

## African Taxes Weigh on Mining Shares Even as Commodities Gain

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African countries are moving to grab a bigger slice of their commodity wealth as rivalry for the world's remaining reserves of iron ore, uranium and gold sap the bargaining power of companies such as Anglo American Plc.

Tanzania's proposal to study a so-called super tax on mines sent African Barrick Gold Plc, the East African nation's biggest producer of the metal, to a record low in June. Ghana, Namibia, Guinea, Uganda, Mozambique and Gabon also are acting to increase their share of profits from mining.

The balance of power is swinging in favor of African governments as commodity prices soar and Brazil's Vale SA and China's Minmetals Resources Ltd. join Western companies bidding for contracts. At the same time, policy makers are looking to finance investment in roads, rail links and power supplies that they say is essential to maintain growth that has averaged 5.7 percent across the continent over the past decade.

*"The fact that Chinese, Brazilian and Indian companies are becoming much more involved in the African mining space means that Western mining companies are feeling squeezed,"* Chris Melville, a London-based African mining consultant at Menas Associates, said in a June 14 telephone interview. *"When you have more suitors, you can afford to be a little bit more selective and a little bit more demanding."*

Companies may have little choice but to pay more. The copper belt running through Zambia and the Democratic Republic of Congo holds 10 per cent of world copper reserves, while Congo alone has two-thirds of cobalt deposits. Botswana says it has

200 billion metric tons of coal reserves and Guinea is the world's biggest exporter of bauxite, the ore used to make the main raw material in aluminium production. The continent also has some of the world's richest seams of uranium, platinum and gold.

### Share Prices

Shares in mining companies are suffering as governments begin to flex their new-found muscle, even as the S&P GSCI Index of 24 commodities jumped 40 percent in the past 12 months.

London-based African Barrick Gold slumped 7.8 percent on June 8 to the lowest price since the stock started trading in March 2010, after Tanzania's planning commission recommended the government consider a super tax. The company said in a statement on June 9 that its tax obligations were fixed by existing contracts and could not be changed.

Australia's Extract Resources Ltd., which is proposing a \$1.7 billion uranium venture in Namibia, fell 20 per cent April 28-29 on concern the African nation's government planned to give mining rights to a state-owned company. Extract said June 7 that it was in talks to sell a stake in its Husab uranium project to state-owned Epangelo Mining Co. "on a commercial basis."

Shares in Aquarius Platinum Ltd., Impala Platinum Holdings Ltd. and Anglo American Platinum Ltd., majority owned by Anglo American, slid in March after Zimbabwe's government said it will ensure foreign companies are "junior partners" in the country.

### Fighting Back

The drive for a greater share of mineral wealth may move to the continent's biggest economy, South Africa.

South Africa's ruling African National Congress party agreed in September to study industry nationalization to meet demands from Julius Malema, head of its youth arm.

"Investors, the traditional suppliers of risk capital to this industry, are getting cold feet," said Impala Platinum's Chief Executive Officer David Brown, said June 28 in Johannesburg. "The risk associated with future investment in South African mining has increased considerably as seen from the outside world."

The nationalization debate risks cutting the mine output that contributes 8.8 per cent of South Africa's gross domestic product, he said. Across the continent, talk of higher taxes may damp investment.

### Choices

"Governments tempted to move in this direction convince themselves that necessary mining investments in their countries will continue unabated," Anglo American Chief Executive Officer Cynthia Carroll, said June 30 at the Melbourne Mining Club in London. "They are wrong. International businesses have choices to make between investment opportunities in different jurisdictions."

With so many of the world's remaining mineral deposits in Africa, those options may be narrowing, just as Africa's choices are widening. Governments are being courted by more miners, particularly from China, Liberia's President Ellen Johnson Sirleaf told an audience in London on June 13.

The Chinese are "so aggressive and hungry for raw materials that they are penetrating in a way, and their processes and procedures are not as complicated," she said.

"We have also reached a place of maturity in how we negotiate."

### Chinese Investments

China Union Investment Ltd. is developing a \$2.6 billion iron-ore deposit in Liberia, while Cnooc Ltd. is helping to exploit oil deposits in Uganda. China also has a \$6 billion deal with Democratic Republic of Congo to build infrastructure in exchange for minerals.

Countries outside Africa are also raising taxes. Australia estimates that its plan to impose a 30 per cent levy on iron-ore and coal profits will earn A\$7.7 billion (\$8.2 billion) in its first two years, the country's Treasury Department said last month. The tax, which will help pay for road and rail projects, is scheduled to start in July 2012 after the laws are passed by parliament.

Brazil is studying an additional tax on its most profitable mining projects, the newspaper Folha de S.Paulo reported on June 21, without saying where it got the information.

*"There's definitely more competition and the mining companies that want to be here in Africa in the long run have to revisit to some extent their strategy in terms of how they negotiate concession contracts," Melville said.*