Key current metals trade & tax policy issues –

Prepared for:
Joint Study Groups seminar on trade policy issues in mining and metals
22 April 2015

Content

• Background
• Taxing the mining sector
• Current state of taxation
• Current mineral policy trends
• Indian iron ore
• The Indonesian ore export ban
• Zambian situation
• Conclusion
• 2014 ore volume mined 12.2 billion tonnes (+2.7% y-o-y)
• Average annual growth 2005-2014 5.8%,
• Lowest rate of annual growth since 2009
• The actual growth volume, 325 Mt, also lower than last decade average
• trend of slower growth to continue into 2017
• Long term growth regions India, Vietnam, the Philippines & Africa
Taxing the mining sector
**Taxation objectives**

- How can government generate maximum revenue from its mineral resource sector in the long run?
- What is the optimum balance that can be achieved between direct and indirect tax revenues?
- How can a country remain competitive globally and attract investments into its mineral resource sector?

**Taxing the mining industry**

- Balancing investor – state interests
- Complex issue
  - Sustainability of the mineral resources.
  - High risks associated with exploration and mining.
  - Often huge investments, long pay back periods.
  - A mine cannot be moved but is tied to the geological resource.
  - Some mines have very long lifetimes.
- Mining regime
  - Mining legislation/regulations
  - Environmental legislation
  - Tax system
General:
- Corporate income tax
- Capital gains tax
- VAT/GST
- People tax
- Property tax
- Tax loss/carry forward

Specific
- Based on profits/income
- Based on production (Specific)
- Based on value (ad valorem)
  - Or a mix of these

Trade regime:
- License and quotas
- Export and import tax

Tax mix

- Corporate income tax, 40%
- Production taxes, 11%
- Mining taxes, 5%
- Royalties, license fees and resource rents, 16%
- People tax, 20%
- Other contributions, 6%

Source: PwC 2012
Minerals with higher values often carry higher royalties. Special agreements often negotiated for world class deposits of extreme grades or high value. Strong competition between various states and provinces such as for example Canada but less so in others, for example Australia. Small operations are often not obliged to pay royalties. Consider ease of calculation.

Factors affecting investment decisions

5. Ability to predetermine tax liability. 10. Stability of fiscal regime 13. Method and level of tax levies

Source: world bank
Export restrictions permitted by the WTO

Environment
- Only credible if non-exporting industry is also taxed, which it usually is not
- Blunt instrument for promoting good environmental management, since it leaves industry with less resources for mitigation and does not set any targets
- An outright ban is more effective if you do not have the regulatory capability to handle difficult cases or truly want to deter some activities

Resource conservation
- Again, only credible if non-exporting industry is also taxed
- Needs to be based on a serious assessment of resources, which is usually not feasible
- Only meaningful if you are a) convinced that prices will go up or b) large enough to influence price over the long term and rich enough to afford to wait

Common actual objectives

- Strengthen competitive position of own processing industry by ensuring it access to low cost raw materials
- Industrialization strategy
  - Emphasis on vertical integration
  - Conviction that, for example, steel plays a fundamental role for economic development
  - Has to be seen in the context of efforts to raise the contribution of mining to economic development
- Increase Government revenue
- Sometimes a mix of all three
Current mineral policy trends

Current trends

- Further resource nationalism
- Increased taxation
- Increased royalties
- Specific export bans

During the last several years, mineral prices have been high and governments have been able to raise royalties and export taxes without discernible effect on production or investments; this opportunity may now be gone.
According to mining industry officials, it takes at least five years to secure all mining clearances and approvals from federal and provincial governments.

In 2011/2012, courts banned mining in Goa and Karnataka; the ban has been lifted but there is a cap on production.

70% of Indian mining industry is state owned.

The Indian steel industry uses mainly lump iron ore and some fines.

In order to assure the steel industry of secure raw materials supply, a 30% export tax is levied on iron ore lumps and fines.

