

The Mining Industry in Namibia: Current Challenges and Future Possibilities



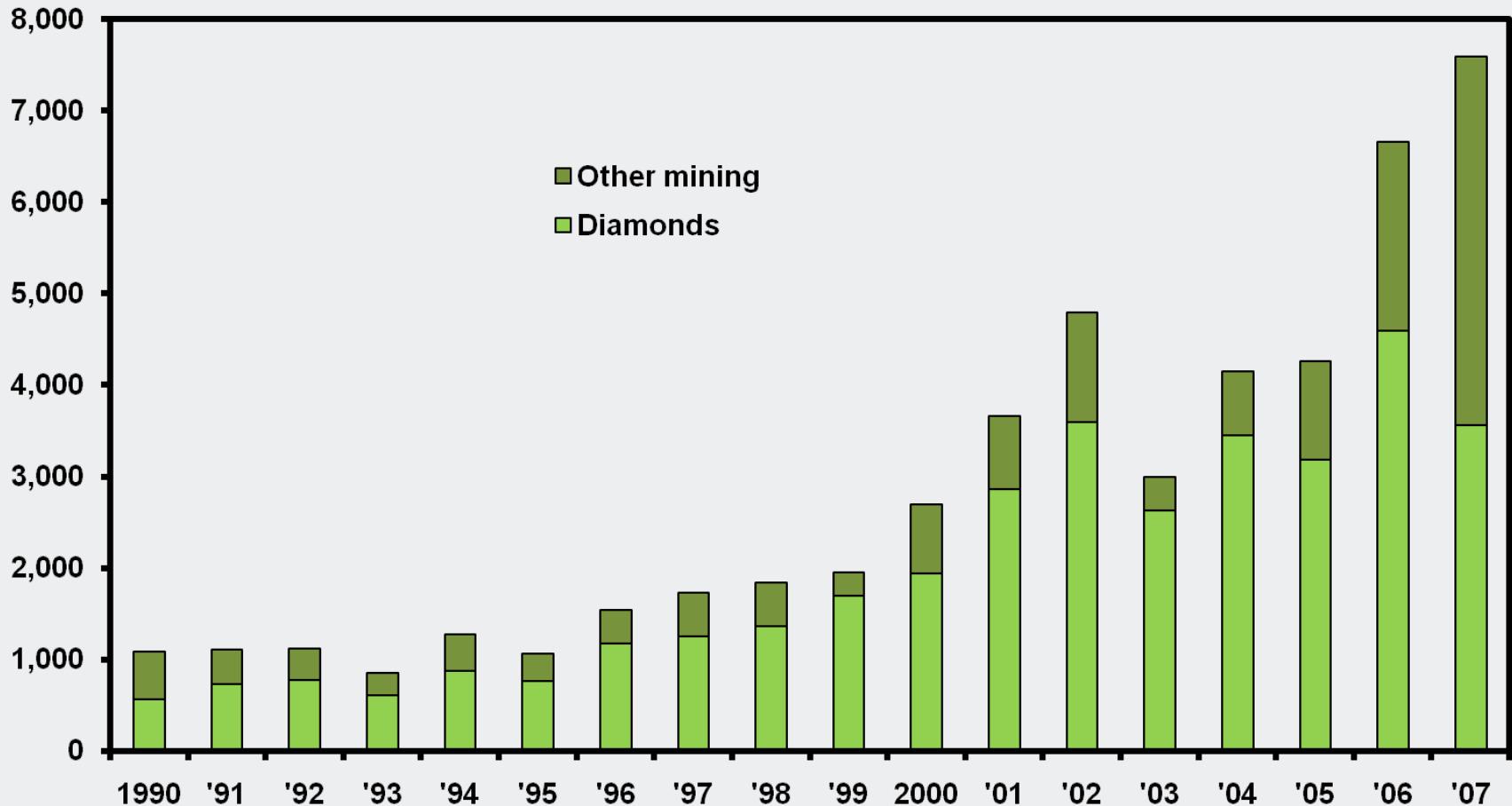
**Presentation to the Chamber of Mines of Namibia
by Robin Sherbourne
15 May 2009**

This presentation...

- **Economic Performance**
- **Past Trends**
- **Future Trends**
- **The Big Issues**
- **Some Tentative Conclusions**

Mining value added has grown since 1990...

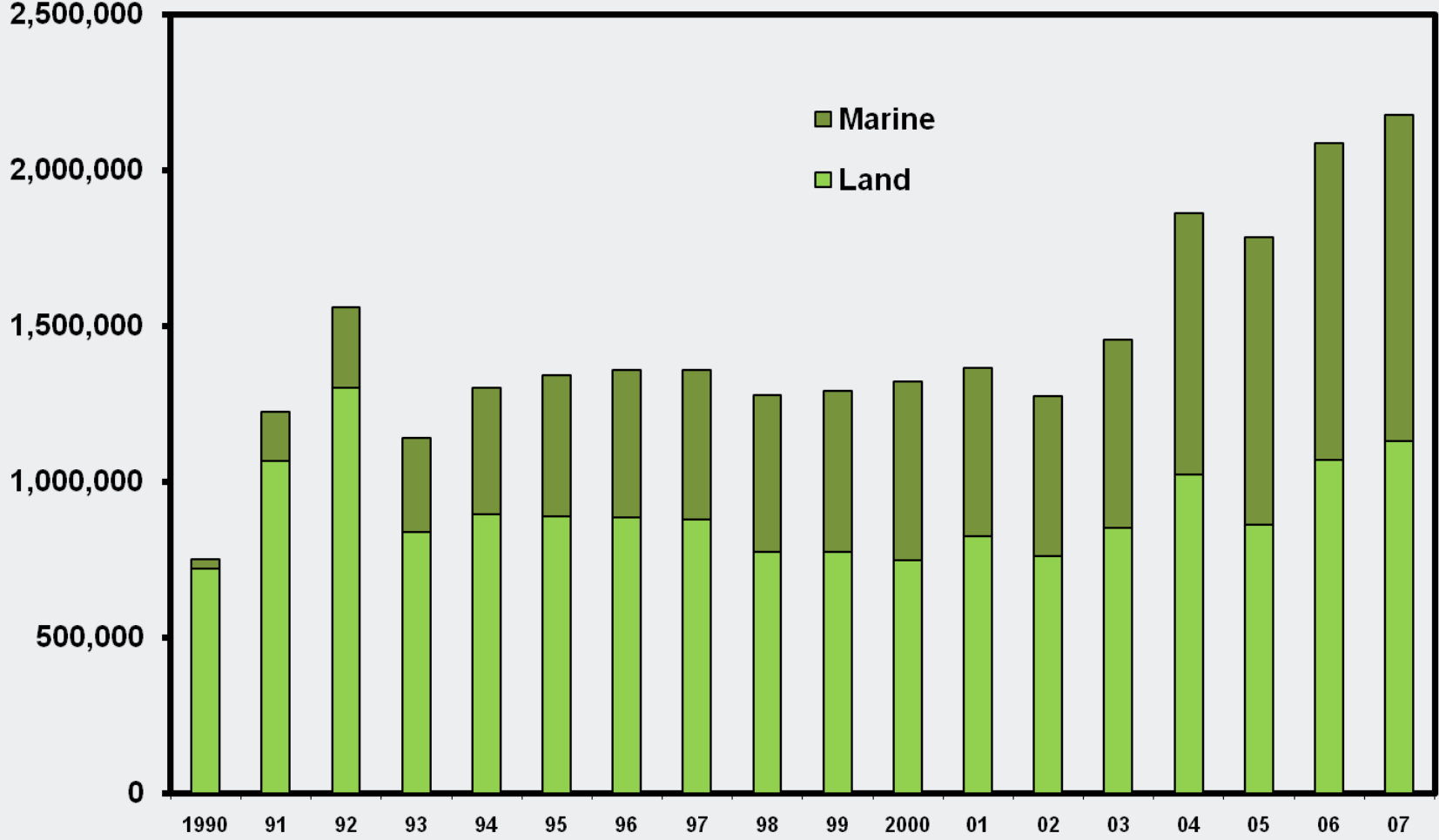
Mining value added in current prices (N\$m)



Source: National accounts, Central Bureau of Statistics

Labour-intensive land-based diamond mining has given way to offshore mining...

