

Zambia's double-edged mining taxation sword

Zambia, one of the major players in mining in the Southern African Development Community (SADC), faced a shake-up in views surrounding the implications of a rise in underground mining royalties. As of 1 January 2015, legislation stipulated a rise in underground mining royalties from six to eight per cent, and a 20 per cent increase in royalties for open-pit mines.

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Zambian Finance Minister Alexander Chikwanda announced this intention in his October 2014 Budget Speech. The reason for the move was to boost revenue collection from companies, which include Barrick Gold (ABX), First Quantum (TSX: FM), Glencore (LON: GLEN) and Vedanta (LON:VED).

The taxation rate changes were met with divided opinions, says Elaine Crewe, CEO of BAUMA CONEXPO AFRICA, the upcoming International Trade Fair for Construction Machinery, Building Material Machines, Mining Machines and Construction Vehicles.

"The difference in views could have a significant impact for mining in Zambia."

Citing statistics from a Zambia Chamber of Mines report titled *Enhancing mining's contribution to the Zambian economy and society* (2014), she highlighted: "Zambia's mining industry contributes significantly towards the country's tax revenue. In 2012, approximately one third (32 per cent) of all tax revenues received by the government was from mining sector taxes."

Copper is the most prevalent mineral resource in the country, and has been at the core of the country's economic, political and social development for nearly a century. Its four largest mining operations, namely Konkola Copper Mines and Mopani Copper Mines located in the Copperbelt, and FQM Kansanshi mine and Barrick Lumwana mine in the North-Western Province, yield 70% of the country's copper production.

This is significant in the context of the taxation changes. Particularly considering that projections based on these four leading mining houses indicate that future contributions are likely to increase. Forecasts imply an increase in production to 2016 and roughly a doubling in government revenue contributions.

Another issue, which could unfold as a result of the taxing move by the Zambian Government relates to the impact of this on Foreign Direct Investment (FDI). Mining, states the Zambia Chamber of Mines, represents more than 86 per cent of Zambia's FDI. It also accounts for 80 per cent of exports.

“This investment (FDI) is critical for increased capacity and production levels in the mining industry, and is fundamental to the development of growing economies such as Zambia. However, the introduction of the higher mineral royalty tax rates is forecast to halve the FDI associated with the industry,” stated the Zambia Chamber of Mines. Comparatively, Civil Society Organisations backed the new taxation rates. “Zambia Centre for Trade Policy and Development (ZCTPD) executive director Isabel Mukelabai observed that if properly implemented, the new tax regime has the potential to increase tax revenue collection needed for delivery of essential public services and alleviating poverty.”¹

¹ CSOs back State on mine taxes, February 14 2015, <http://www.daily-mail.co.zm>

“Zambia has been dependent on unearthing copper, coal and various other minerals for over 60 years, making the sector vital to growth. Although the country lost its top copper mining position to Congo in 2013 and despite the recent taxation change, mining has, and will continue to be a key enabler for this SADC economy,” comments Crewe.

“We look forward to welcoming a number of visitors from SADC, and particularly from Zambia to the 2015 BAUMA CONEXPO AFRICA where they will have the opportunity to meet, connect and expand their businesses,” concludes Crewe. The event will take place from 15 – 18 September 2015 at the Johannesburg Expo Centre (NASREC).

S_o_u_r_c_e_s:_ _

- _CSOs back State on mine taxes, February 14 2015, <http://www.daily-mail.co.zm>
- _Zambian mining sector expresses serious concerns with the 2015 Zambia National Budget, <http://mines.org.zm>
- _Enhancing mining’s contribution to the Zambian economy and society, April 2014, Zambia Chamber of Mines
- _Zambia Country Mining Guide, 2013, KPMG

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BAUMA CONEXPO AFRICA, International Trade Fair for Construction Machinery, Building Material Machines, Mining Machines and Construction Vehicles takes place between September 15 and 18, 2015, in the Johannesburg Expo Centre (JEC). The premiere of Bauma Africa in September 2013 attracted 754 exhibitors from 38 countries and 14,700 visitors from over 100 countries. Covering a total of 60,000 square meters of exhibition space (40,100 square meters net) this is the biggest event for the sector in Africa. www.b_c_a_f_r_i_c_a_.c_o_m.

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