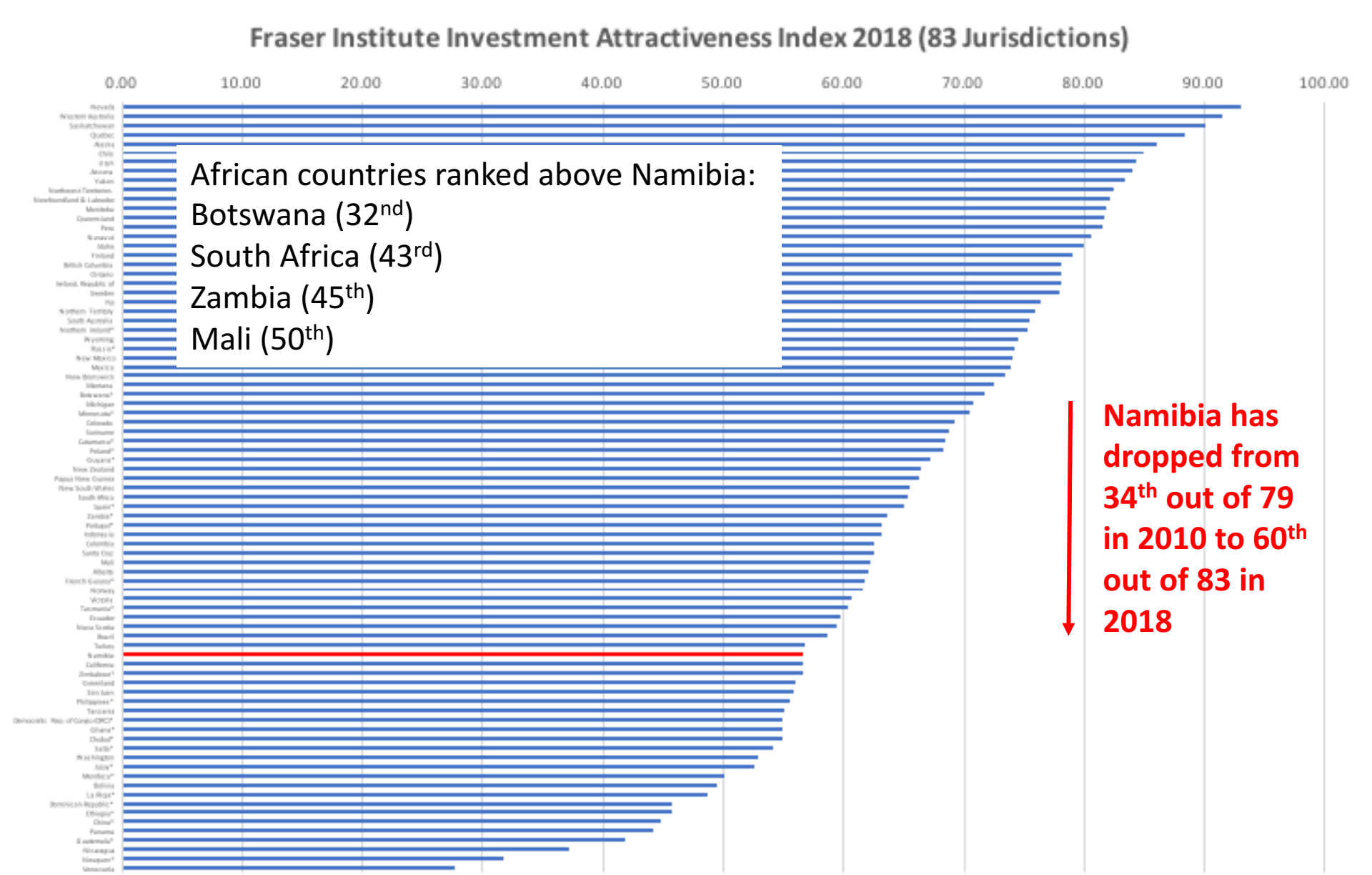




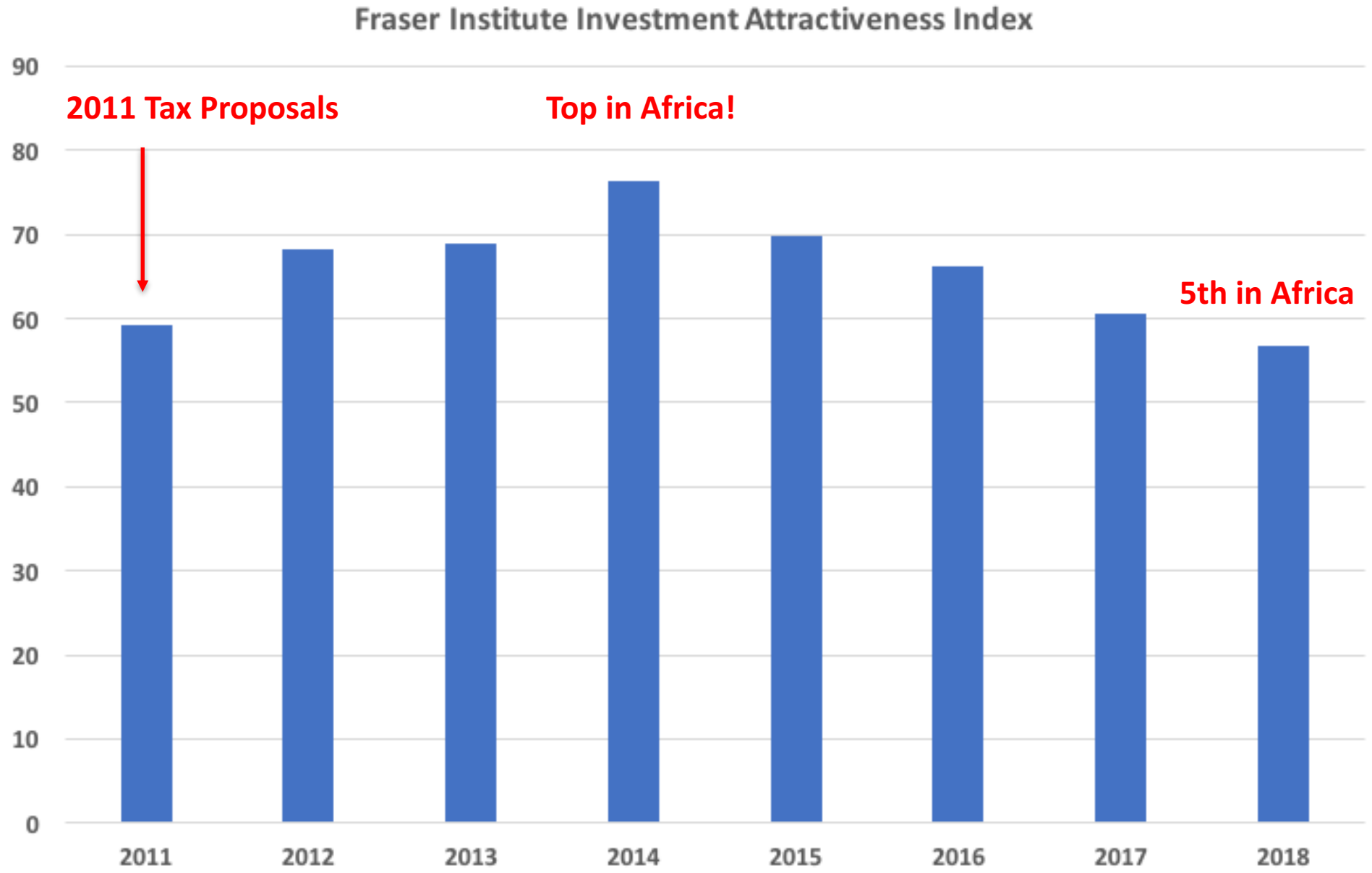
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My conclusion:
Since 2011, Namibia's mining tax regime has become steadily less attractive to mining investors and the latest proposal adds to this trend.


Fraser Institute Policy Potential Index 2011/12
(93 jurisdictions)
0
10
20
30
40
50
60
70
80
90
100



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Fraser Institute Investment Attractiveness Index
2011 Tax Proposals
Top in Africa!
5th in Africa
90
80
70
60
50
40
30
20
10
0
2011
2012
2013
2014
2015
2016
2017
2018