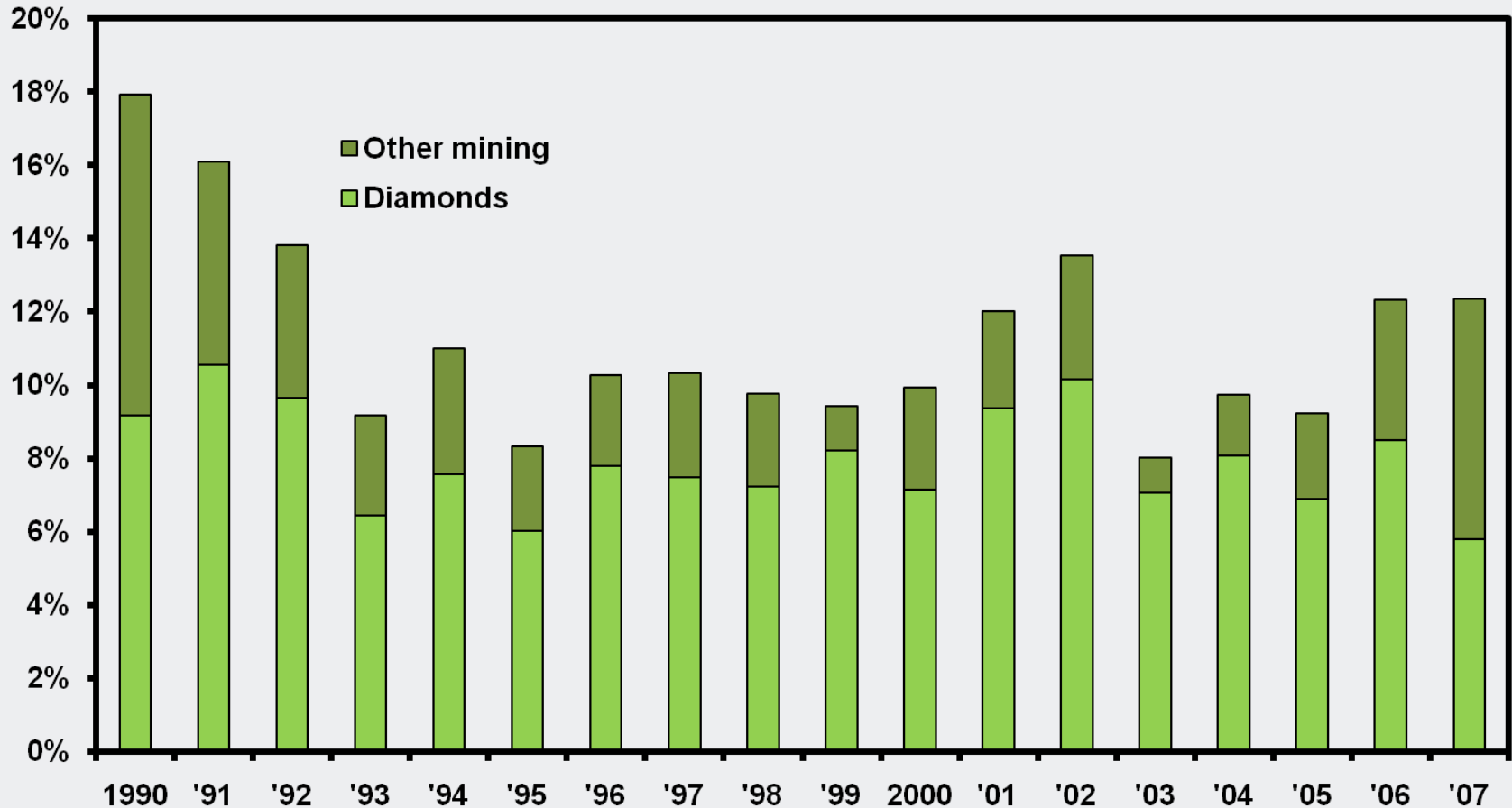
Land and Marine Production (carats)



Source: MME

But the rest of the economy has grown faster...

