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COPPER COMPROMISE

Dialogue between govt, copper miners ushers in new tax regime in Zambia

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MINING IN ZAMBIA

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Dialogue between govt, copper miners ushers in new tax regime in Zambia

ILAN SOLOMONS | CREAMER MEDIA CONTRIBUTING EDITOR

NEW ROYALTY REGIME
Zambia introduced a new sliding-scale mineral royalty tax system on June 1 that imposes levies on operators according to the copper price at the time

In the past, political parties in Zambia argued that mining companies were not contributing their share towards the country's economy. Consequently, Zambia has a long history of disputed changes to its mining tax regime, which has strained the relationship between government and the mining sector.

However, the country introduced a new sliding-scale mineral royalty tax (MRT) system on June 1 that imposes levies on operators according to the copper price at the time. When the copper price is below \$4 500/t, mining companies will pay 4% in government royalties. If the copper price is between \$4 500/t and \$6 000, mines will pay a royalty tax of 5% and, if the price is higher than \$6 000/t, mines will pay a royalty rate of 6%.

"This applies to underground and open-cast mining operations in Zambia," explains professional services firm KPMG Zambia director **Michael Phiri**, noting that mining companies are "extremely happy" with the new MRT system.

Phiri adds that corporate income tax remains at 30%, but that the 15% variable profit tax has been revoked.

Zambia Chamber of Mines (ZCM) president **Nathan Chishimba** remarks that the new sliding-scale MRT system is a very positive development, as the new tax regime is a product of open dialogue between the Zambian mining industry and government.

"It has taken into account the mutual interests of both parties. Mining is a long-term game conducted over . . . several years and we believe that the newly enacted regime takes that into consideration," he states.

Political Consensus

Phiri highlights that, with Zambia set to hold a general election on August 11, all the country's major political parties seem to have agreed – "for the first time ever" – not to jeopardise investor sentiment towards the mining industry by avoiding the inclusion of populist rhetoric and policies concerning the sector in their respective manifestos.

The manifesto of the current governing party, the Patriotic Front (PF), states that the Zambian mining industry has been characterised by "uncertainty" in the policy framework and frequent amendments to the legislative regime of the sector, giving rise to "erratic" investment in mining and minerals development.

Small-scale mining activities, which would contribute significantly to national economic development, have also not performed well, owing to a lack of credit financing and poor marketing, the manifesto states. The party notes that, despite the availability of mineral occurrence data, there has not been any meaningful effort to diversify beyond copper and develop other minerals. There has also not been any deliberate policy to promote value-addition industries in the mining sector, which has subsequently led to a "colossal loss" of revenue and a lack of job-creation opportunities.

Therefore, to enhance the development of the mining sector, the PF says, if re-elected, it would seek to implement several measures to address these shortfalls.

These include diversifying Zambia's mining sector from base metals to other minerals, such as industrial and energy minerals, and ramping up the country's copper production to two-million tons a year by the year 2017 from its current 711 515 t/y.

The party also states that it will review the mining policy framework to create "stability in the sector" and the legislative framework to restore mining investors' confidence in the industry.

Further, the PF pledges to promote investment in value-addition industries by establishing incentives to encourage the adoption of environmentally sustainable mining technologies, incorporating energy saving, the reduction of health hazards, pollution control and the safe disposal of waste.

Meanwhile, opposition party United Party for National Development (UPND) contends that Zambia "has been blessed with resources", but claims that government is "failing" to manage that natural wealth for the benefit of all Zambians.

The UPND says "a stable and consistent policy environment" is critically important for business and investors.

"What has happened in our mining sector over the past year has shown the damage that can result from a government that fails to give clear direction, [as well as] how the failure to provide good leadership will result in job losses and increased suffering among our people.

"We would rather see government take a little less in pay-as-you-earn tax contributions than our people losing their jobs. We will ensure stability and consistency in terms of policies and . . . develop them, with jobs and opportunities for Zambians as the major consideration," the party states.

NATHAN CHISHIMBA
There is no cause for major concern going into the upcoming election as there is a better understanding among all political players that mining is not a short-term endeavour

The manifesto of Zambia's other major opposition party, the Movement for Multi-Party Democracy (MMD), emphasises that it will not revert to nationalisation of the mining sector, but instead strengthen policies that will encourage Zambians to own mines.

The MMD states that, if it were elected, it would take "a firm, but sober-minded approach to dealing with mining companies" and avoid populist, emotional decisions that might potentially jeopardise jobs for Zambians in the sector.

"The mining industry employs more than 50 000 people and engages tens of thousands of contractors [that] collectively support hundreds of thousands of family members. All these people will be put at risk if rash decisions are made.

"The overall objective is to establish a new, transparent, win-win partnership between government and the mining companies, governed by a clear policy direction to foster mutual confidence and economic stability and leading to greater investments and faster economic growth," the MMD says.

