Namibia's Mining Sector

Presentation to Chamber of Mines of Namibia by Robin Sherbourne

22 June 2005

Who am I?

- UK citizen Namibian permanent resident
- Physicist turned economist
- Worked for NEPRU, GRN, IJG, Unam, *The Namibian*
- Established Institute for Public Policy Research (IPPR) in Windhoek
- Established monthly magazine insight Namibia

Purpose of today's bosberaad

- Discuss issues of critical importance to Namibia's mining sector – mining royalty tax, black economic empowerment, beneficiation
- Brainstorm ideas and new approaches
- Discover whether there is common ground in mining industry or agree to disagree

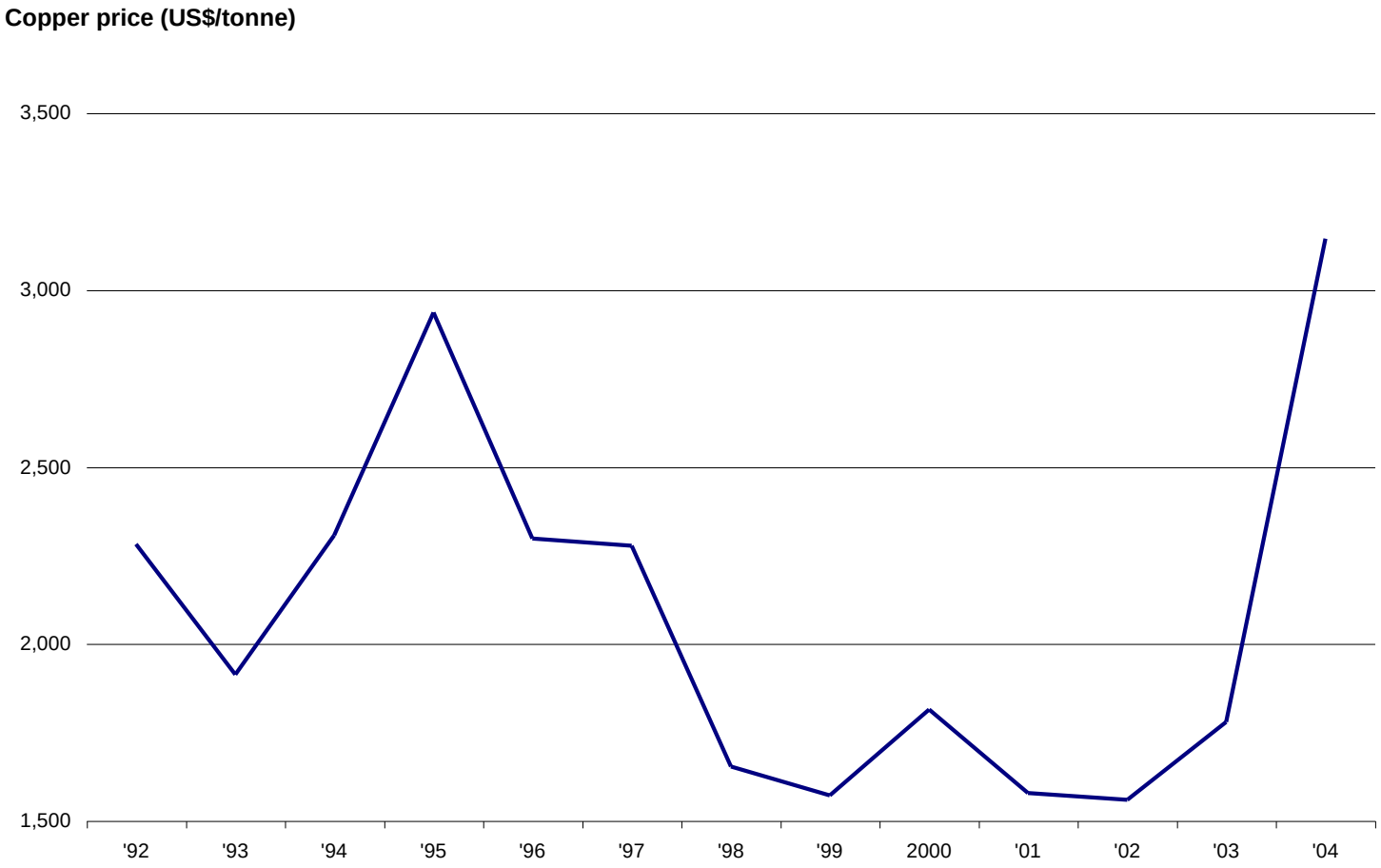
Presentations

- Part 1: Milestones
- Part 2: The mining sector’s performance
- Part 3: Mining royalty tax
- Part 4: BEE
- Part 5: Beneficiation

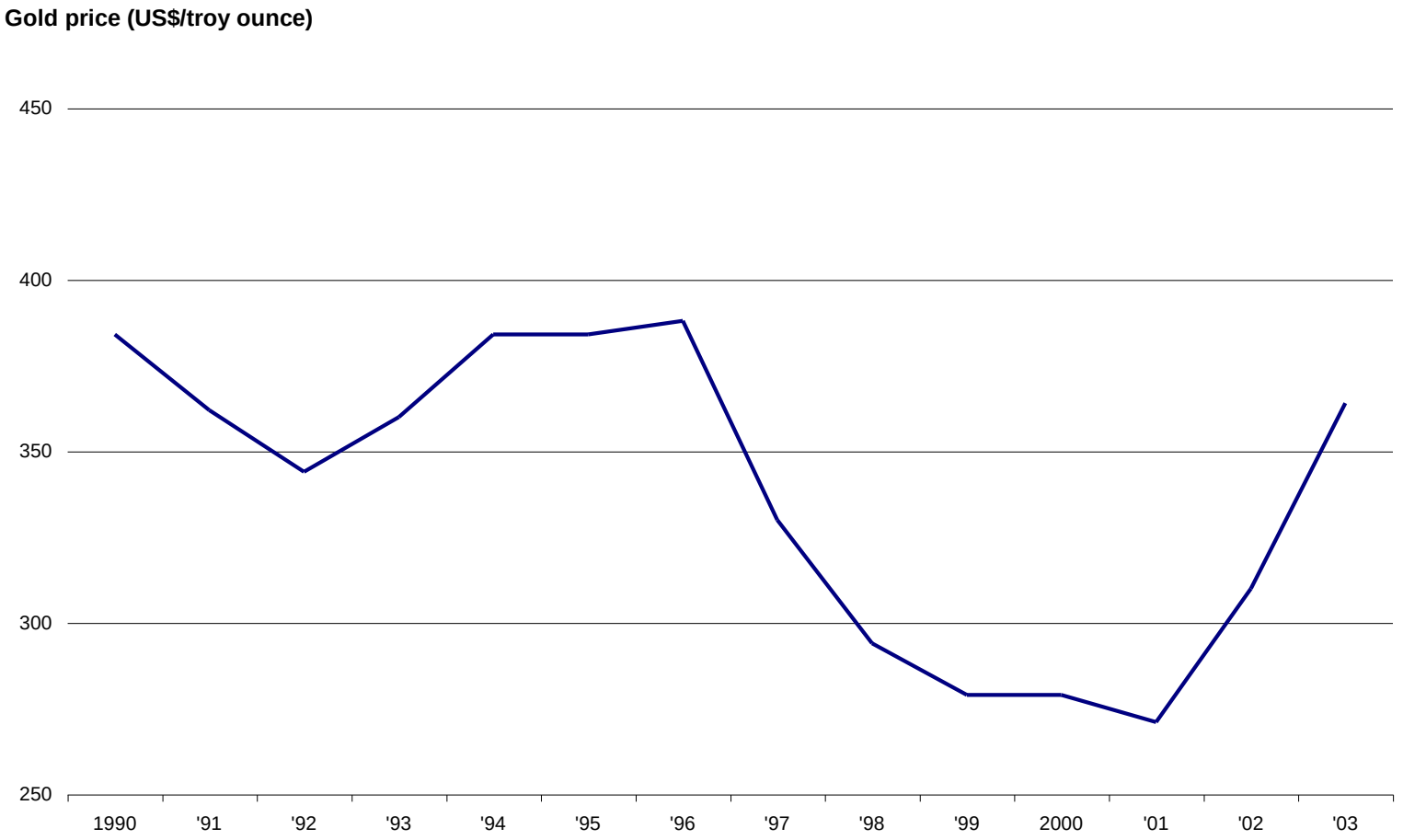
Part 1: Mining milestones

1990	Creation of MME, Andimba Toivo ya Toivo appointed minister, Elizabeth Bay and Navachab mines opened
1991	
1992	Minerals Act passed by parliament, Sysmin programme agreed with EU
1993	Conference on Mining Investment in Namibia
1994	Minerals Act comes into force, creation of Namdeb, Namco lists on NSX
1995	
1996	
1997	
1998	Goldfields withdraws from Namibia, Namco buys ODM, NamGem established
1999	Jessaya Nyamu appointed minister, Diamond Act passed by parliament, Haib copper abandoned
2000	Ongopolo established
2001	AA dual lists on NSX and announces Skorpion investment, Lev Leviev buys into Namco
2002	Dr Nickey Iyambo appointed minister
2003	Minerals Policy announced by MME, Afminco launched
2004	LLD established, mining royalty tax gazetted
2005	Erkki Nghimtina appointed minister