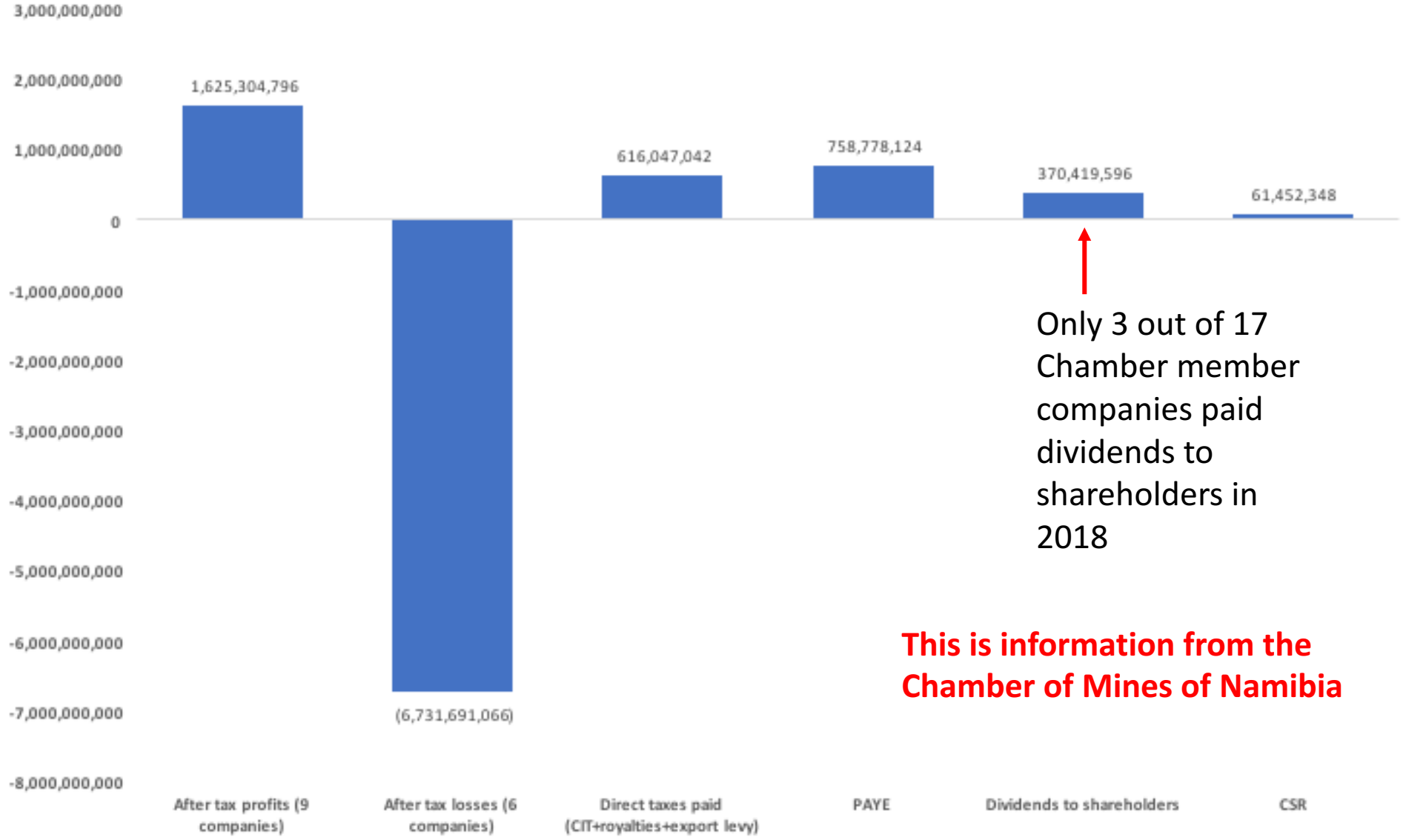
But Let's Talk Specifics…

Company	Ultimate Shareholders	Operations
QKR	92.5% QKR, 7.5% JG Investments (Epangelo)	Navachab gold mine ML31
Orano	100% Orano Mining	Trekkopje uranium mine ML151
B2Gold	90% B2Gold Namibia, 10% EVI Mining Company	Otjikoto gold mine ML169
Langer Heinrich	75% Paladin Energy (ASX), 25% Chinese Overseas Uranium	Langer Heinrich uranium mine ML140 and ML172
Namdeb Holdings	50% GRN 50% De Beers (85% Anglo American)	Atlantic 1 (operated by Debmarine Namibia) Orange River, Bogenfels, Elizabeth Bay, Mining Area 1, Douglas Bay, Midwater (operated by Namdeb)
Dundee Precious Metals Tsumeb	90% Dundee Precious Metals (TSX), 8% Local BEE and 2% Employee Share Trust	Tsumeb smelter
Ohorongo Cement	69.83% Schwenk Group, 14.27% Industrial Development Corporation, 11.73% Development Bank of Namibia, 4.17% Development Bank of South Africa	Ohorongo Cement ML153
Rosh Pinah Zinc	89.96% Travali Mining, 1.63% PE Minerals 7.84% Jaguar Investments, 0.57% Employee Empowerment	Rosh Pinah zinc and lead mine ML39
Rössing Uranium	68.62% Rio Tinto 15.29% Government of Iran 10.22% IDC of South Africa 3.38% GRN 3% Individuals	Rossing uranium mine ML28
Salt Company	100% Klein Family	ML 66 A-J, ML 71 A-C, ML 83 A-C
Salt & Chemicals	100% Chlor-Alkali Holdings	Walvis Bay salt pan ML 37
Skorpion Zinc	100% Vedanta (LSE)	Skorpion zinc mine ML108 and ML127 ,Namzinc refinery
Swakop Uranium	90% China General Nuclear 10% Epangelo	Husab uranium mine ML171

So which non-diamond mines should be paying more tax?

Company	Mine	Status
QKR	Navachab	Sold by AngloGold Ashanti in 2014 and now shedding workers LOM 2028
Orano	Trekkopje	Under care and maintenance
B2Gold	Otjikoto	New mine LOM 2027
Langer Heinrich	Langer Heinrich	Under care and maintenance LOM 2040
Dundee Precious Metals	Tsumeb smelter	No mining operations in Namibia – EPZ status
Ohorongo Cement	Ohorongo Cement	Not really a mine – main shareholder selling out
Solvay	Okorusu Fluorspar	Under care and maintenance
Rosh Pinah Zinc	Rosh Pinah	Established mine LOM 2021
Rössing Uranium	Rossing	Main shareholder selling out LOM 2025
Salt Company	Swakopmund	Profitable but small
Salt & Chemicals	Walvis Bay	Profitable but small
Skorpion Zinc	Skorpion	LOM 2020
Swakop Uranium	Husab	New mine LOM 2036
Weatherly Mining	Otjihase, Matchless	Closed

Financial Highlights from Operating Companies (excluding Namdeb) in 2018



Only 3 out of 17 Chamber member companies paid dividends to shareholders in 2018

This is information from the Chamber of Mines of Namibia

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My conclusion:
Looking carefully mine by mine, it is difficult to make an argument that there are lots of profits being made which are not being adequately taxed.

A Word About “Tax Holidays”:

1. Dundee Precious Metals (EPZ status)
   – smelts imported concentrates

2. Skorpion Zinc - Namzinc (EPZ status)
   – produces zinc ingots rather than concentrates for smelting elsewhere

3. Diamond Cutting and Polishing (EPZ status)
   – manufacturing in Namibia that would otherwise take place elsewhere

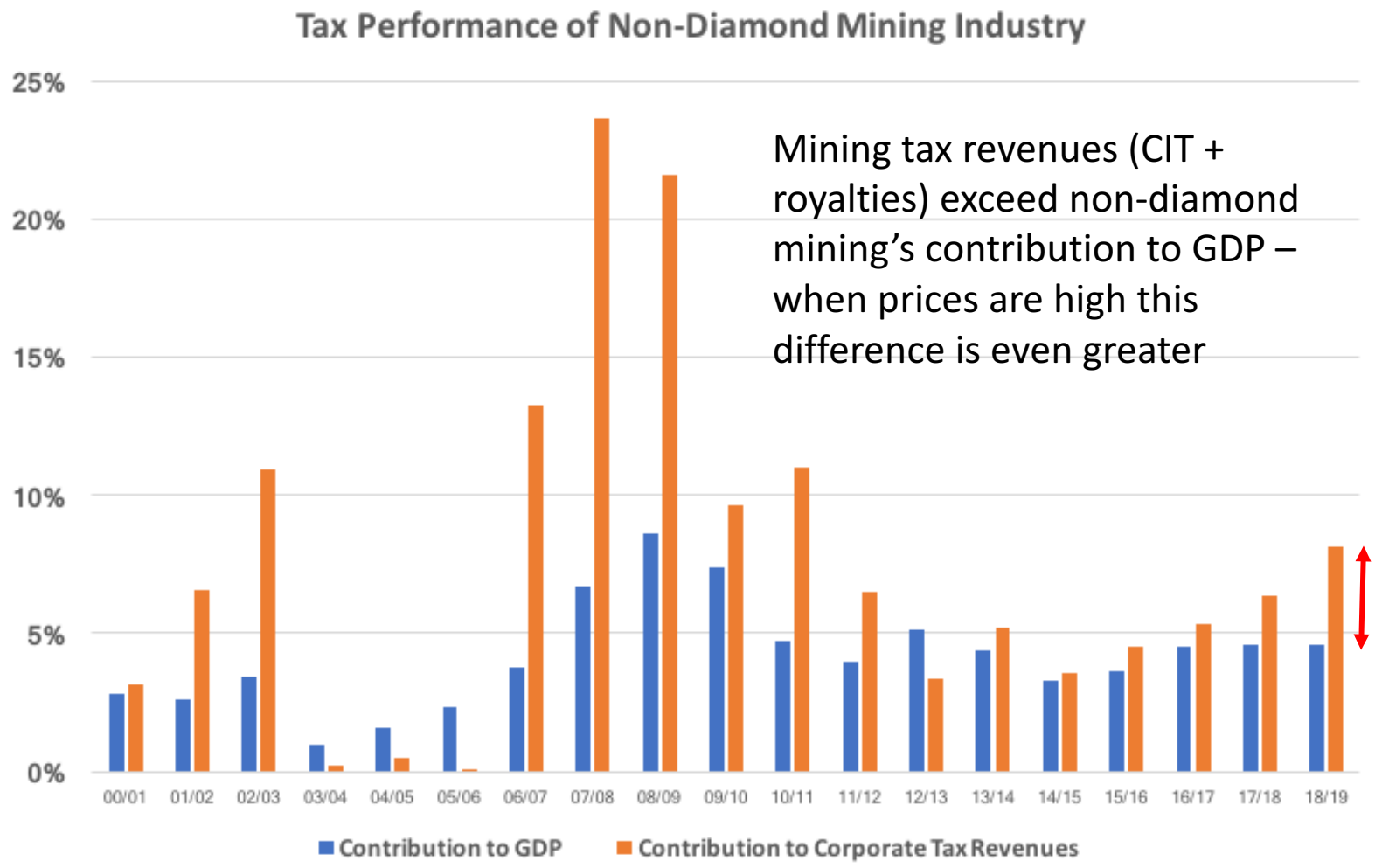
A Word About Tax Holidays:

If there are tax transgressions (and every industry commits them) they should be fully investigated by the Large Taxpayer Unit (LTU) within the Ministry of Finance

But

The Ministry of Finance should not tax an industry on the basis of assuming everyone is guilty until proven otherwise!

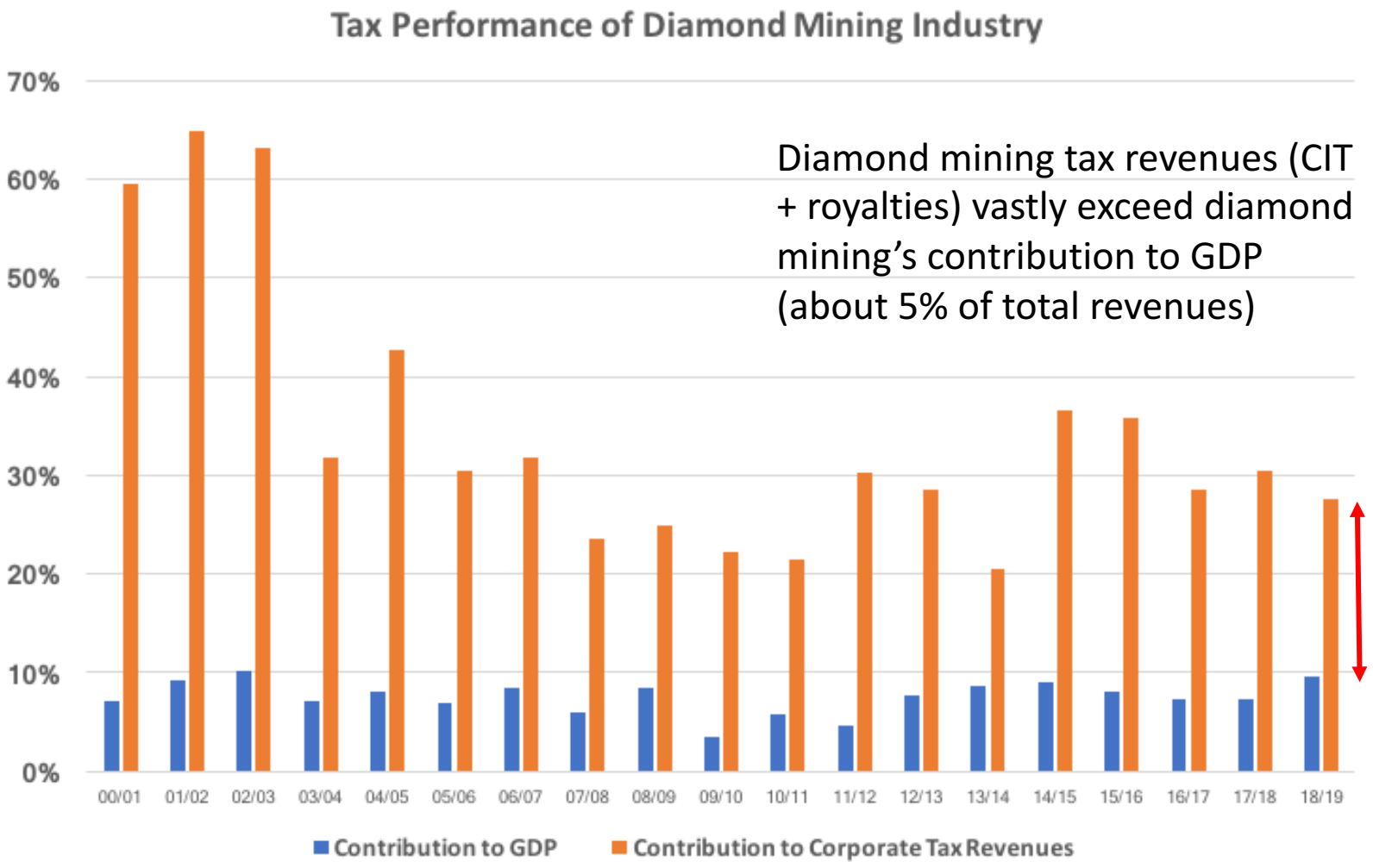
Mining Track Record: Tax Outperforms GDP