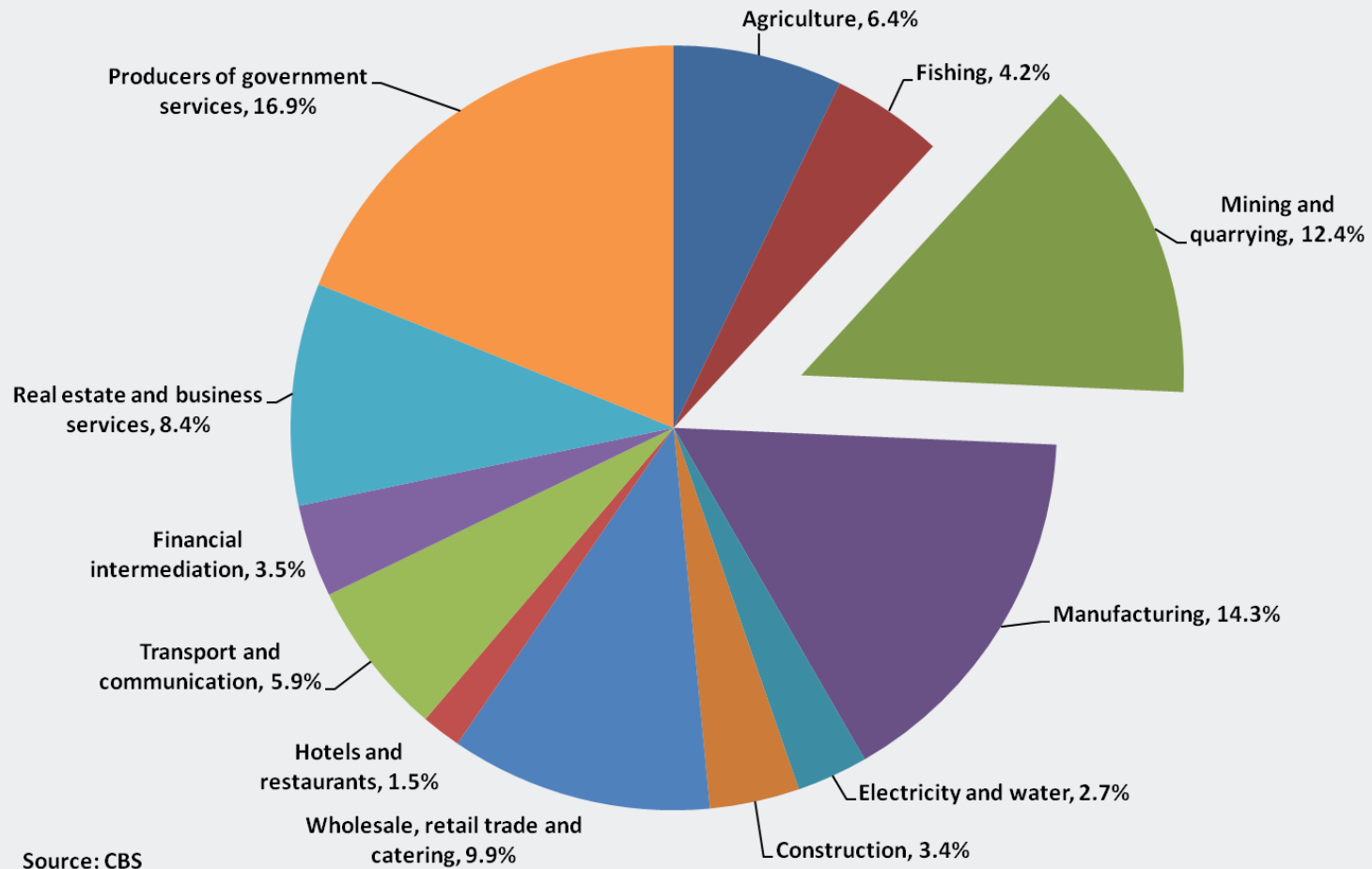
Mining value added as % of GDP



Source: National accounts, Central Bureau of Statistics

Mining is still more important than it looks...

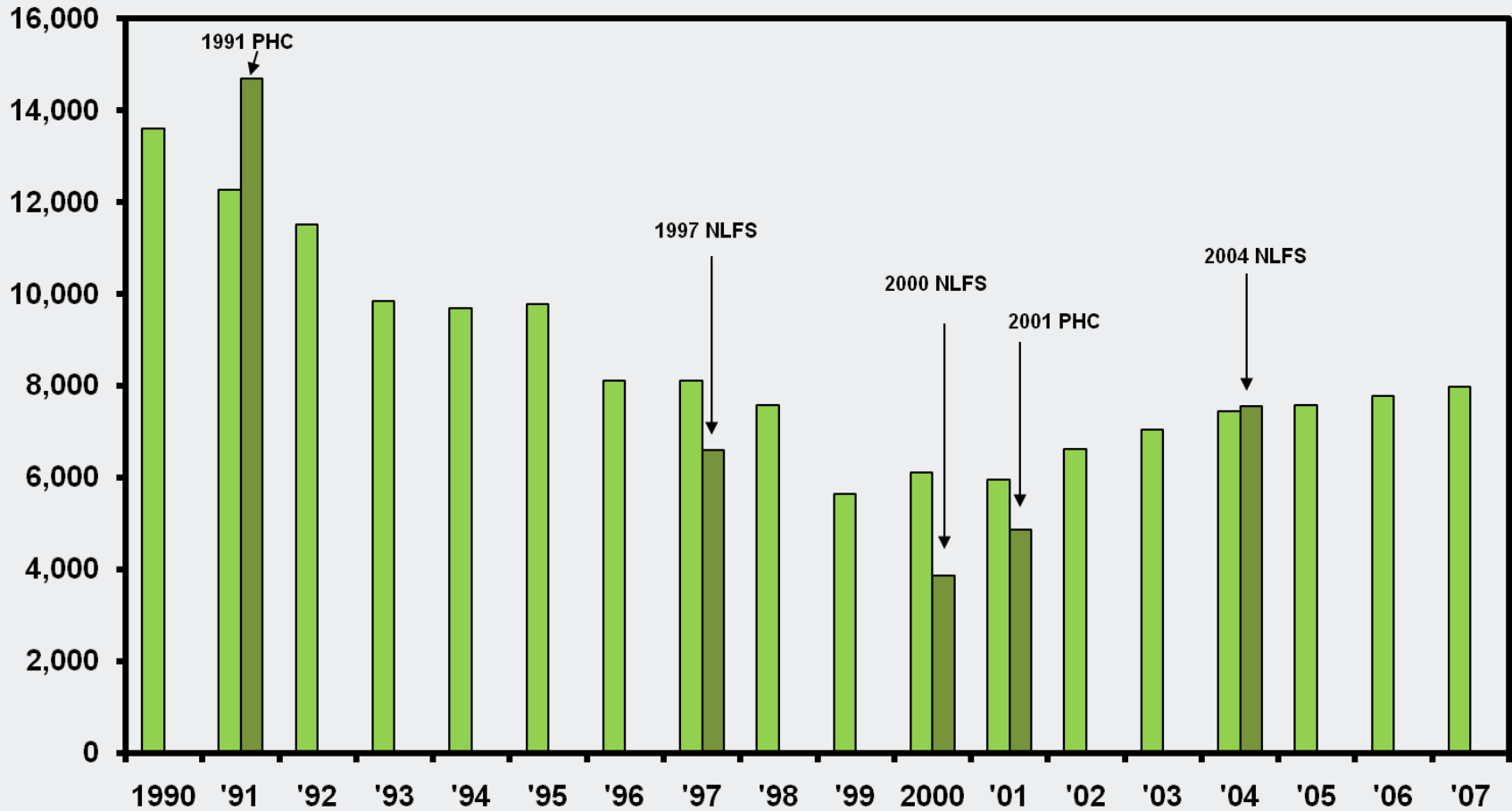
Breakdown of GDP (2007)



Source: CBS

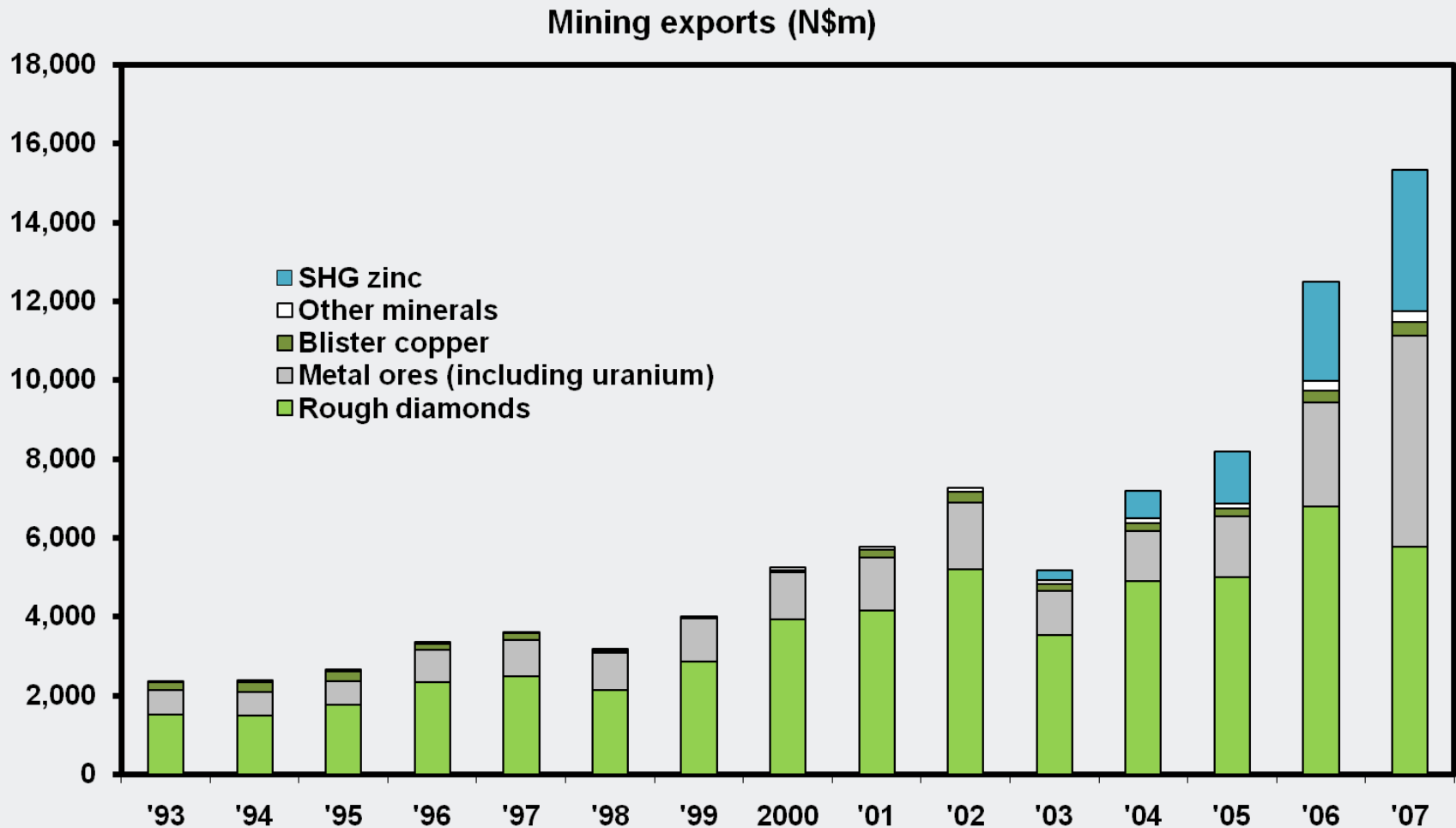
Even as it has become less labour intensive...