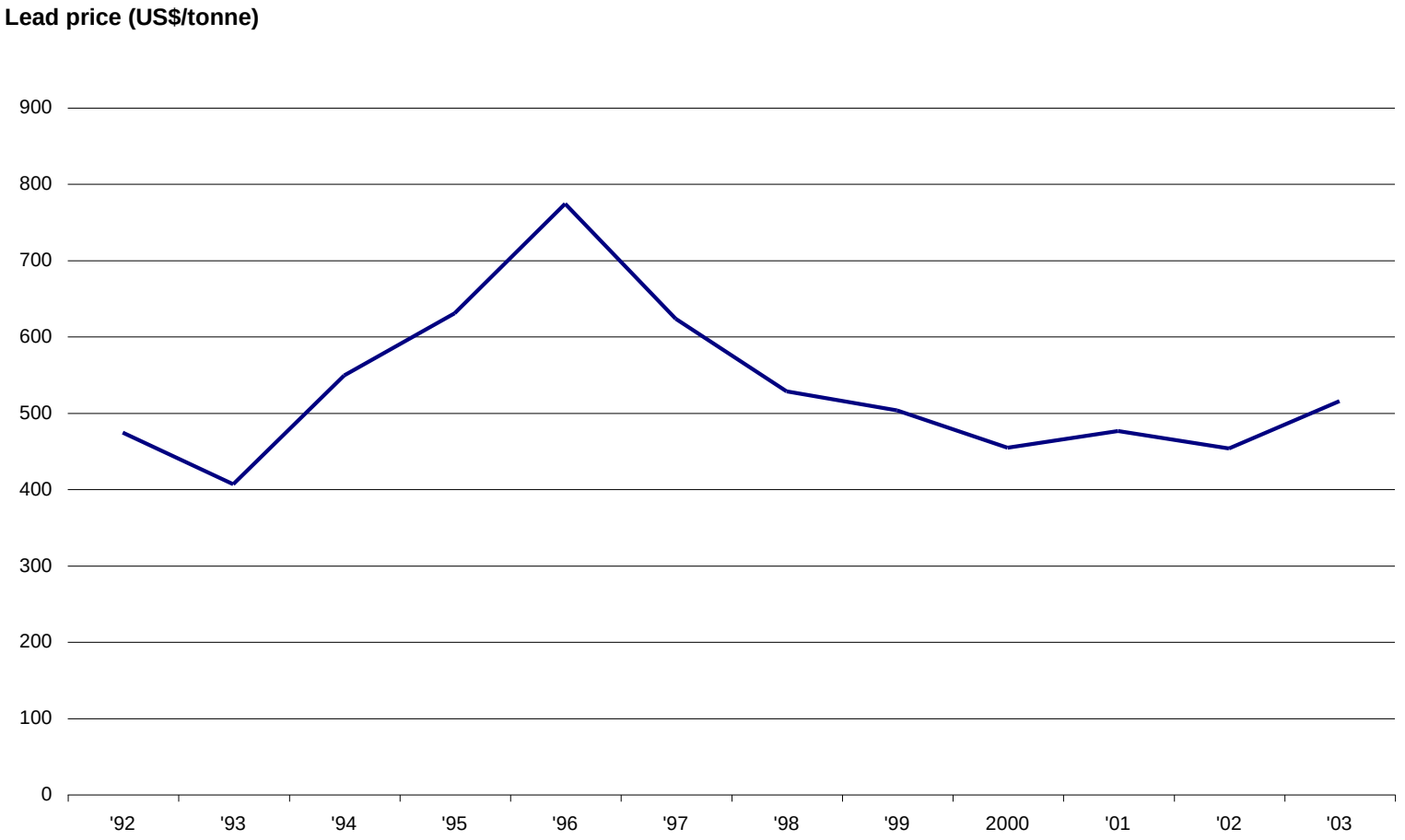
The international environment



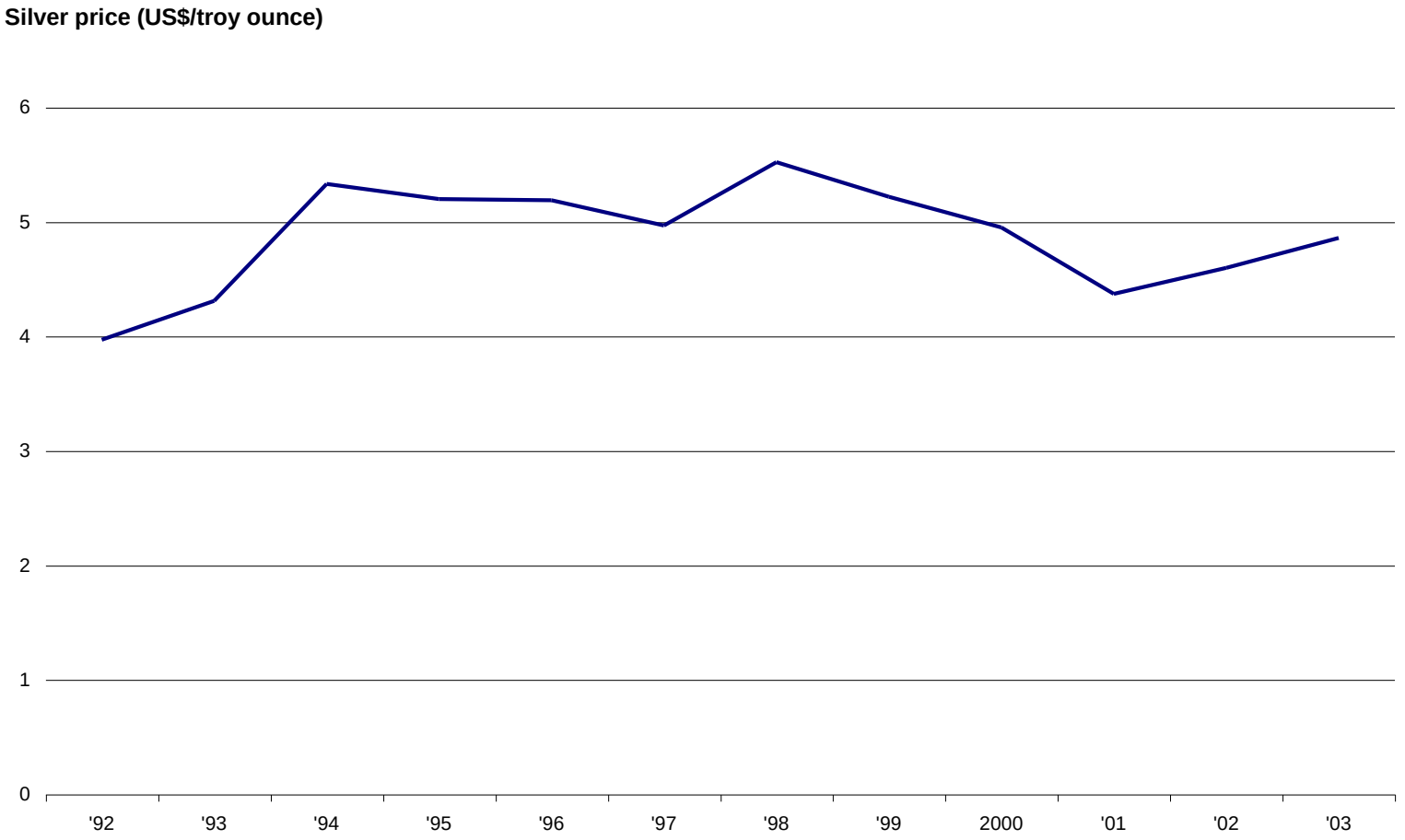
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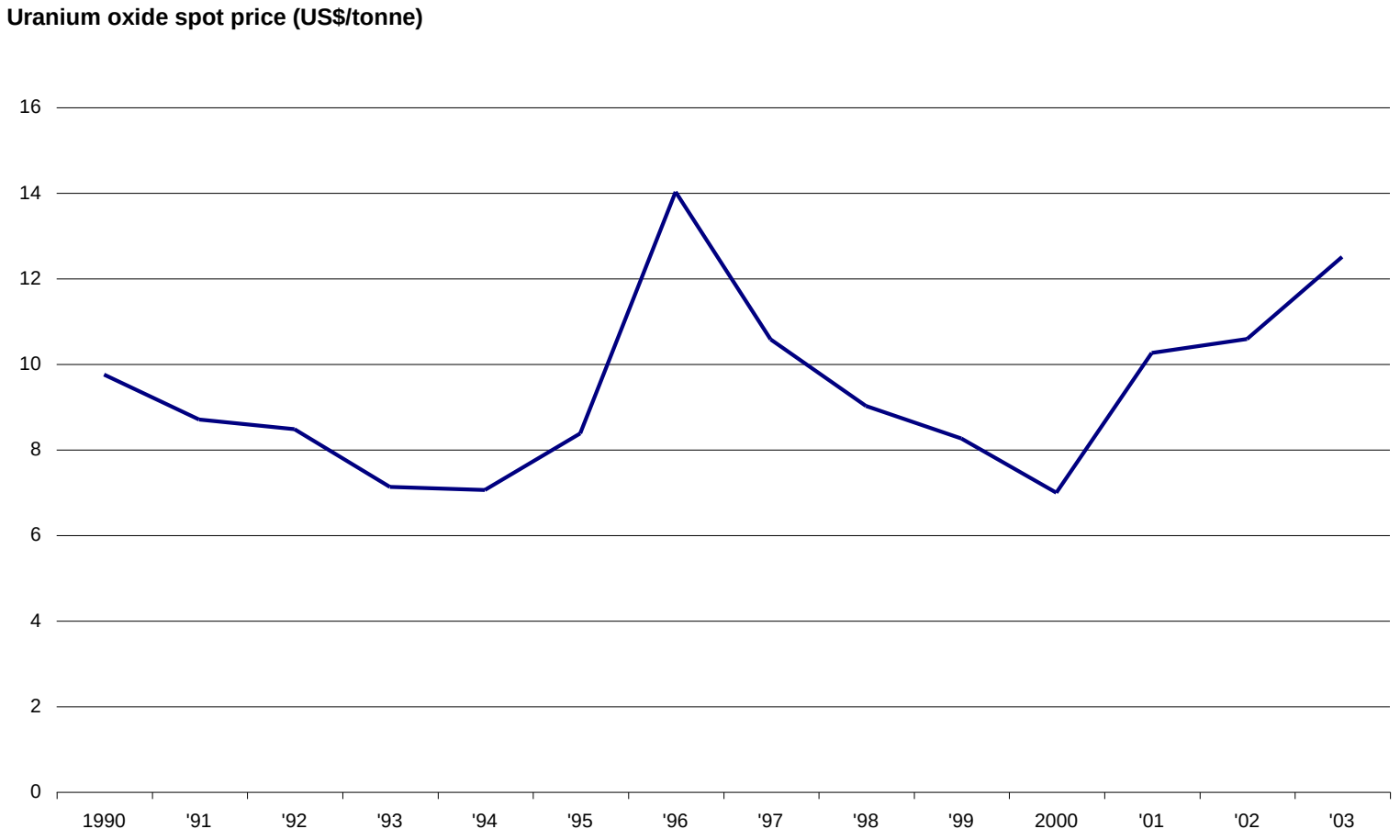