Domestic iron ore prices are lower (on a netback basis) than international ones; (there is a 2.5% import tariff on iron ore.)
Railway freight rates are regulated and are higher for iron ore for exporters than for ore for domestic use;

There are about 100Mt of iron ore fines in stockpiles

Pelletizing provided a possible way to exploit lower grade fines since there was no export tax on pellets. However, a tax of 5% was introduced in 2013; capacity utilization in pelletizing has since fallen to 50%; the steel industry is lobbying for the tax to be raised to 30%

Royalties on iron ore were raised from 10 to 15% in August 2014

Iron ore imports have increased from zero to 5Mt last fiscal year
Export restrictions to protect the steel industry’s raw materials supply jeopardize the viability of the iron ore mining industry and deter investment in new mines

Cheap access to raw materials allows uncompetitive steel plants to remain in operation and removes incentives for productivity growth

Places government in the position of having to arbitrate between industry branches with the outcome depending on which branch has the most political clout
Under Indonesia’s Law on Mineral and Coal Mining No. 4/2009 and Implementing Regulation No. 7/2012 issued by the Ministry of Energy and Mineral Resources, a ban on export of unprocessed mineral resources will take effect in January 2014.

This regulation applies to metal-based minerals, nonmetal based minerals, and rocks and sets out minimum processing requirements for various minerals.

The stated purpose of this mandatory in-country processing requirement is to increase the value of the minerals for export and preserve the country’s resource supplies.
The export ban looks to be a poor policy instrument for achieving the stated goals of the export restrictions.

The ban inflicts large net welfare losses on the mining industry and creates deadweight efficiency distortions in the economy.

The overall best approach to getting more out of the country’s natural resource endowments is to focus on the fiscal side of the minerals industry, rather than on the production side of the industry where distortions can be costly. Changes in the royalty and income tax regime would appear to be the most effective, least-costly policy approach.

Source: USAID

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The Zambian situation
In the proposed budget for 2015, mining taxation will change in the following ways:

- Mineral royalty for UG mining is raised from 6 to 8%
- Mineral royalty for OP mining is raised from 6 to 20%
- 30% corporate income tax on income earned from tolling
- 30% corporate income tax on income earned from processing of purchased mineral ores, concentrates and any other semi-processed minerals, currently taxed as income from mining operations
- Removal of 30% corporate income tax on profits from mining operations

Objectives

- Simplifying taxation
- Avoiding interpretation conflicts on tax legislation
- Taking into account differences in costs for UG & OP operations in Zambia
- Maintaining total governmental income
Reasons to believe the proposed changes will impact the industry seriously

The aim of simplifying the system seems not to have been reached ...

which could lead to disputes on how to interpret the law.

Royalties will make certain mines & projects uneconomic...

thus lowering the potential mining industry of the country.

Might have a deterrent effect on new investments with a compromised future of the industry as a result.
Conclusions

- Trend toward restricting raw materials exports,
  - sometimes as part of strategies for industrialization or government revenue enhancement
- With low and falling raw material prices, the loss is forgone investment in new capacity
- Export restrictions have been more effective as an investment deterrent than as an industrialization incentive

The empirical basis for the policy is often stated to be the experience of historical industrialization processes in Europe and North America; the question that should maybe be asked is if this experience is still relevant; economic growth and industrial development over the past decades have been based on the unbundling of supply chains rather than on vertical integration

- Balanced long term benefits governmental & companies
- Collection & distribution.
- Predictability & stability.
- Many countries to learn from – do not reinvent the wheel
- In the long run, taxes on profits usually yield more revenue
Thank you!