Mining tax revenues (CIT + royalties) exceed non-diamond mining's contribution to GDP – when prices are high this difference is even greater

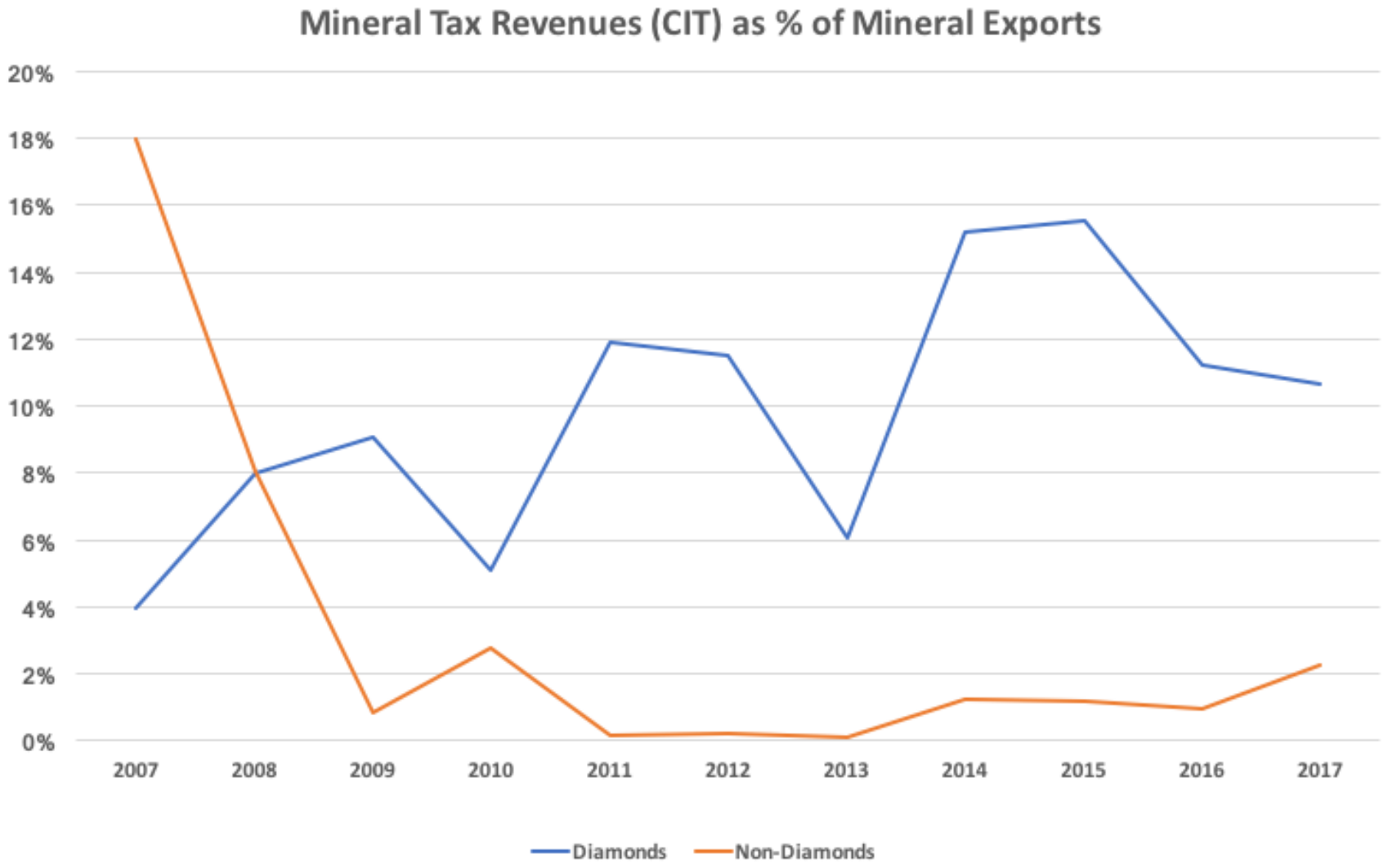
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Mining Track Record: Tax Outperforms GDP