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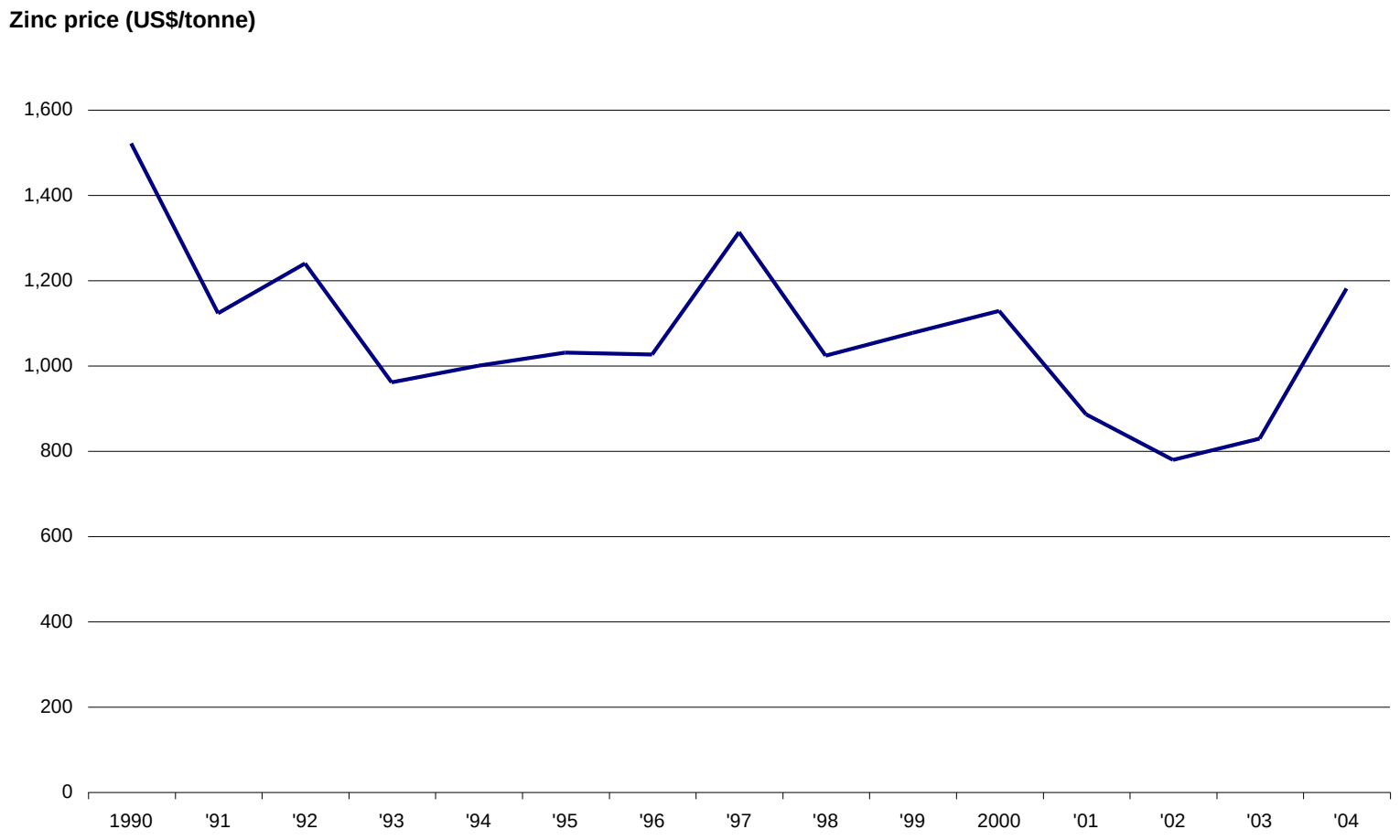
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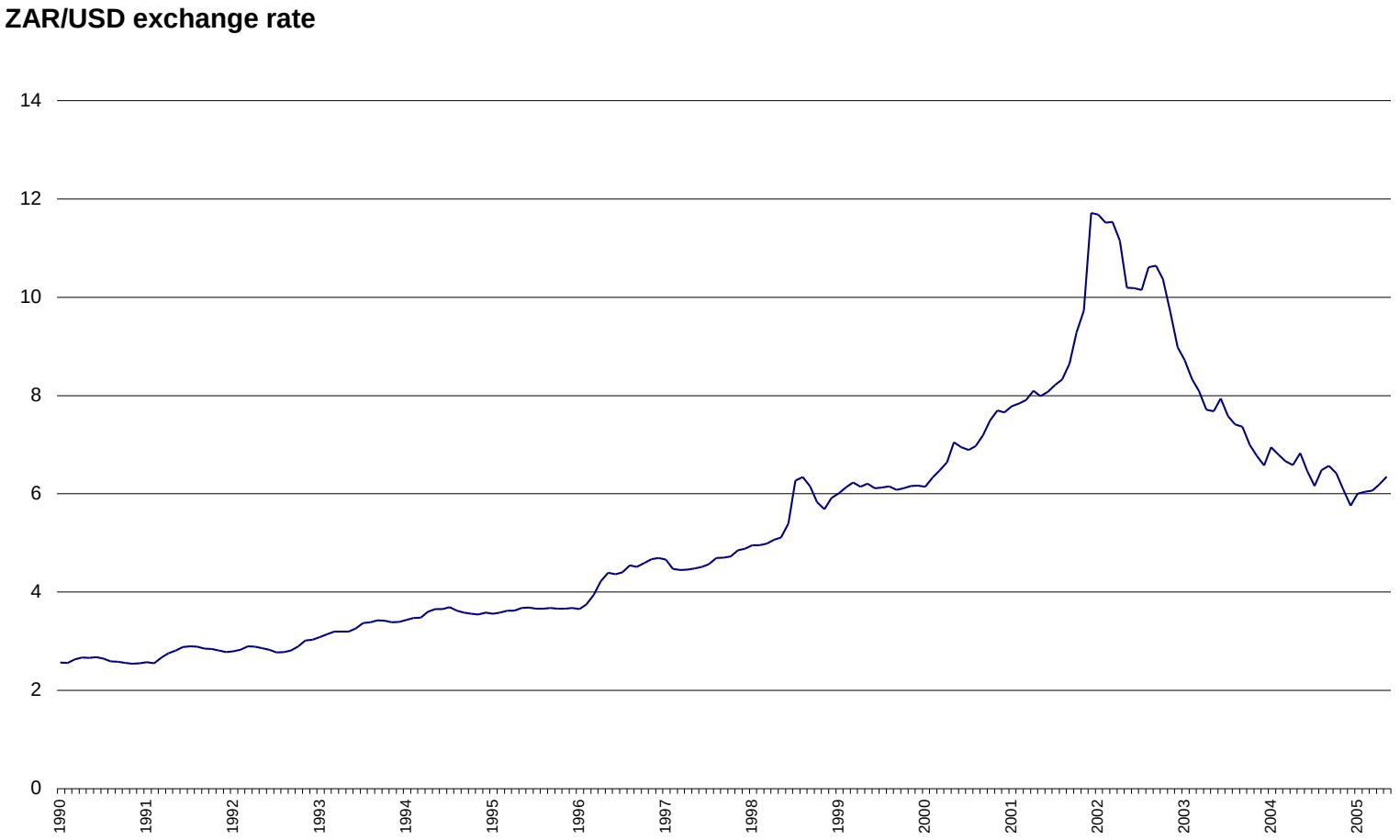
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The international environment