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Annex
Current taxation
<table>
<thead>
<tr>
<th>Countries</th>
<th>Corporate Tax Rate (%)</th>
<th>Specific Mining Tax</th>
<th>Mining Royalties</th>
<th>MFN Tariff (avg. ad valorem rate)</th>
<th>Export taxes/subsidies</th>
<th>Share of Global Mining Sector (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ore/Conc</td>
<td>Refined</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>30</td>
<td>Yes (dependent on mineral)</td>
<td>Differ by state</td>
<td>0.0</td>
<td>1.1</td>
<td>exported minerals are GST free</td>
</tr>
<tr>
<td>Australia - Queens land</td>
<td>-</td>
<td>Fixed rate option 2.7%, variable rate option 1.5-4.5% based on price</td>
<td></td>
<td></td>
<td>exported minerals are GST free</td>
<td>na</td>
</tr>
<tr>
<td>Australia - Western Australia</td>
<td>-</td>
<td>ores: 7.5%, Concentrates: 5.0%, Metals: 2.5%</td>
<td></td>
<td></td>
<td>exported minerals are GST free</td>
<td>na</td>
</tr>
<tr>
<td>Belgium</td>
<td>33</td>
<td>0</td>
<td>0.0</td>
<td>2.3</td>
<td></td>
<td>-</td>
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<tr>
<td>Bolivia</td>
<td>25</td>
<td>12.5% on additional taxable profits resulting from favourable price</td>
<td>imposed on gross revenue; rates vary according to the type of mineral</td>
<td>8.8</td>
<td>7.4</td>
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<tr>
<td>Brazil</td>
<td>15</td>
<td>0.2 to 3% rate varies according to mineral</td>
<td>2.5</td>
<td>9.5</td>
<td>exported minerals are GST free</td>
<td>5.8</td>
</tr>
<tr>
<td>Canada</td>
<td>15</td>
<td>Differ by state</td>
<td>0.0</td>
<td>0.1</td>
<td>exported minerals are GST free</td>
<td>8.1</td>
</tr>
<tr>
<td>Canada - British Columbia</td>
<td>-</td>
<td>14.36% on net resource income</td>
<td>2% royalty rate on net proceeds can be deducted</td>
<td>8.8</td>
<td>7.4</td>
<td>exported minerals are GST free</td>
</tr>
<tr>
<td>Canada - Quebec</td>
<td>26.9</td>
<td>(combined tax rate)</td>
<td>16% on profits</td>
<td></td>
<td>exported minerals are GST free</td>
<td>na</td>
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</tbody>
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<td>Refined</td>
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<tr>
<td>China</td>
<td>25</td>
<td>advolere + per unit charge: 2 to 4% varies according to mineral</td>
<td>0.0</td>
<td>5.1</td>
<td>yes - export tax</td>
<td>5.8</td>
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<tr>
<td>Congo (Dem Rep)</td>
<td>40</td>
<td>30% tax on profits</td>
<td>0.5% to 4% varies according to mineral</td>
<td>10.0</td>
<td>11.8</td>
<td>1.0</td>
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<tr>
<td>Cuba</td>
<td>30</td>
<td>1 to 5% based on sale price of production</td>
<td>13.8</td>
<td>5.9</td>
<td>0.2</td>
<td>0.1</td>
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<tr>
<td>Finland</td>
<td>24.5</td>
<td>no</td>
<td>no</td>
<td>0.0</td>
<td>2.3</td>
<td>0.2</td>
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<tr>
<td>France</td>
<td>33.3</td>
<td>no</td>
<td>no</td>
<td>0.0</td>
<td>2.3</td>
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<tr>
<td>Germany</td>
<td>15</td>
<td>no</td>
<td>no</td>
<td>0.0</td>
<td>2.3</td>
<td>0.1</td>
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<tr>
<td>India</td>
<td>30</td>
<td>Advolere + per unit charge: 0.35% to 6.6% varies according to mineral</td>
<td>1.9</td>
<td>5.0</td>
<td>Export taxes on ore and refined metal (10 to 40%)</td>
<td>1.8</td>
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<tr>
<td>Indonesia</td>
<td>25</td>
<td>25% for new concessions 10% to 45% for old concessions</td>