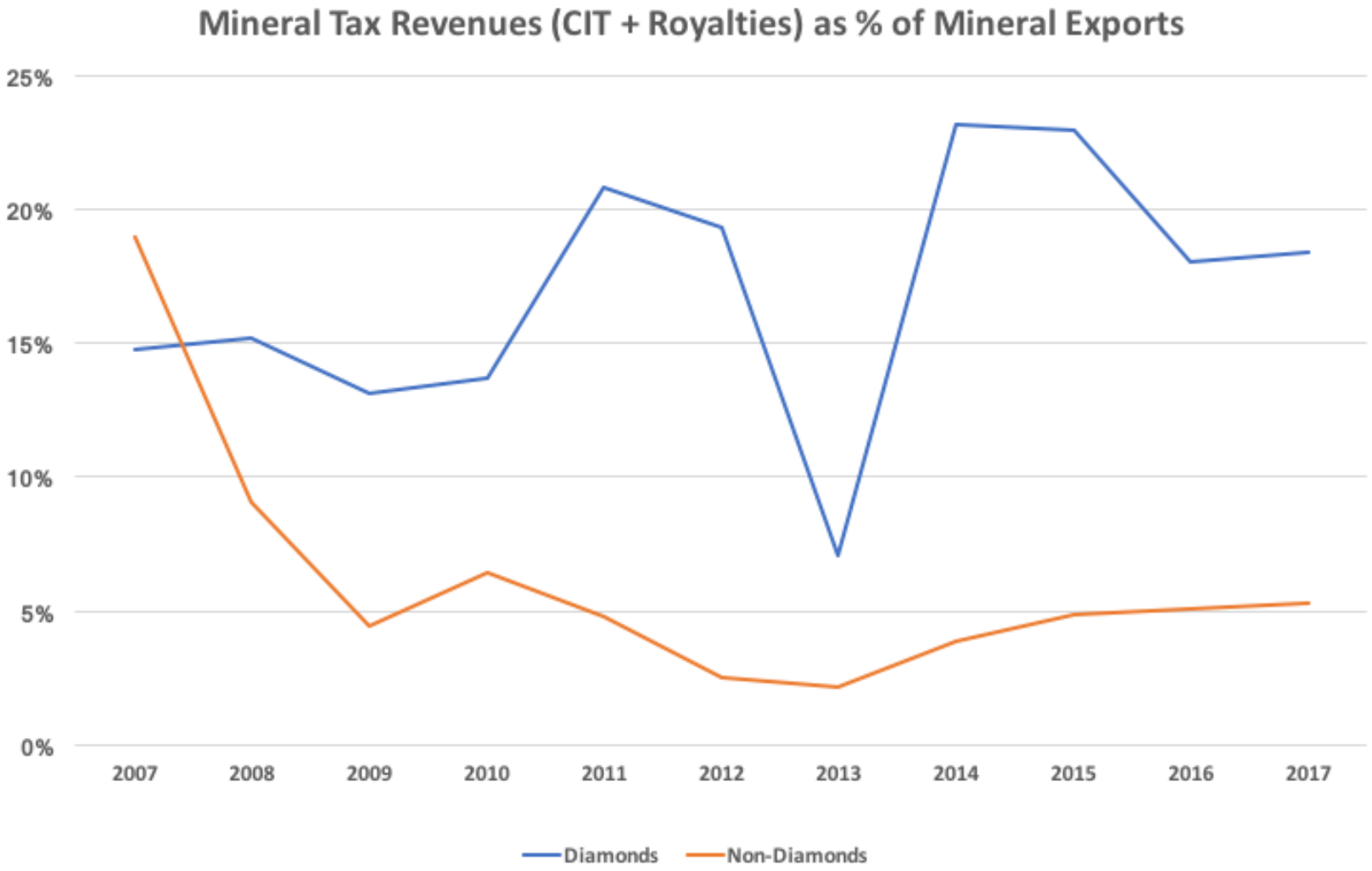
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Mining Track Record



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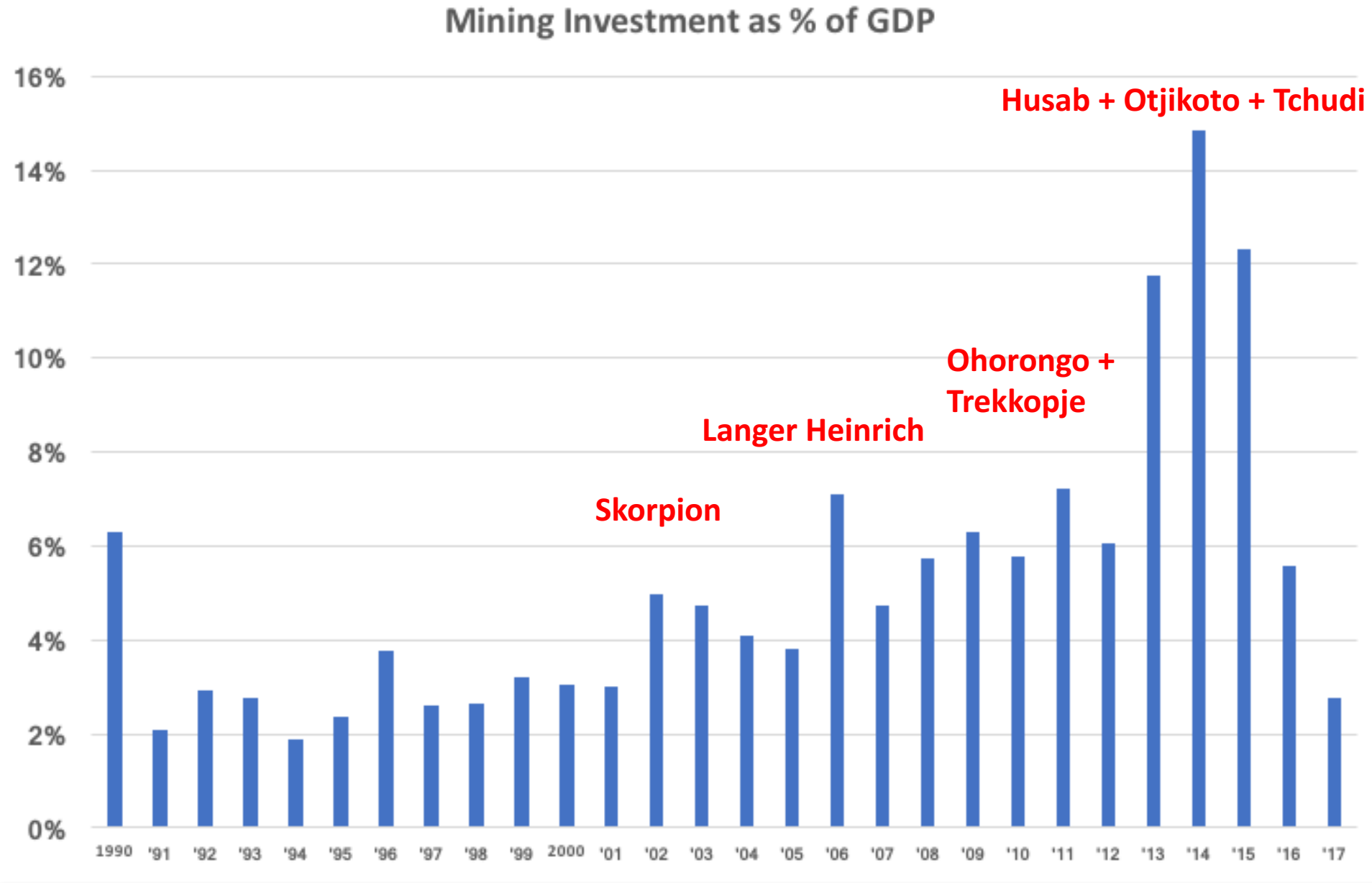
Mining Track Record