The international environment

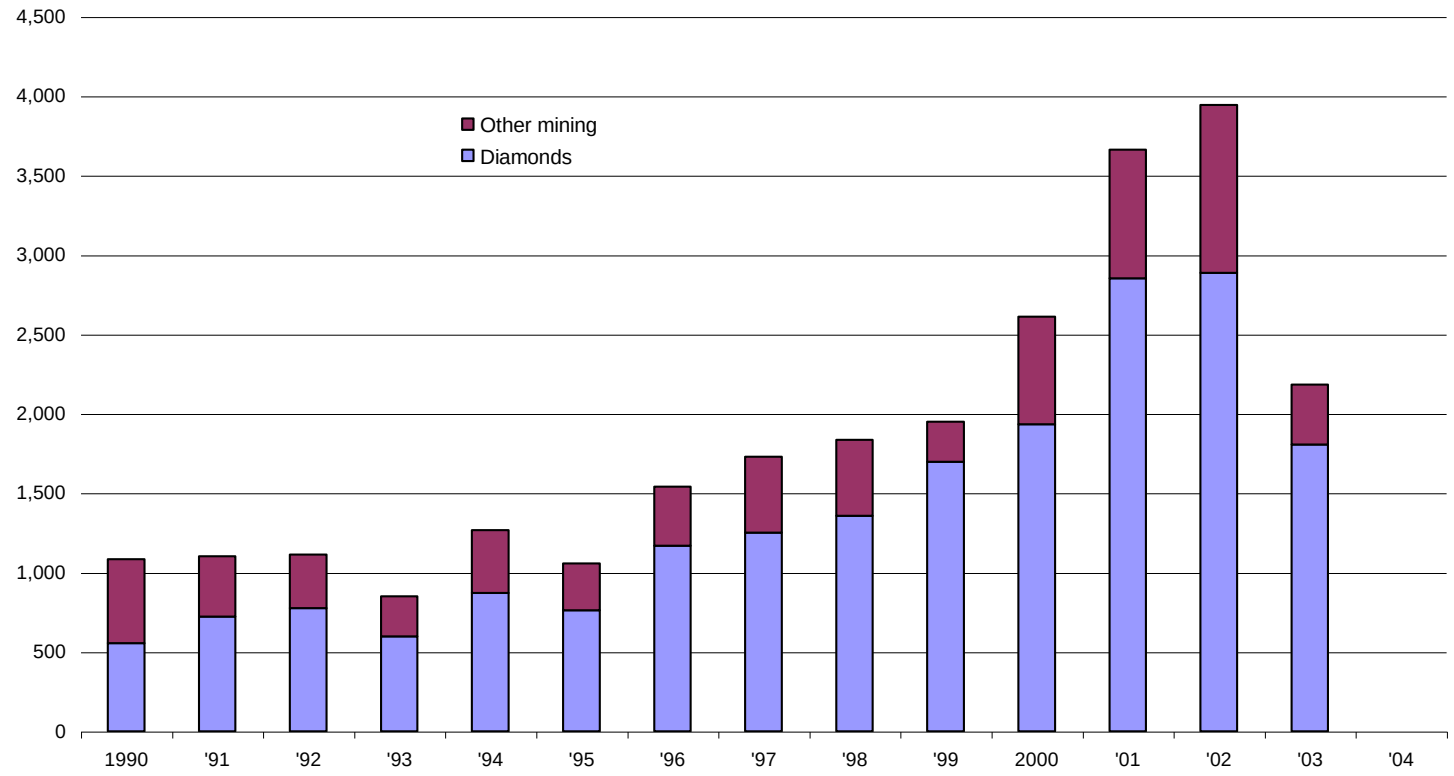


The international environment

- Generally unfavourable prices for Namibia's minerals
- Recent appreciation of local currency

Mining sector performance

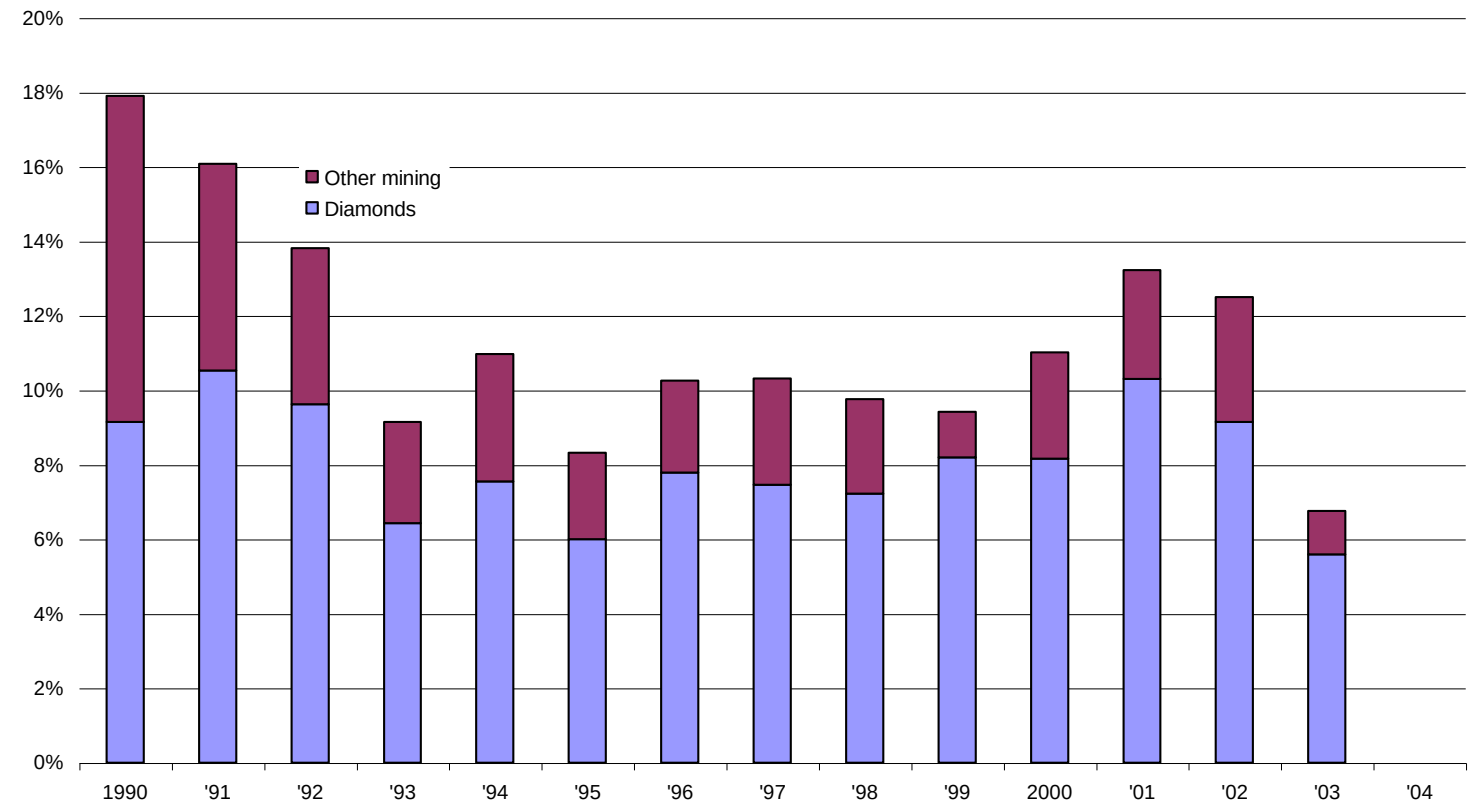
Mining value added in current prices (N$m)