Mining employment



Source: Chamber of Mines annual reports, 1991 and 2001 PHC, 1997 2000 and 2004 NLFS

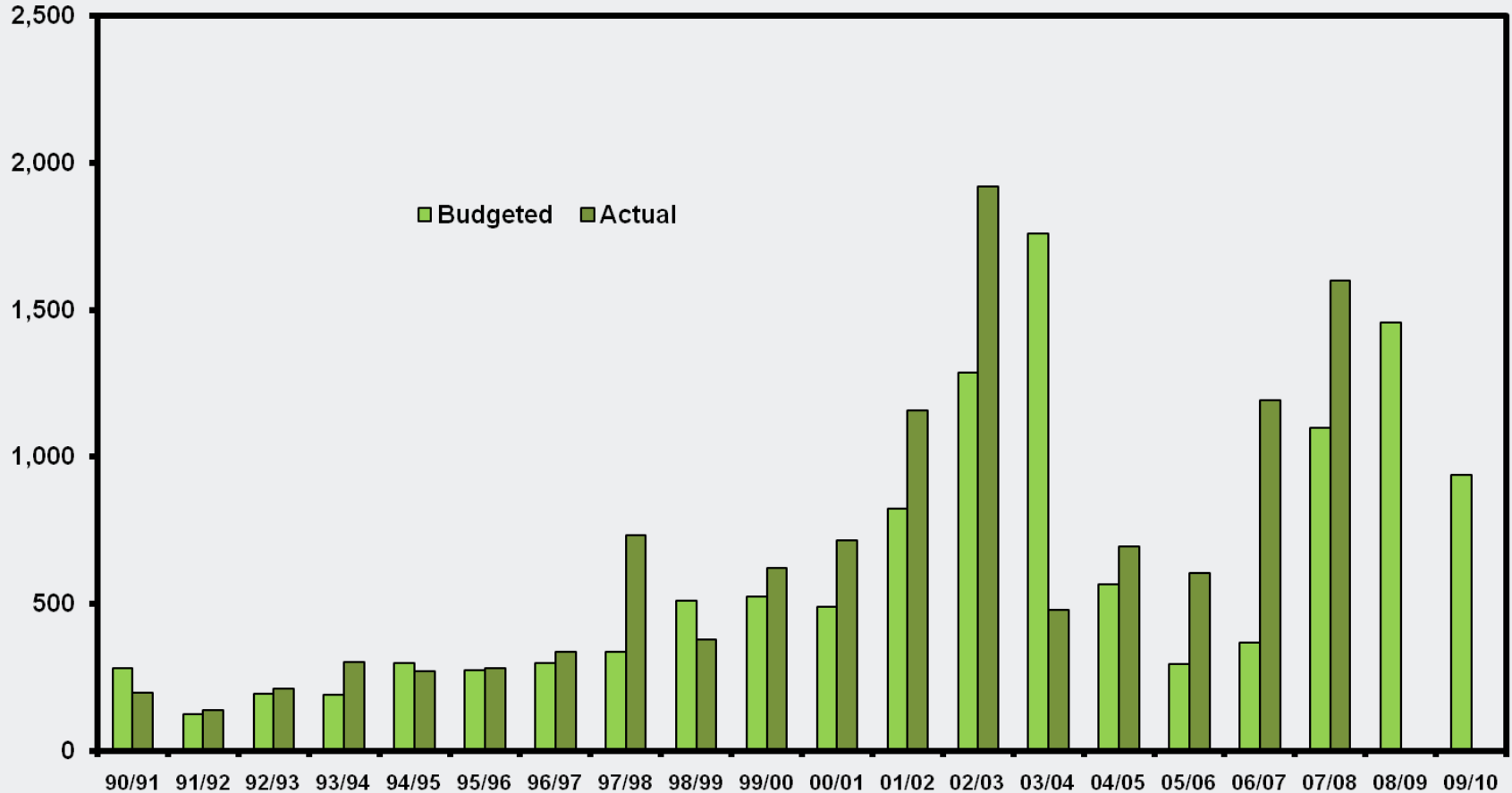
Mineral exports remain a vital source of foreign exchange earnings...



Source: National accounts, Central Bureau of Statistics

Mining taxation fluctuates dramatically...