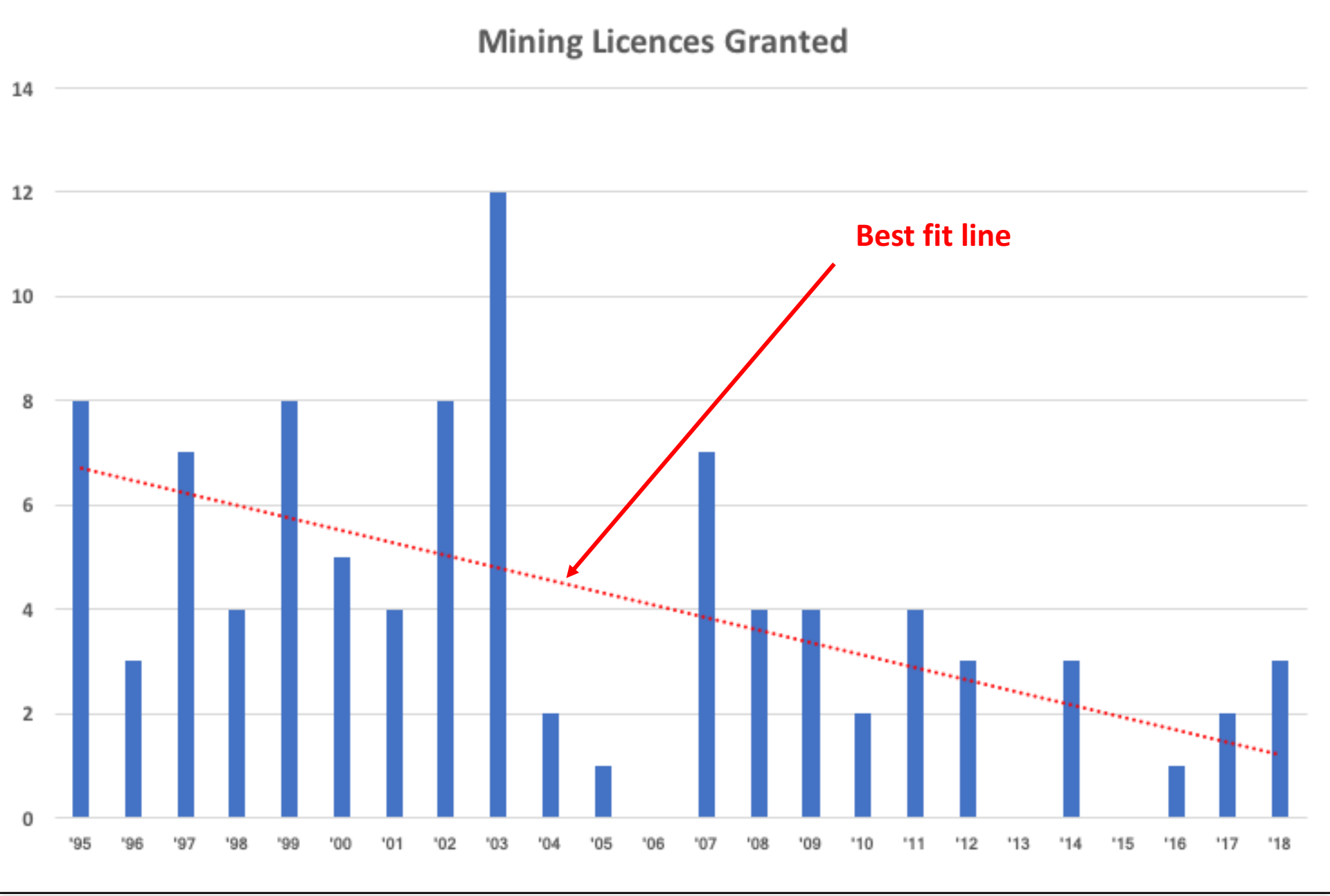
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Some Final Thoughts…