Source: National accounts, Central Bureau of Statistics

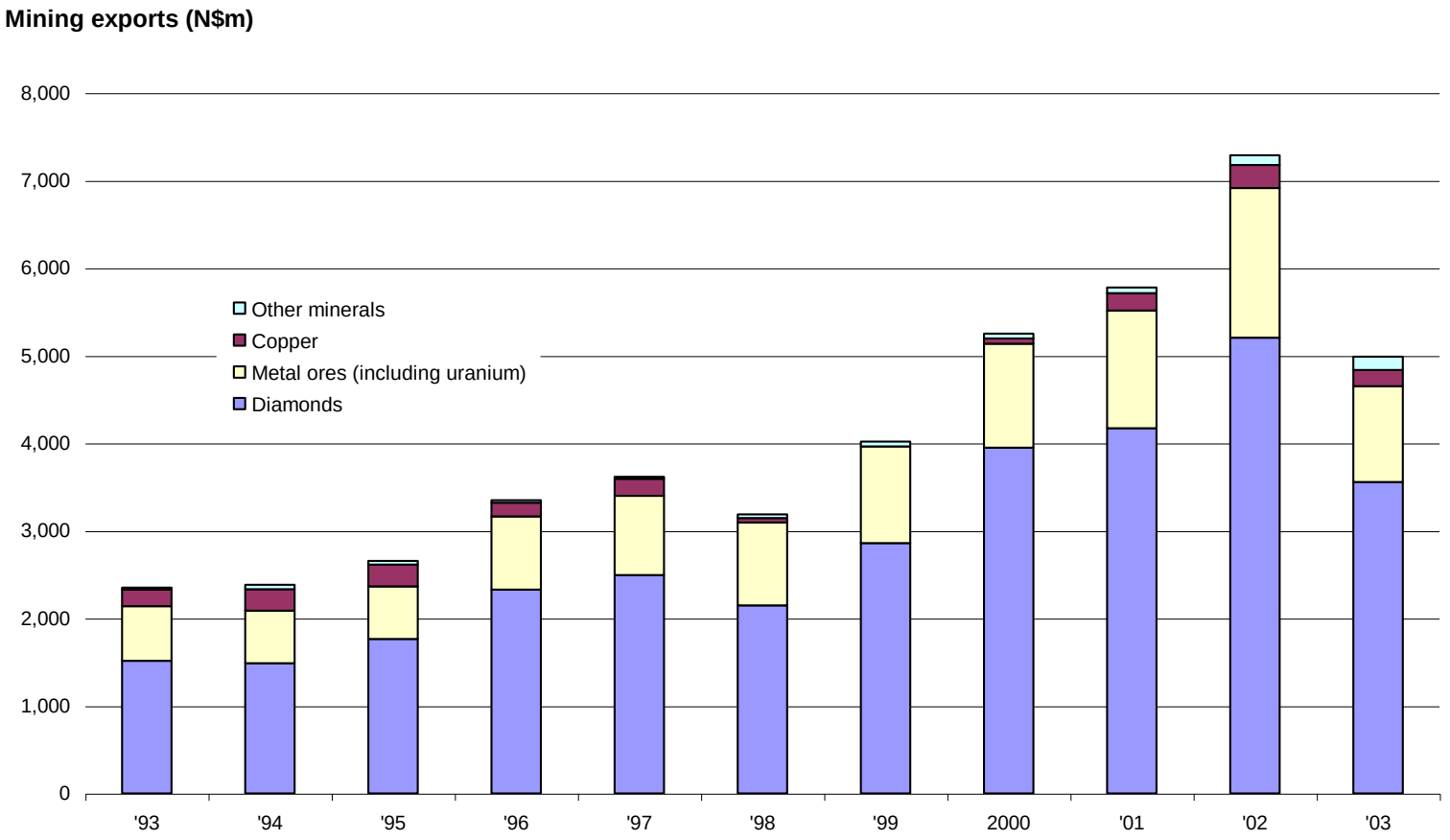
Mining sector performance

Mining value added as % of GDP



Source: National accounts, Central Bureau of Statistics

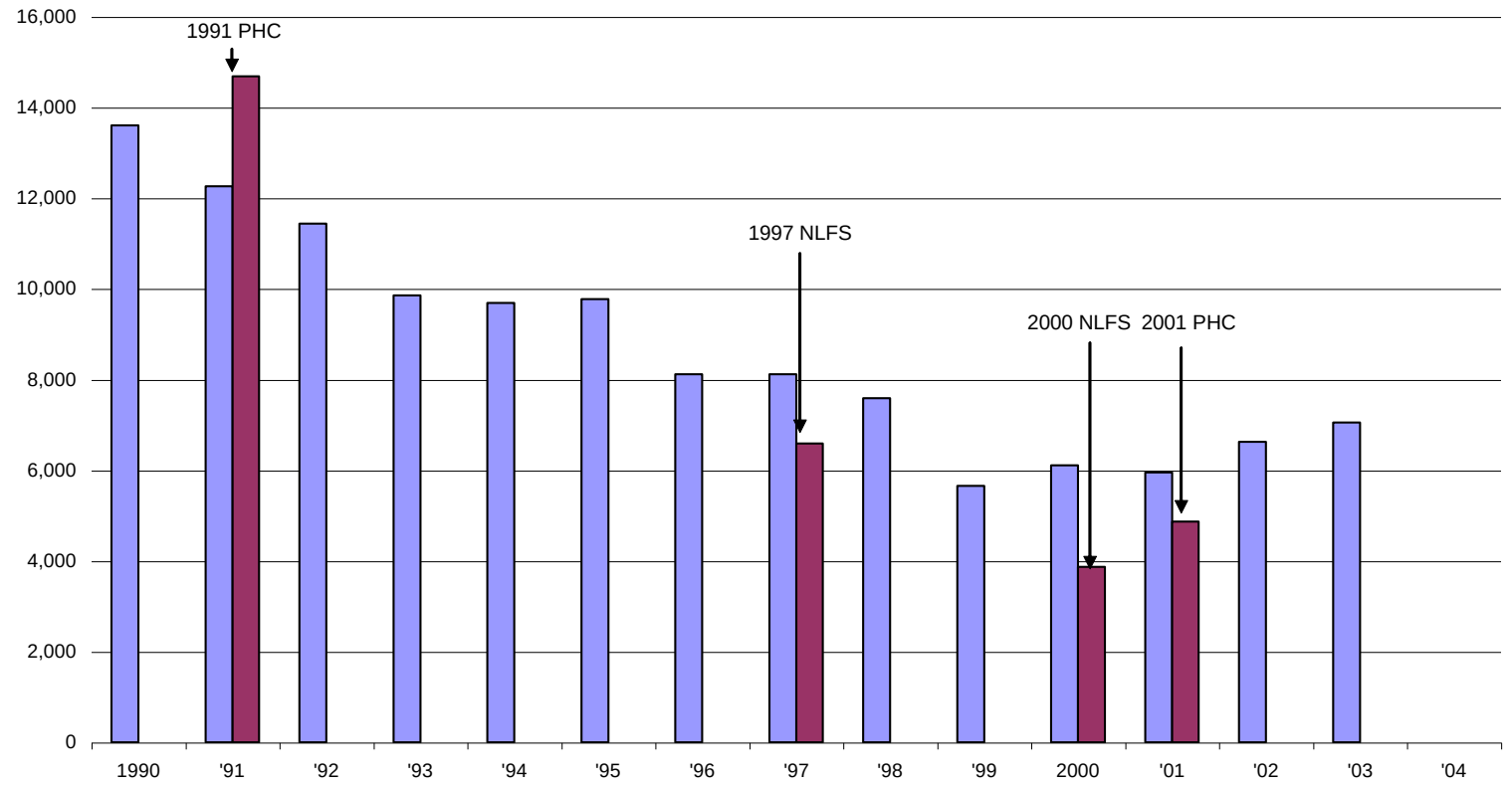
Mining sector performance



Source: Bank of Namibia annual reports

Mining sector performance

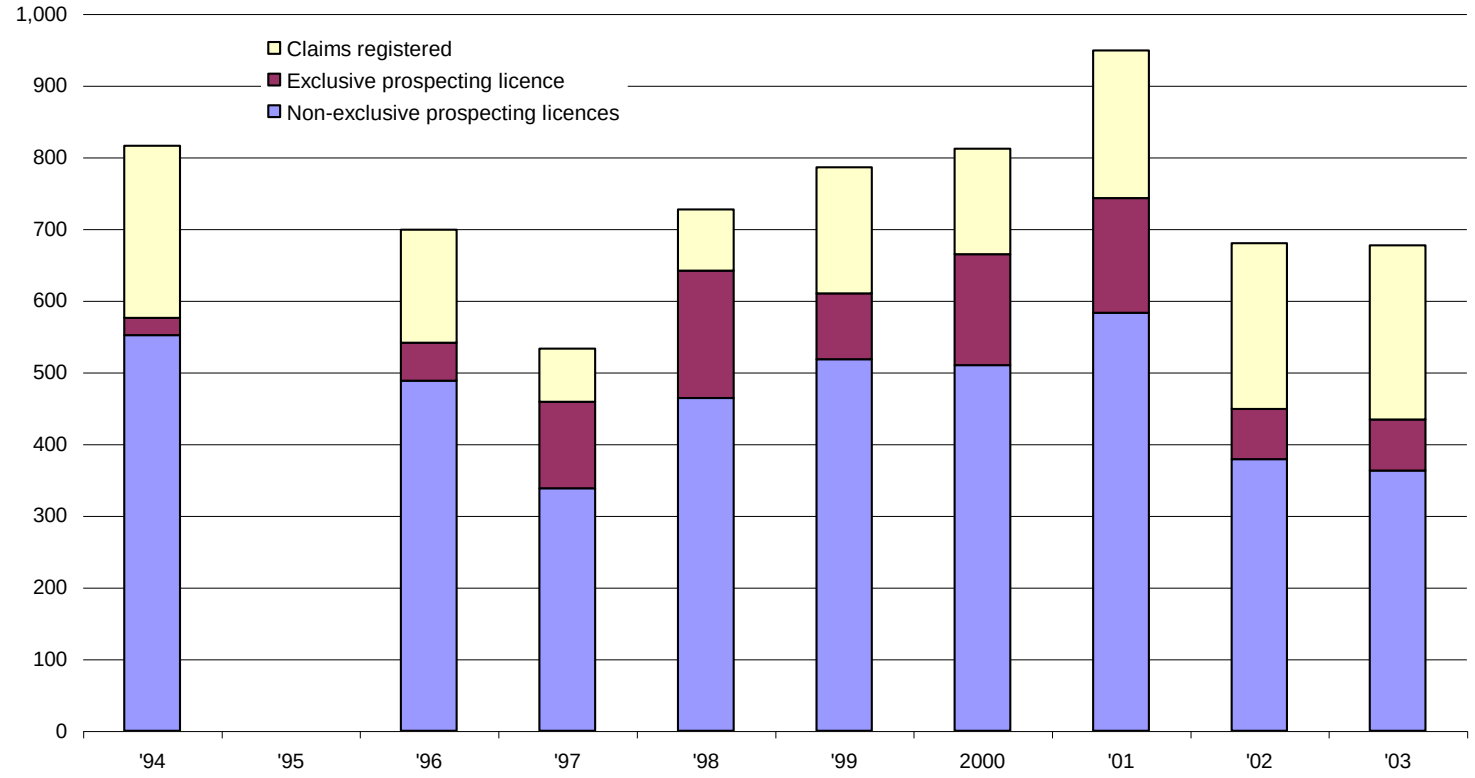