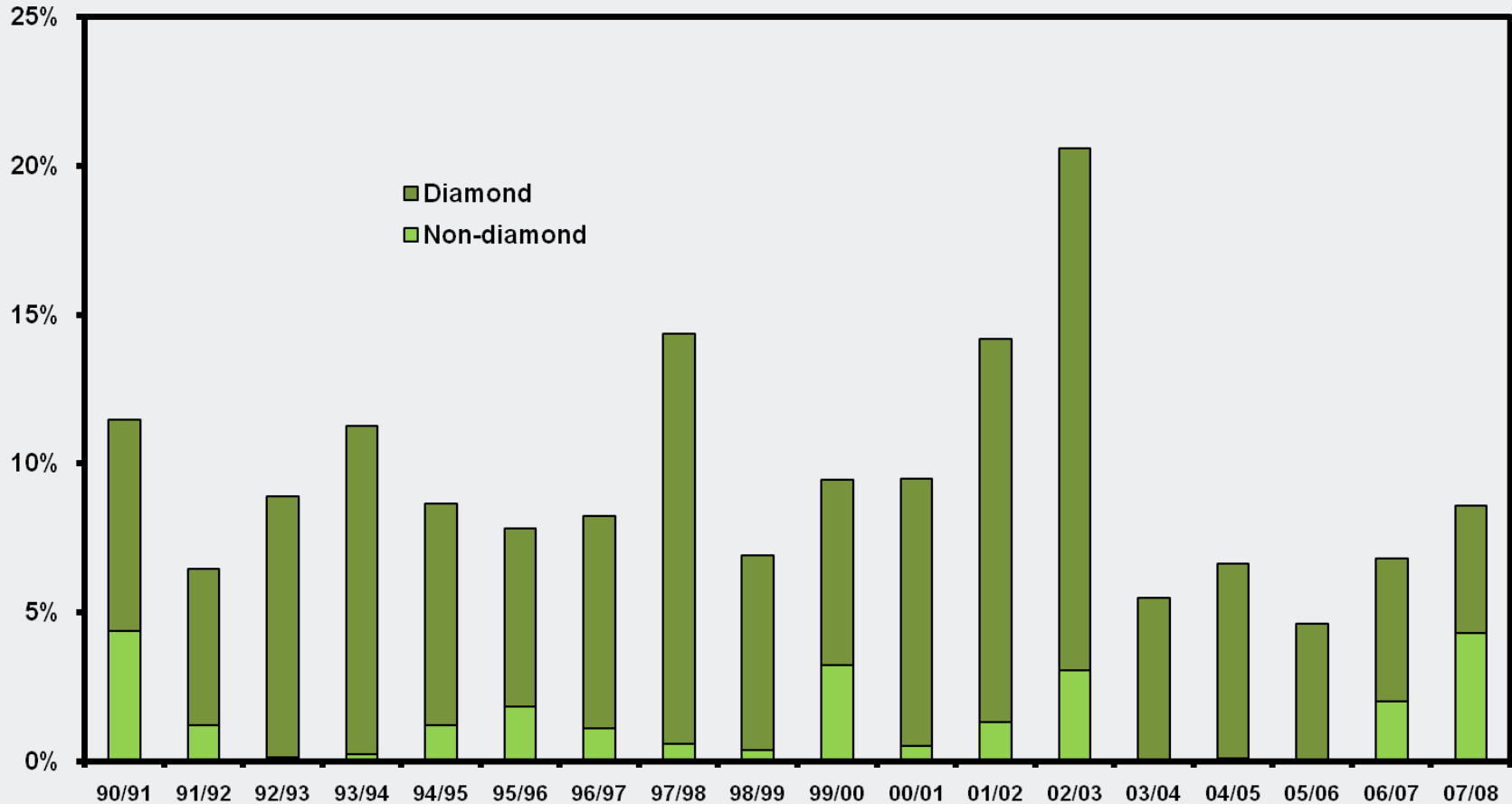
Diamond and Non-diamond Mining Taxation (N\$m)



Source: Budget documents

Diamonds have provided the lion's share...

Diamond and Non-diamond Mining Taxation (% of tax revenue)



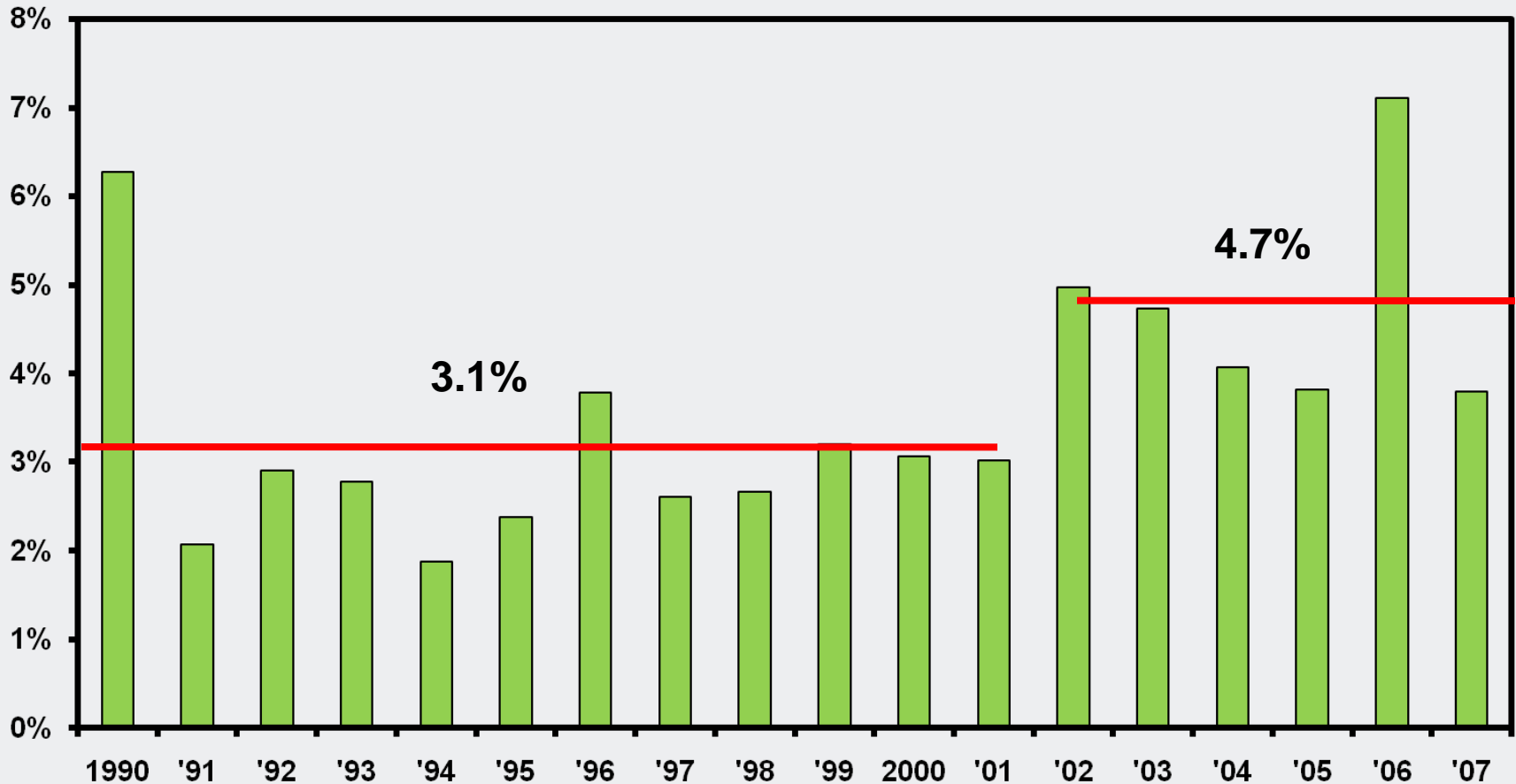
Source: Budget documents

Revenues were split evenly between diamond and other mining in 2007/08...

N\$m	2007/08 actual	2008/09 estimate	2009/10 budget
Company taxes			
Diamond mining companies	220.7	355.0	10.1
Other mining companies	779.9	460.5	554.5
Royalties			
Diamond royalties	600.4	442.5	125.2
Other mineral royalties	42.9	200.0	250.0
Dividends			
Namdeb	0.0	9.0	0.0
Rössing	8.2	4.0	6.1
Total revenue from mining	1,652.1	1,471.0	945.9