Further, Chishimba tells *Mining Weekly* that the ZCM does not feel that there is any cause for major concern going into the upcoming election because the chamber is "very certain" that there is a better understanding among all political players that mining is not a short-term endeavour.

"Parties understand now that the benefits emanating from the sector always have to be viewed over a longer life span than what might be politically expedient," he comments.

The ZCM also believes that the current narrative around mining is changing – from the more adversarial approach towards the sector followed by most politicians in the past to one of more positive engagement and exploration of mining's mutual benefits, Chishimba adds.

Dissenting Voices

Nonetheless, the changes to the MRT system have not been met with universal approval, as civil society groupings, such as Publish What You Pay Zambia and the Zambia Tax Platform maintain that the new MRT bands are "retrogressive" and will "compromise" mineral resource revenue collection.

These civil society organisations (CSOs) are of the view that the country's mineral resources should be left in the ground for exploitation by future generations if current regulations are deemed too onerous by potential and current investors.

"We wish to re-emphasise that we are in total support of having progressive tax reforms in the mining sector; however, the proposed tax bands, as the floor and ceiling tax rates pegged to the value of the mineral on the London Metal Stock exchange, are too low, investor-led and do not represent the interests of the Zambian people in getting a meaningful compensation share for mineral extraction," the CSOs explain.

These organisations argue that the MRT is meant to be a compensation for mineral resource extraction, but that the new tax bands will not enhance revenue collection for compensation in times of commodity booms.

Further, the CSOs state that Zambia needs to make the most of its mineral resources while they are available. The groups highlight that mining in Zambia has been taking place for more than a century, but has not been able to make the most of these resources after the privatisation of the mining sector in the 1990s.

"It is immoral for a country with high levels of poverty and inequality to continue to make decisions . . . that compromise its ability to generate its own resources and address challenges domestically," state the CSOs.

These organisations are also undertaking research on the impact of current tax regimes and are campaigning for reforms at national and international level to ensure that the taxing rights of Zambia are not undermined by "abusive" international tax practices and investors.

"We will be neither intimated nor silenced on this matter," the CSOs assert.

Industry Response

Chishimba disagrees with these CSOs. He firmly believes that the new MRT regime will enhance the collection of minerals revenue by government rather than compromise it.

"One cannot separate mining tax revenue from mining investment because . . . investment . . . ultimately produces tax revenue," he states, adding that a good tax system balances these two competing objectives.

Chishimba further points out that the most tax revenue is always generated over the longer term, which can happen only if mining companies are incentivised to invest over the longer term.

"MRT is a tax on production, not profit. It is pegged at a relatively low rate and is not designed to increase revenues in times of a commodity price boom. Governments collect most of their revenue [at such times] from profit-based tax, which is much higher."

Chishimba believes that government is on the right track with the new MRT regime, and urges civil society to consider it from the larger perspective of ongoing investment, employment and economic development.

"One has to balance capitalising on favourable market conditions with having a thriving industry in the future . . . the government has very sensibly recognised this," he concludes.

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Virtual Engagement

Website launched to explain Zambian mining sector to 'ordinary people'

ILAN SOLOMONS | CREAMER MEDIA CONTRIBUTING EDITOR

NATHAN CHISHIMBA
MiningforZambia.com is part of an ongoing programme of strategic public engagement by the mining industry to promote a better understanding of the industry

The Zambia Chamber of Mines (ZCM) last month launched an industry website, which primarily explains Zambia's mining to "ordinary people".

The ZCM says that the MiningforZambia.com website is educational and extensive in scope and content, and complements the ZCM's existing website.

The new website features the latest industry news from Zambia and the rest of the world, a live updated copper price, tracking of the price of other mineral resources and the Kwacha-US dollar exchange rate, and also offers readers a "deeper look" into mining in the country.

"[The website] is a world first in terms of the topics covered, the ease of reading and its daily round-up of news and financial information," ZCM president **Nathan Chishimba** states.

He asserts that the website is a "must read" for anyone wanting to understand the role of mining in the Zambian economy and society.

"We expect readers to return to the site daily, or at least weekly, to keep themselves updated, particularly as we continue to add new content. It will appeal to all who follow the mining industry, be they experts or ordinary Zambians," remarks Chishimba.

He says that MiningforZambia.com is part of an ongoing programme of strategic public engagement by the mining industry to promote a better understanding of the industry.

The site covers core topics focused on Zambia's mines, their economic and social contribution and interesting facts about the industry, among other issues.

It follows the launch of the booklet *Understanding Mineral Royalty Tax* by the chamber earlier this year.

"Mining in Zambia is relatively underreported, and there are deep and abiding misconceptions about what it actually does and its impact on society and the economy. The website aims to help correct this," Chishimba comments. He notes that the website's primary content is free for use by the media, or anyone else who wishes to access it.

The website comprises five key sections. The first is entitled 'Understanding Mining', which covers topics such as starting a new mine, the capital-intensive nature of mining, and why the copper price fluctuates on world markets.