Mining employment



Source: Chamber of Mines annual reports, 1991 PHC, 1997 NLFS, 2000 NLFS, 2001 PHC

Mining sector performance

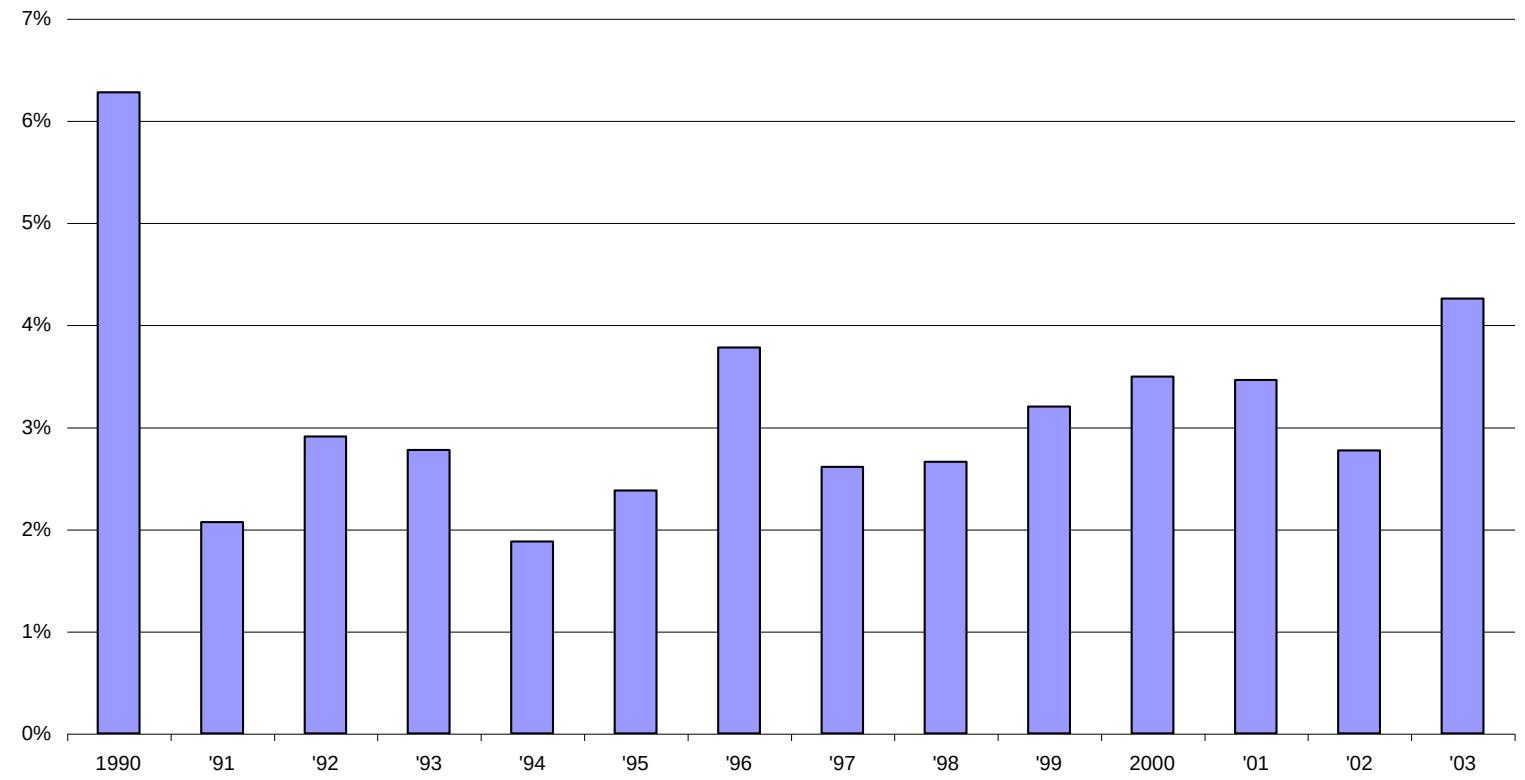
Exploration and prospecting



Source: Chamber of Mines annual reports

Mining sector performance

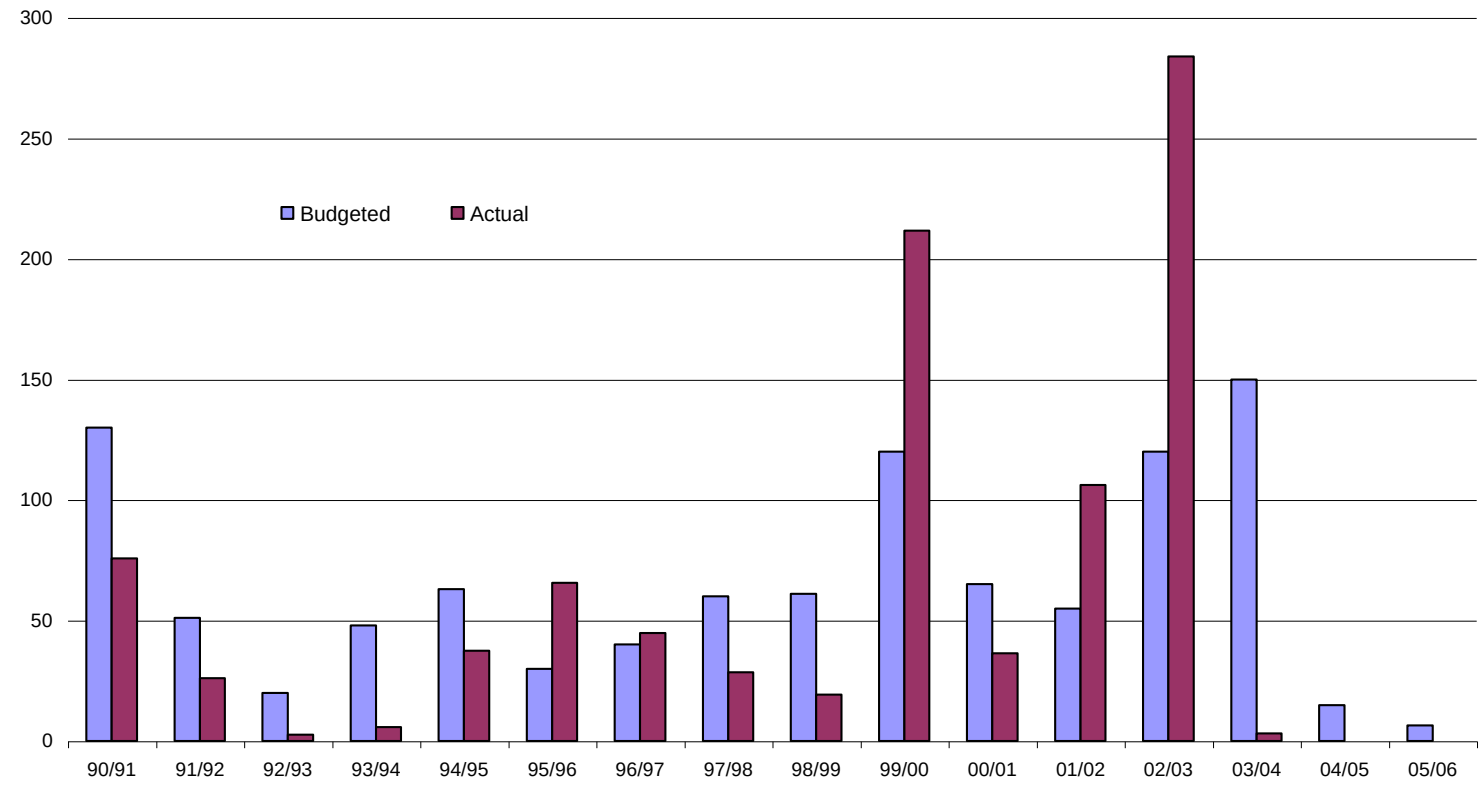
Mining GFCF as % of GDP (includes exploration expenditure)