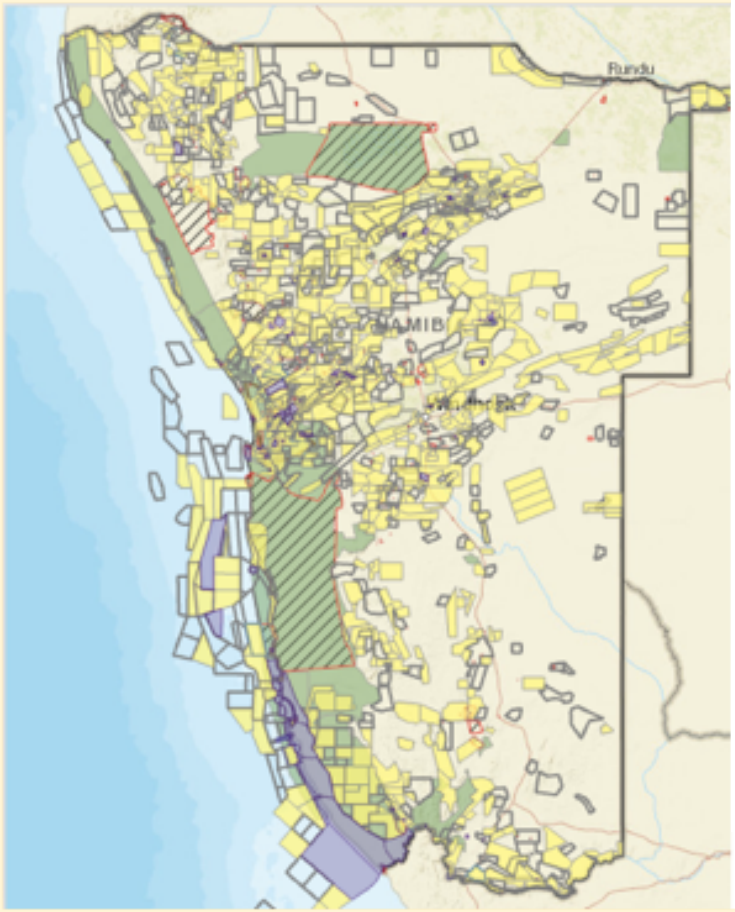
	Diamond (New)	Diamond (Closures)	Non-Diamond (New)	Non-Diamond (Closures)	Under Care and Maintenance
1990	Elizabeth Bay		Okorusu Fluorspar	Uis Tin Namib Lead and Zinc	
1991					
1992					
1993					
1994				Rubikon and Helikon	
1995					
1996					
1997					
1998					
1999	Daberas				
2000					
2001	Debmarine Atlantic 1				
2002			Skorpion Zinc		
2003					
2004					
2005					
2006					
2007	Bogenfels		Langer Heinrich Uranium		
2008			Ohorongo Cement	Kombat	Tsumeb Matchless Ojihase
2009					
2010			Trekkopje		
2011		Bogenfels	Matchless Ojtihase		Trekkopje
2012					
2013					
2014			Otjiozondu Otjikoto		Okorusu Fluorspar
2015	Sendelingsdrif		Tchudi Lodestone		Matchless Otjihase
2016			Husab		
2017			Okandjande Graphite Gecko Salt		
2018		Elizabeth Bay	Whale Rock Cement		Langer Heinrich Uranium Okandjande Graphite
2019	Obib				



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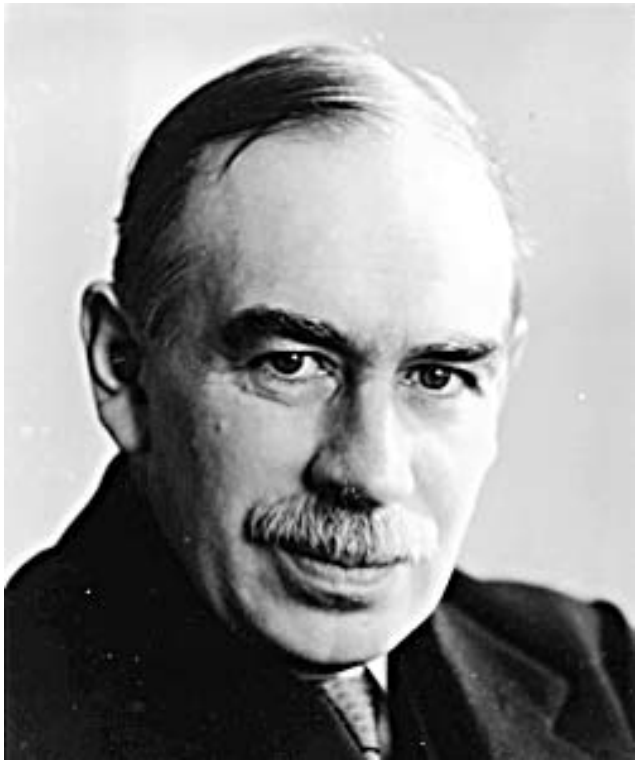
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According to Honourable Alweendo 92% of active EPLs have been allocated to individual Namibians who have no capacity and/or no intention to put the money into developing mines – meaning that land-locking is taking place!

My conclusion:
I would say we need to make significant improvements to our mining investment regime if we are to maintain the bedrock of our economy over the next 30 years.

The Challenge of Facts



"When the facts change, I change my mind. What do you do sir?"

John Maynard Keynes

Economist

“The mining industry makes too much money for foreign shareholders!”

“Do we really want to see what happens when the mining industry is not profitable enough?”

My Conclusions

With the possible exception of diamonds, Namibia's mineral resources are not especially large or high quality by international standards.

Mining is the bedrock of Namibia's economy and this has been achieved by ensuring the investment environment (over which we do have control) remains internationally competitive.

Namibia's mining taxation regime and overall mining investment climate has experienced a steady erosion in competitiveness.

It is hard to find evidence that mining companies are making significant profits that are not being properly taxed.

The Minister's Cost Benefit Calculation

Tax Deductibility for Non-Diamond Mines

Benefit

- Short-term gain of N$142m from few profitable mines (less than 0.3% of total GRN revenues)

Cost

- Reduced returns for investors who have shown faith in Namibia
- Damage to Namibia's long-term mining investment climate and further loss in competitiveness
- Will not solve current fiscal crisis
- Long-term damage to fiscus

My Conclusions

Namibia's fiscal problems are not going to be resolved by tweaking mining taxes and making the country less attractive to long-term mining investors.

Last Word: The Parable of the Boiled Frog…

…Turn Down the Heat and Stop Boiling the Frog!



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