The second is entitled 'Zambia's Mines', which gives an overview of the Zambian mining sector, the key role played by the country's so called Big Four mines, and their challenges and opportunities.

The third is entitled 'Social Contribution', which explains, by means of case studies, how mines contribute to the development of communities in Zambia.

Section 4 is titled 'Economic Contribution' and explains how the mining industry contributes to fiscal and macroeconomic development, and how it can stimulate local economic development in Zambia.

The final section is labelled 'Did you know' and contains a range of "fun facts" and "mind-boggling" statistics about the copper industry in general and about certain aspects of its contribution towards the economy of Zambia in particular.

The website also has a library and download section, where open-source, free-to-use information is available for reuse by users.

"We invite all Zambians to visit the website to learn more about an exciting and challenging industry which plays a critical role in the economy and society," Chishimba concludes.

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Elusive Recovery

Zambia unlikely to regain copper supremacy until prices recover, power constraints are overcome

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Zambia is unlikely to reclaim its position as the largest producer of copper in Africa until prices improve and the country overcomes its power challenges, says professional services firm KPMG Zambia director **Michael Phiri**.

Zambia produced 711 515 t of copper in 2015 and currently ranks eighth among the global top ten copper producers. In Africa, Zambia ranked second behind the Democratic Republic of Congo (DRC), which produced 905 000 t of copper in 2015, according to Web-based publication Mineweb.

Zambian Mines, Energy and Water Development Minister **Christopher Yaluma** told *Mining Weekly* in November 2015 that the country was intent on reclaiming its number one position as Africa's largest copper producer, which has been held by the DRC since the end of 2013, when it produced more than 846 000 t.

However, he conceded that several challenges – which included the improvement of national infrastructure, such as electricity generation and transmission networks, roads and railway systems – had to be overcome to support and develop the mining sector.

Phiri stresses that power disruptions have impacted significantly on production volumes at many of Zambia's mines, with electricity constraints also inhibiting the full downstream beneficiation of copper ores and, therefore, greater industrialisation opportunities for the country.

Nonetheless, Phiri points out that the World Bank's Scaling Solar programme awarded contracts last month to renewable-energy companies First Solar, Enel Green Power (EGP) and Neoen to develop two photovoltaic (PV) power projects in Zambia.

First Solar and Neoen will build a 47.5 MW power plant, scheduled for completion by mid-2017, in the Lusaka South Multi-Facility Economic Zone (LSMEZ).

EGP has been awarded the right to develop, finance, construct and operate the project for the construction of a 34 MW solar PV plant, also in the LSMEZ. Scheduled for operation in the second quarter of 2017, it will generate about 70 GWh/y.

Phiri notes Zambian coal miner and power producer Maamba Collieries' 300 MW coal-fired power station in the Sinazongwe district of Southern province is set come on stream in the coming weeks. The power station's capacity will be increased to 600 MW in Phase 2, depending on demand.

About 1 000 MW of hydropower has been added to the national power grid over the past 18 months, which helps to alleviate the electricity challenges, he adds.

Phiri cautions that, despite government's introduction of a new sliding-scale mineral royalty tax system on June 1 – which mining companies largely approve of – the weak state of the global economy and the low copper price are, nonetheless, placing significant operating pressures on copper producers in Zambia.

"Miners continue to batten down the hatches and are attempting to weather the current economic storm by optimising cost reductions while increasing operational efficiencies . . . long-term viability of a number of copper mines remains in jeopardy, owing to the depressed copper price."

Phiri says that most new exploration and expansion projects have been put on hold, but he points out that a notable exception is diversified mining and marketing company Glencore's $950-million expansion of the Mopani copper mines.

This long-term project was planned well before the current economic and commodities downturn, and forms part of Glencore's plan to refurbish assets and production costs at its Zambian mines. Additionally, Zambia Chamber of Mines president **Nathan Chishimba** believes that the country has reached a "defining moment" where critical decisions need to be made to ensure mining operations survive the current low-price cycle.

"There is currently an attendant battle of low-cost attrition facing the industry, in which the leaner, meaner operations will strive to crowd out the higher-cost operations.

"It is a question of the Zambian mining industry learning very quickly to adapt to existing competitive forces in the global industry or perishing in this battle of low-cost attrition and current oversupply," he explains.

Chishimba advocates for collective wisdom among stakeholders to realise diversification on two levels.

"[On] the first level, we must harness our collective capacity to see how we can use Zambia's current prowess in mining to empower and diversify our national sources of revenue.

"[On] the second level, we must ensure that, even within the mining sector . . . our country develops the capacity to attract fresh capital that can be used to further exploration for minerals other than copper," he states.

DECISION TIME
Zambia has reached a 'defining moment' where critical decisions need to be made to ensure mining operations survive the current low-price cycle

He emphasises that there is "demonstrable evidence" that Zambia's current mineralisation supports the development of commodities other than copper, which will greatly reduce the county's vulnerability to the "vagaries" of the copper price cycle.