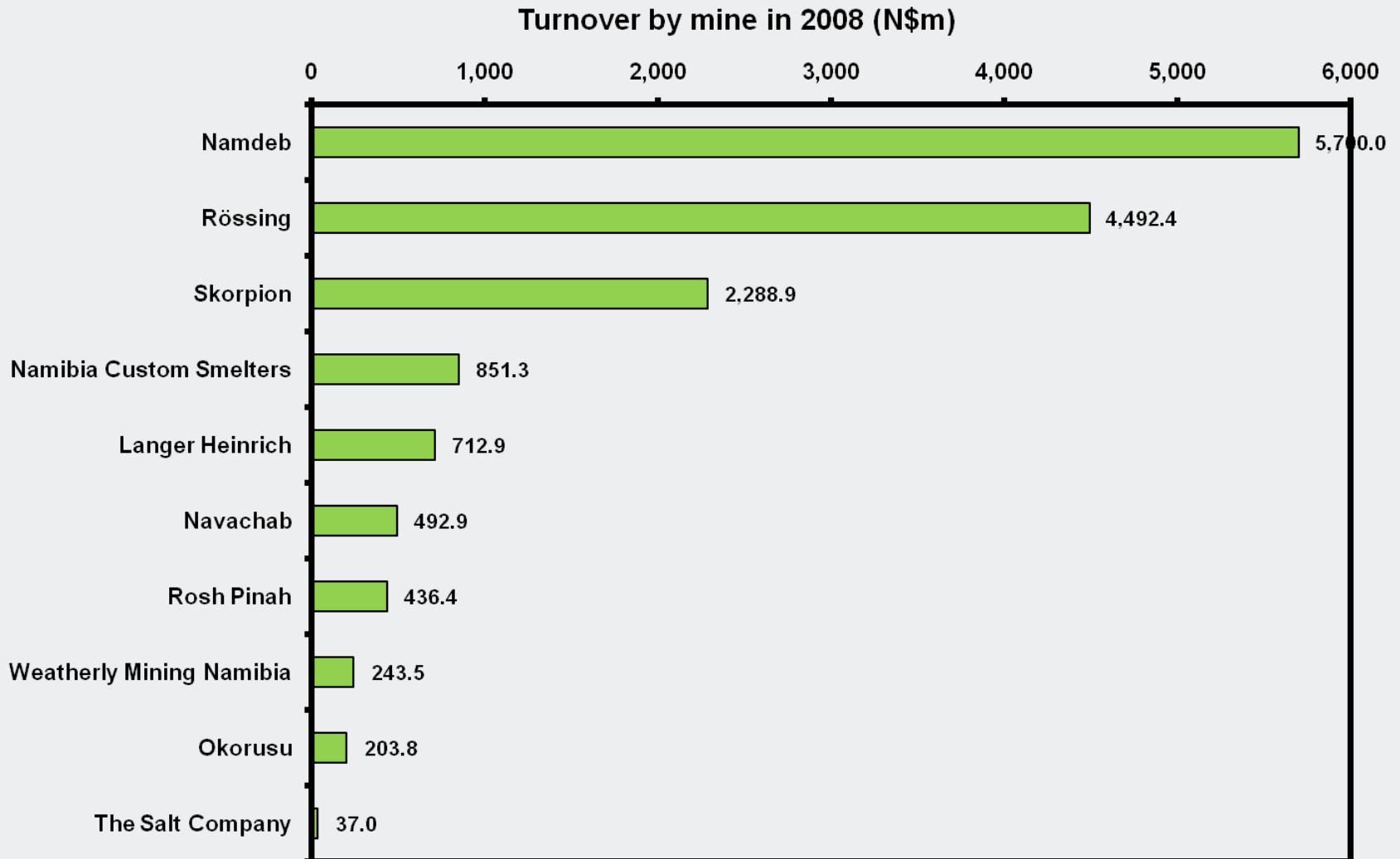
The last few years have seen a boom in mining investment...

Mining GFCF as % of GDP (includes exploration expenditure)



Source: National accounts, Central Bureau of Statistics

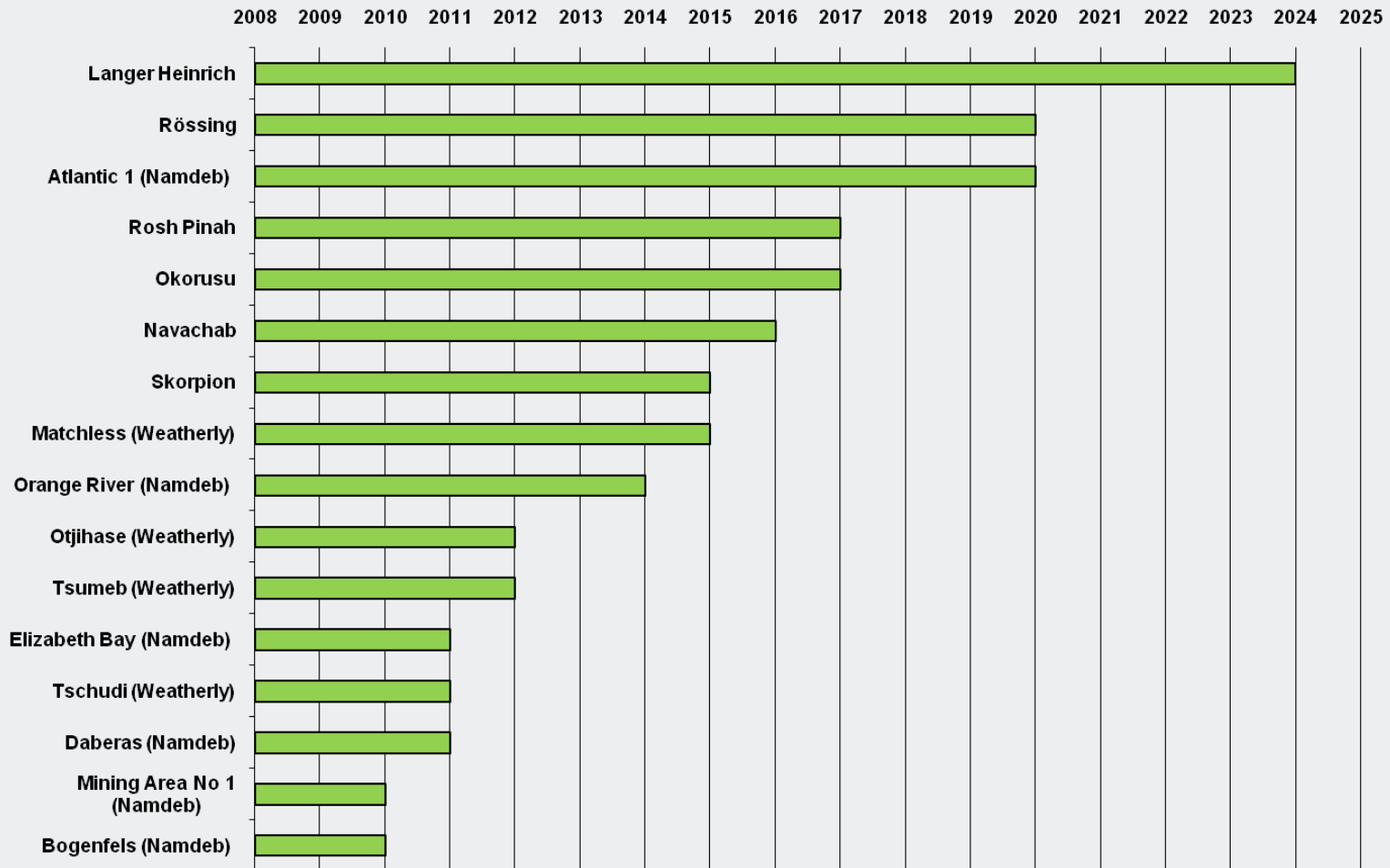
Three mines currently dominate the sector...



Source: Chamber of Mines of Namibia Annual Review 2008

But some mines are nearing the end of their lives...

Lastest life of mine estimates



Source: Chamber of Mines

DBN and Minerals Development Fund are small players...