Source: National accounts, Central Bureau of Statistics

Mining sector performance

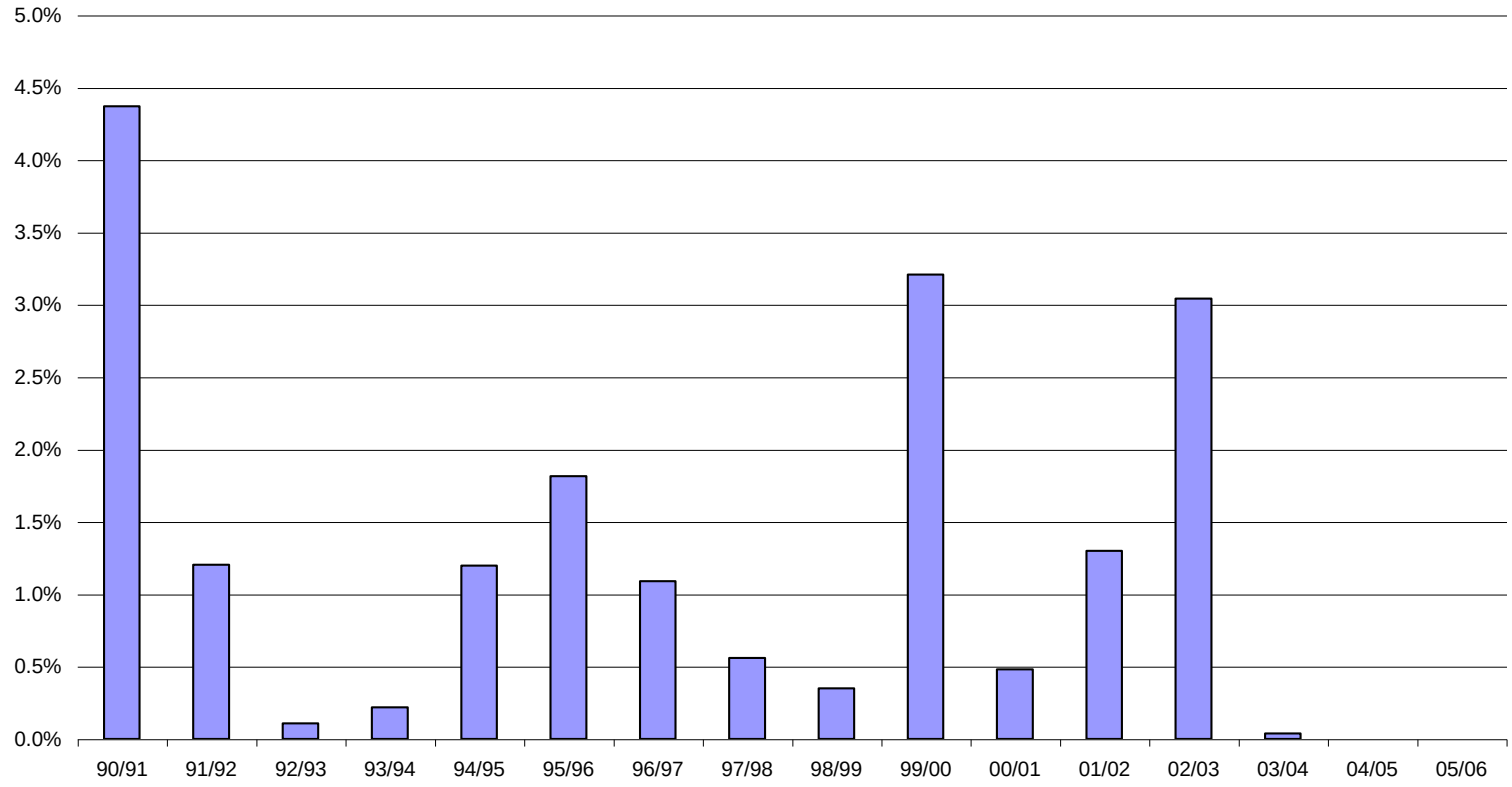
Budgeted and actual mining corporate tax revenue (N$m)



Source: Budget documents

Mining sector performance

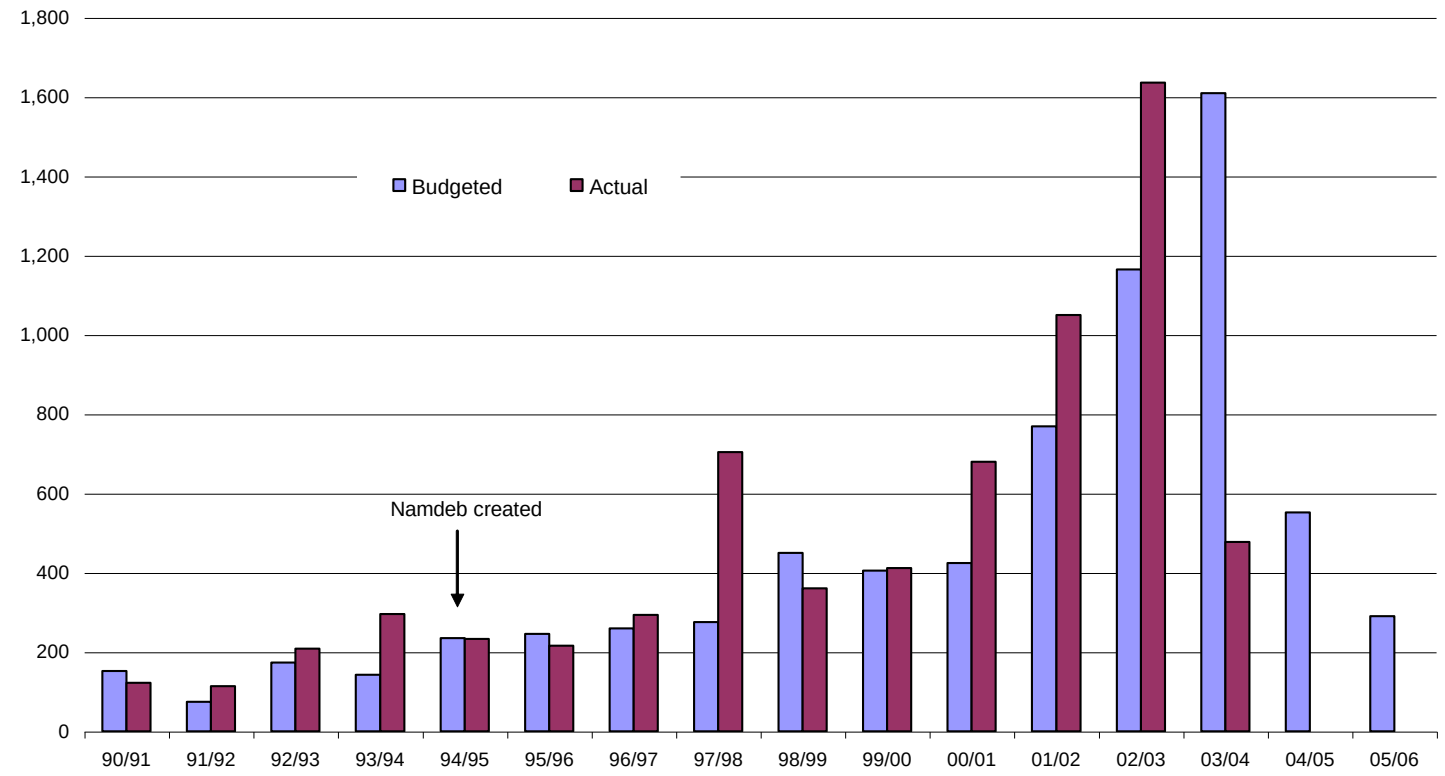
Non-diamond mining revenue as % of tax revenue