<td>2.5 to 7% varies according to mineral</td>
<td>3.8</td>
<td>4.6</td>
<td>1.2</td>
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<tr>
<td>Iran</td>
<td>25</td>
<td>Payment based on production volume</td>
<td>0</td>
<td>0</td>
<td>No</td>
<td>0.2</td>
</tr>
<tr>
<td>Ireland</td>
<td>12.5</td>
<td>Production royalty based on volume, Rates vary according to mineral</td>
<td>0.0</td>
<td>1.1</td>
<td>0.2</td>
<td>0.1</td>
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<tr>
<td>Japan</td>
<td>25.5</td>
<td>no</td>
<td>no</td>
<td>0.0</td>
<td>1.8</td>
<td>0.3</td>
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<tr>
<td>Kazakhstan</td>
<td>20</td>
<td>0 to 5.7% varies by mineral, on value</td>
<td>Mining concession royalty, but no other tax</td>
<td>0.0</td>
<td>5.4</td>
<td>0.08</td>
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<tr>
<td>Korea (South)</td>
<td>22</td>
<td>no</td>
<td>Mining royalties to be introduced in 2014</td>
<td>0.0</td>
<td>1.7</td>
<td>1.88</td>
</tr>
<tr>
<td>Mexico</td>
<td>30</td>
<td>Tax deductions available for new mining and refining projects</td>
<td>Nickel related industries face a tax of 35%</td>
<td>Authorisation to export ore required. Considering quotas for nickel ore exports</td>
<td>0.49</td>
<td>0.24</td>
</tr>
<tr>
<td>New Caledonia</td>
<td>30</td>
<td>no</td>
<td>no</td>
<td>0.0</td>
<td>0.0</td>
<td>0.19</td>
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<tr>
<td>Norway</td>
<td>28</td>
<td>Peru has plans for a profit based tax on copper, zinc and gold to be introduced by 2012.</td>
<td>6.0</td>
<td>0.0</td>
<td>0.19</td>
<td></td>
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<tr>
<td>Peru</td>
<td>30</td>
<td>2 to 8.4</td>
<td>For most minerals 2% of market value</td>
<td>3.0</td>
<td>2.6</td>
<td>0.7</td>
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<tr>
<td>Philippines</td>
<td>30</td>
<td>By ton and ore grade, varies between 1 and 4 PLN/ton</td>
<td>Authorisation to export ore required. Considering quotas for nickel ore exports</td>
<td>0.49</td>
<td>0.24</td>
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</tr>
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<td>Poland</td>
<td>19</td>
<td>No specific information provided.</td>
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<tr>
<td>Portugal</td>
<td>25</td>
<td>0 to 22% varies according to mineral and production volume</td>
<td>0.0</td>
<td>2.3</td>
<td>0.38</td>
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<tr>
<td>Russia</td>
<td>15 to 20</td>
<td>4 to 8% varies according to mineral</td>
<td>5.0</td>
<td>6.6</td>
<td>2.5</td>
<td></td>
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<tr>
<td>South Africa</td>
<td>28</td>
<td>Specific taxation for gold companies</td>
<td>Up to 5% for refined and 7% for unrefined</td>
<td>0.0</td>
<td>1.1</td>
<td>12.27</td>
</tr>
<tr>
<td>Sweden</td>
<td>26.3</td>
<td>no</td>
<td>no</td>
<td>0.0</td>
<td>2.3</td>
<td>1.0</td>
</tr>
<tr>
<td>USA</td>
<td>35</td>
<td>4.4</td>
<td>4.4</td>
<td>4.4</td>
<td>10.74</td>
<td></td>
</tr>
<tr>
<td>USA - Alaska</td>
<td>44.4 (combined tax rate) On profits (gold)</td>
<td></td>
<td></td>
<td>na</td>
<td>na</td>
<td></td>
</tr>
<tr>
<td>USA - Arizona</td>
<td>0.97 (state rate)</td>
<td>2-5% profit royalty (sliding scale)</td>
<td></td>
<td>na</td>
<td>na</td>
<td></td>
</tr>
<tr>
<td>Zambia</td>
<td>30-35</td>
<td>30 %</td>
<td>3 to 6% varies according to mineral. Will increase to 9% for copper in 2015</td>
<td>3.8</td>
<td>11.9</td>
<td>1.2</td>
</tr>
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</table>

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