1. DBN only recently capitalised at N\$1 billion
2. FY 2007 only N\$15 million in mining out of N\$126 million of gross advances

N\$m	03/04	04/05	05/06	06/07	07/08	08/09
Balance	47.281	15.424	5.719	8.256	43.993	35.562
Receipts	25.675	13.633	10.165	108.258	61.569	62.000
Expenditure	65.890	23.338	14.158	64.265	70.000	61.000

Copper (US\$/tonne)



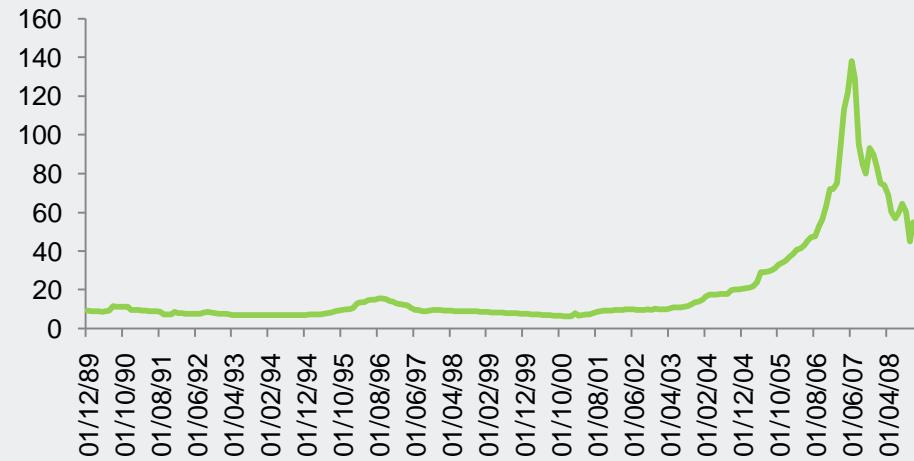
Zinc (US\$/tonne)



Gold (US\$/oz)



Uranium (US\$/lb)



Ten notable mining trends since 1990...

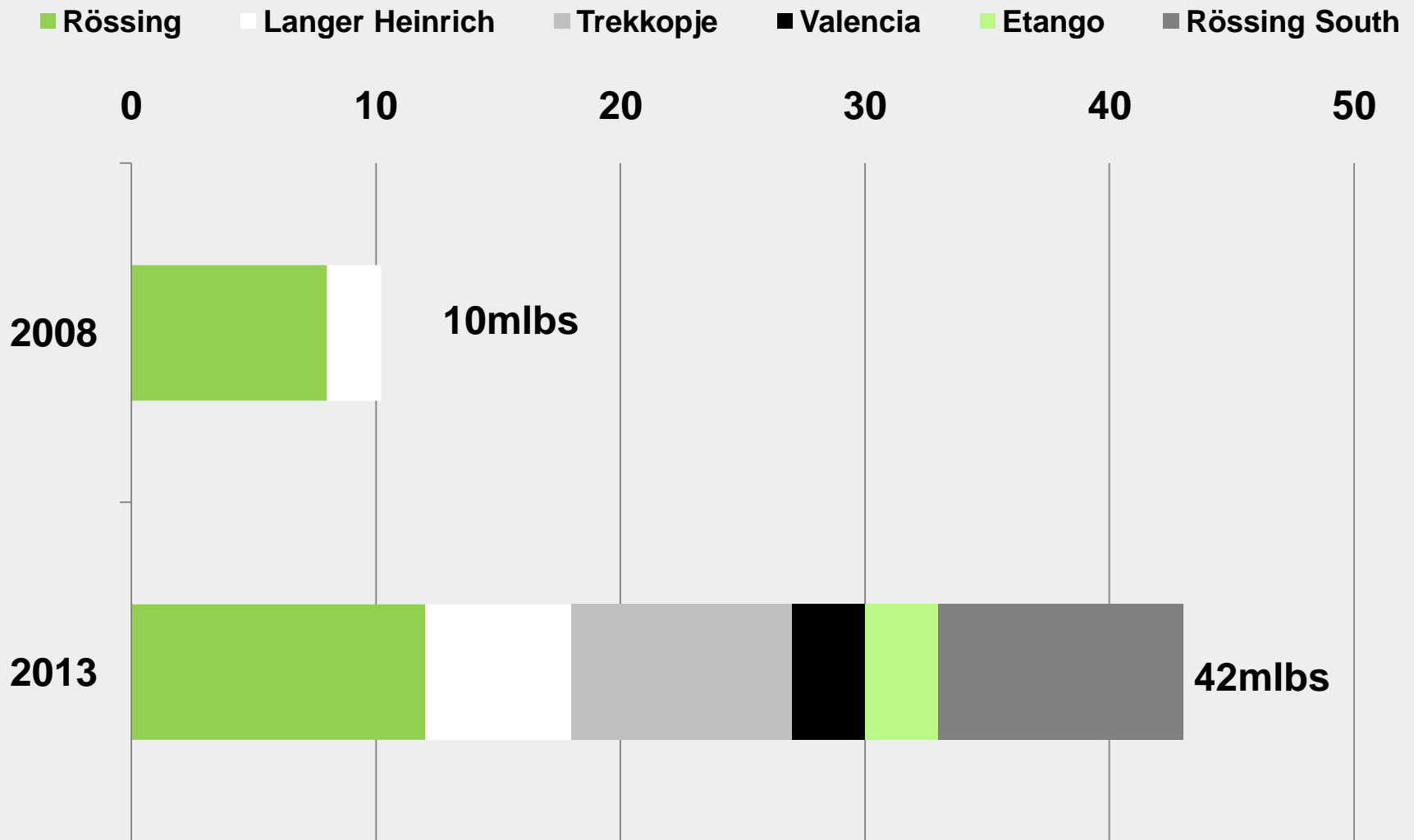
- 1. Diamonds moved offshore**
- 2. NDTC and diamond cutting and polishing created by agreement**
- 3. 10 million carats by 2010 but domination by diamonds starting to decline**
- 4. Greater capital intensity**
- 5. Arrival of Australians and Canadians but almost complete absence of Namibians**
- 6. Importance of stock exchanges and transparency**
- 7. Weakening of skills base in MME**
- 8. Greater government involvement in mining**
- 9. Commodity “super cycle” over with global slowdown**
- 10. Significant interest in uranium as diamonds decline**

Some big mining projects are in the pipeline over the next five years...