Source: Budget documents

Mining sector performance

Budgeted and actual diamond tax revenue (N$m)*

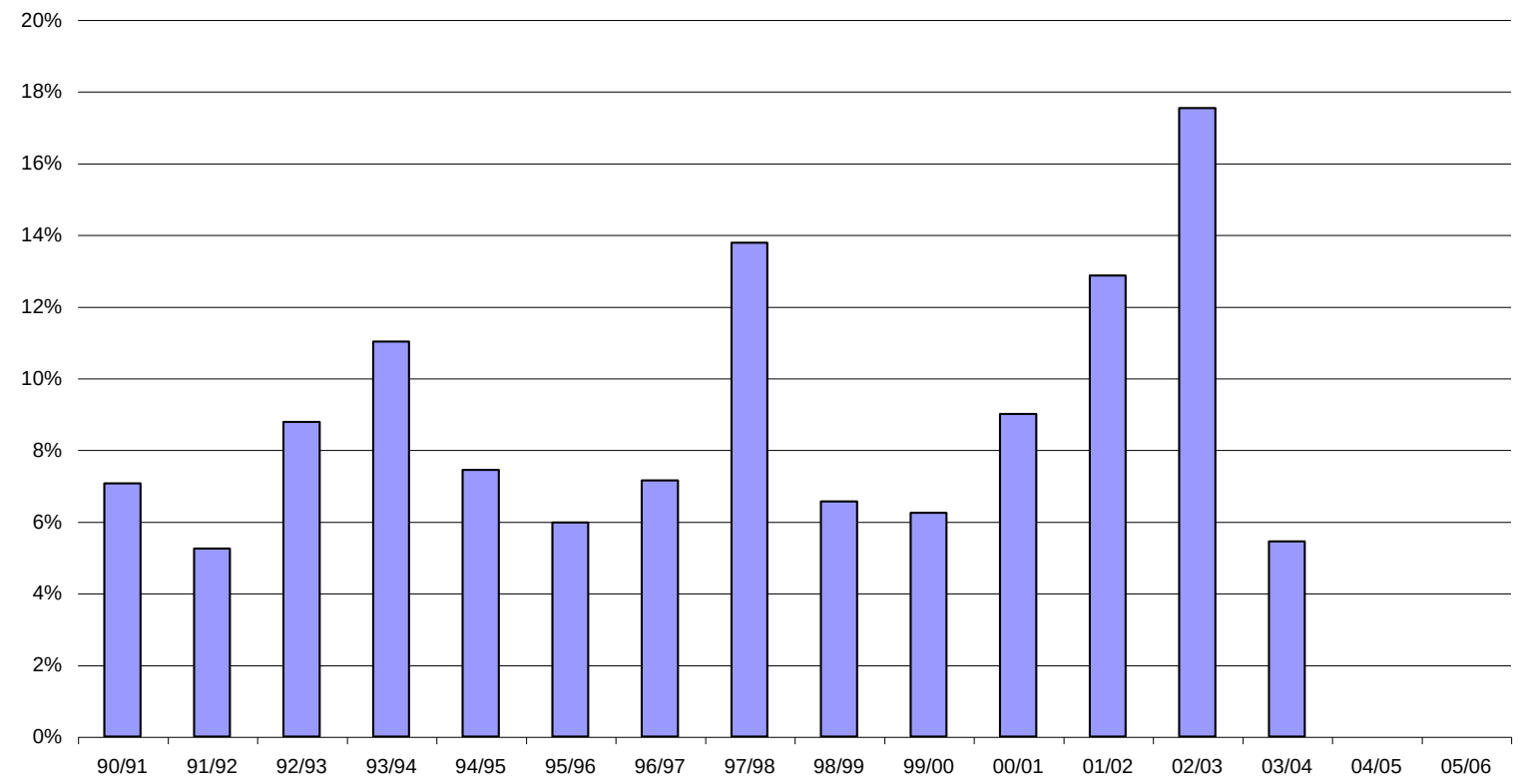


* from 1990/91-1994/95 diamond corporate tax + diamond profits tax + diamond export duty

Source: budget documents

Mining sector performance

Diamond revenue as % of total tax revenue



Source: Budget documents

Mining sector performance

- Diamond growth
- Some non-diamond growth
- Steady decline in employment
- Continuing mineral dependence
- “Steady as she goes” rather than booming
- Failed to live up to CMIN expectations
- Enormous variance in direct tax revenues

Part 3: Mining royalty tax

- Introduced in Government Gazette of 15 November 2004
- 5% tax on turnover for precious metals, base and rare metals, and nuclear fuels
- 4% tax on turnover for semi-precious stones, industrial minerals, and non-nuclear fuels
- From 1 December 2004

Where are we now?

- Letters from MME to mining companies 19 January 2005
- Response from CMN 31 January 2005
- Letter from MME to CMN 30 March 2005 with 29 April deadline for representations
- Letter from CMN to MME 28 April 2005 proposing dialogue on tax, BEE and beneficiation

What does government want?

- More tax?
- More revenue certainty?
- More beneficiation?
- Less transfer pricing?
- More information?
- More Namibian ownership?
- Vague feeling that mining industry “is not doing enough for the country”?

Legal interpretation of Act?

- Diamonds and dimension stone different to other mining
- Royalty in cases of promoting beneficiation, minerals under-priced, transfer pricing
- None of these reasons cited so far

What does government want?

Insight asked PS Finance Calle Schlettwein:

"We are seriously revenue constrained so we have initiated a review of all non-tax revenues. Last year [2004] we asked all line ministries to look at the scope they had for raising more revenues from the sectors they are responsible for."

What does government want?

Nghimtina's speech to CMN:

"Unfortunately I hear that some of the mining companies in Namibia only exploit known resources and only spend a small amount or no money at all on exploration."

"I am prepared to go to extra lengths to ensure that beneficiation becomes a necessary condition for the granting on any mineral rights"

What does government want?

Nghimtina's speech to CMN:

"BEE legislation is indeed imminent in Namibia but I would like to see companies being proactive on this very crucial subject matter. I would like to see a meaningful and equitable transfer of ownership, management and control within the industry to previously disadvantaged Namibians."

What does government want?

Nghimtina's speech to CMN:

"Sterilisation of mineral deposits is simply unacceptable. I will refuse to grant, through a policy of use it or lose it, any rights to those who are not playing by the rules."

What does government want?

Nghimtina's speech to CMN (did not mention royalty tax):

"I will strive to work hard to ensure that Namibia continues to maintain a stable and competitive fiscal and legislative environment."

The South African experience

- South Africa is considering adopting a royalty tax on turnover (1%-5%)
- Change in ownership of resource
- Feeling that mining sector wasn’t paying a fair share of taxes

The SA Chamber of Mines' views

- Detailed submission to government
- Recognises government's right to levy royalty
- Unintended sterilisation of ore bodies
- Places South Africa at odds with countries that have reformed their mining tax systems
- Will raise barriers to entry for empowerment companies and shorten lives of mining operations

The SA Chamber of Mines' views

If government goes ahead with royalty:

- should only be payable when mining company is in tax-paying situation
- should be deductable as expense
- and should be internationally competitive

The South African experience

- 5-year exemption period (2009)
- Fiscal stabilisation clause scrapped
- Royalty rates likely to be revised
- SA Chamber awaiting second draft
- Revised view of mining's contribution to tax revenues

The South African experience

- RSA way down in competitiveness rankings (Fraser Institute of Canada, Behre Dolbear & Company)

Further considerations

- Greater discretion
- Greater uncertainty
- More scope for arbitrary “special deals” and corruption

Part 4: BEE

- Letter from CMN to MME 21 July 2004
- Does not favour prescriptive South African ownership model
- Proposes scorecard approach monitored by annual reporting
- Lack of progress in certain areas can be offset by greater progress in others
- Legislation should be strengthened to reflect empowerment objectives

BEE options

- Ownership and control
- Skills
- Employment practices
- Community development
- Procurement
- Beneficiation

+ Finance and expertise?

BEE and ownership

- State ownership (Namdeb, Namco/Samicor)
- Empowerment groups (PE Minerals)

Part 5: Beneficiation

- Diamonds
- Uranium oxide
- Salt
- Silver
- Gold
- Lead
- Zinc
- Copper
- Fluorspar
- Dimension stone

Key Question

- Should mining companies be expected to do more than mine?
- Economies of scale
- Proximity to end-users
- Industrialisation policies