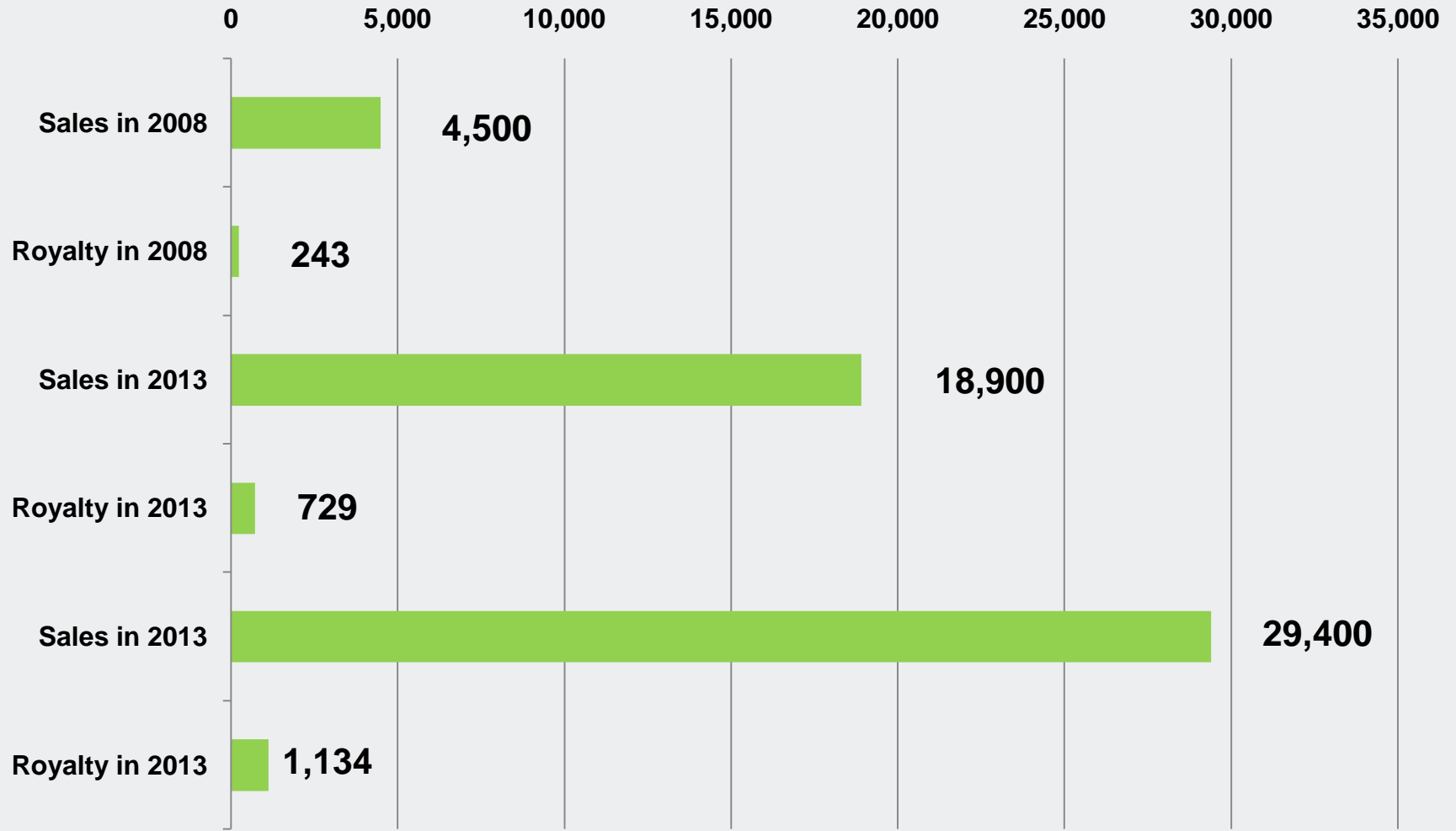
New Project	Cost	Status	2009	2010	2011	2012	2013
Telecelglobe Cell One Expansion	580	Started					
O&L Superfarm	80	Started					
Langer Heinrich Phase II	400	Started					
Caprivi Connector	3210	Started					
Ohorongo Cement	2800	Started					
Trekkopje Uranium Mine	4500	Started					
20mm ³ Areva desalination	1800	Started					
Namundjebo Plaza Hotel	200	Started					
Weatherly Smelter Upgrade	80	Started					
Afrodite Beach	1500	Started					
Ruacana Fourth Turbine	400	Tender					
O&L Strand Hotel Upgrade	300	FS					
Langer Heinrich Phase III	n/a	FS					
20MW Diesel Peaking Plant	250	FS					
25mm ³ Areva-NamWater	n/a	PFS					
Namcor Storage Facility	700	FS					
Telecom Undersea Cable	220	Budget					
Namport Upgrade	1200	FS					
ZIZABONA	1000	FS					
Rössing Uranium Phase II	n/a	FS					
Lüderitz Waterfront	400	PFS					
Otjikoto Gold Mine	900	BFS					
Valencia Uranium Mine	3000	BFS					
Lower Orange River Hydro Plant	2100	BFS					
Etango Uranium Mine*	3000	PFS					
Rössing South Uranium Mine*	4500	PFS					
450 MW Kudu Gas-to-Power/CNG*	8000	PFS					
Baines 500MW Hydro Plant*	10000	PFS					
Total	51120						

Langer Heinrich Phase II and III expansion to 3.7 mlbs and 6 mlbs
Trekkopje 9 mlbs
Tsumeb smelter upgrade
Rössing expansion to 5,500 tonnes
Otjikoto 2,000 kg
Valencia 2.9 mlbs
Etango 3 mlbs
Rössing South 10 mlbs

Namibia looks set to become a leading supplier of uranium...



Which would have significant consequences for exports and revenue...



The big mining issues for industry and policymakers...

1. **Ownership**
2. **Taxation**
3. **Fiscal policy**
4. **Economic and business stability**

Ownership...

- 1. Rossing (3%), Namdeb (50%), Samicor (8%) but otherwise mostly private and foreign**
- 2. Mining dependence likely to increase over time**
- 3. Namibianisation and BEE-TESEF**

Key questions:

- 1. Should Government allow such a strategic industry to be entirely privately (and predominantly foreign) owned?**
- 2. Should Namibian or BEE ownership be required by law?**
- 3. Should this be public or private ownership?**
- 4. How should this be accomplished (and financed)?**

Taxation...

- 1. Diamond and dimension stone pay 10% and 5% royalty (limited by Act)**
- 2. Other mining companies pay 2-3% royalty (not limited by Act)**
- 3. (Non-diamond) mining companies pay 37.5% company tax**
- 4. Namzinc and NCS enjoy EPZ status**

Key questions:

- 1. What is fair tax payment?**
- 2. What is a competitive tax payment?**
- 3. How important is tax certainty?**
- 4. What happens when times get tough?**

Fiscal policy...

- 1. Historically all revenues have gone into the “big pot”**
- 2. Government has limited public debt rather than create separate funds**

Key questions:

- 1. How dependent will fiscus become on mining revenue?**
- 2. Should mining tax revenues be treated differently to other revenues?**
- 3. How should fluctuations in revenue be managed?**
- 4. Should Namibia establish a “rainy day” or even a Sovereign Wealth Fund?**

Economic and business stability...

Key questions:

- 1. Is the world willing to place its trust in Namibia?**
- 2. Are there limits to changing the rules of the game?**
- 3. How stable is uranium?**

Some tentative conclusions...

The more Namibia is seen to gain from its mining industry the less incentive there will be to tamper with it – industry should try to act collectively in a generous and far-sighted manner

Foisting BEE shareholders onto companies may be equivalent to taxing it more highly – perhaps there should be a choice

Mining is a long-term business – government action should not be dependent on individual discretion but on clear long-term policies

Mining and mining revenues are cyclical and treating all revenues as current income is short-sighted – government should develop fiscal mechanisms

Buying into mining companies is expensive – some tax revenues could be set aside for buying into “strategic” companies

Government needs to ensure MME is appropriately resourced – revenue must be used to achieve this

Success in mining is not going to solve the unemployment problem – more imaginative policies are required

Any questions?

Mining legislation...

- 1. Minerals (Prospecting and Mining) Act 1992 (Act No.33 of 1992)**
- 2. Minerals Development Fund of Namibia Act 1996 (Act No.19 of 1996)**
- 3. Diamond Act 1999 (Act No.13 of 1999)**
- 4. Minerals Policy of Namibia 2003**
- 5. Government Gazette (No. 3733) 15 November 2004**
- 6. Government Gazette (No.) 1 November 2006**
- 7. Minerals (Prospecting and Mining) Amendment Act 2008 (Act No.8 of 2008)**
- 8. Government Gazette (No. 4236) 1 April 2009**