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SHORT COMMUNICATIONS

SIGNIFICANT CHANGES AND DEVELOPMENTS IN ZAMBIAN MINERAL INDUSTRY

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Promotional new mining code and mining taxation result in upsurge in exploration interest

Government acquisition of 51 per cent interest

The acquisition by the Zambian Government of a 51 per cent interest in the country's mining industry and the subsequent introduction of a new mining code and revised system of mining taxation have completely changed the face of Zambia's mineral industry.

In August last year the Government invited the two Zambian holding companies that control the copper mines, i.e. Zambian Anglo American Ltd. and the Roan Selection Trust Group, to sell 51% of the shares of their mines to the State. (These two companies produced between them 745,000 metric tons during 1969 which makes Zambia vie with Chile for the place of the third largest copper producer in the world after the U.S.A. and U.S.S.R.)

An agreement was worked out by which the Government acquired the 51% share in these mines as from January 1st. 1970.

It is a tribute to the skill and common sense of the negotiators of both sides that both the Government of Zambia and the mining companies concerned have expressed their satisfaction with the deal. Satisfaction on the part of investors was clearly expressed in the Zambian mining share quotations while it has also been stated in various financial and mining papers that the conditions of the agreement were better than had been originally expected.

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The agreement contains naturally many details but in essence the arrangement is as follows:

The acquisition is through the medium of a new company called Zambia Industrial and Mining Corporation Limited ("ZIMCO"). ZIMCO proposes in due course to vest its 51% holding of shares in the Zambian copper mining companies in a new wholly-owned subsidiary called MINDECO Ltd.

Based on book values of assets, ZIMCO will pay Kwacha 125.8 million (U.S. S. 176.1 million) for control of the Anglo-American Mines and Kwacha 84 million (U.S. S 117.6 million) for its share in Roan Selection Trust. These amounts exclude interest charges. Payment will be in twenty-four half-yearly instalments for Anglo-American and sixteen half-yearly portions in the case of R.S.T. This payment will be made in 6 percent negotiable bonds, free of tax, and guaranteed as to payment of capital and interest in U.S. dollars by the Government of Zambia. There is provision for accelerated redemption if two-thirds of the dividends received by ZIMCO exceed the annual repayment instalments.

Remittance of dividends is no longer subject to exchange control.

An important feature of the arrangements is that management, consultancy and metal marketing services will continue to be provided by the two Groups under a ten year agreement.

The operating companies of the A.A.C. Group have been merged into an amalgamated company under the name of Nchanga Consolidated Copper Mines Ltd. (NCCM), while those of the R.S.T. Group, pending approval by the shareholders, will merge into

Roan Consolidated Mines Ltd. (RCM).

The new Mines and Minerals Act became law on the first of January 1970. This Act has been designed to encourage systematic exploitation of the country's mineral resources on an expanding scale and to terminate some antiquated conditions. All mineral rights are now vested in the State and the Government administers and controls the issue and exercise of prospecting, exploration and mining licences (jointly called "mining rights"). It also has the option to take up to 51 per cent of the equity in any future mine by paying its share of the prospecting and exploration costs.

"An attempt has been made to balance the natural desire of the Government to have a direct stake in the exploitation of the country's most important natural resources, and the legitimate profit motive of the companies involved. At the same time provisions have also been made to ensure the conservation and best use of the Republic's mineral wealth" (Drysdall and Langevad, Ref. 1.).

Special Grant areas, covering the whole of the sub-outcrop of the "Mine Series" in the Copperbelt area, had been granted by the old British South Africa Company "in perpetuity". The areas involved were too large for the two Zambian holding companies to develop at the rate the Government considered desirable. These Special Grant areas were dealt with as follows:

(a) As a result of discussions between Government and the two Zambian holding companies the latter agreed to surrender all Special Grants in which no prospecting had taken place since Independence (October 1964), and certain others which had been prospected but given a lower priority compared with areas retained for prospecting, or not considered economically viable in the near future.

(b) In the case of existing mines it was agreed the Special Grants would be replaced by mining licences, valid in the first instance for 25 years but renewable where ore reserves permit, while other Special Grants would be replaced by Prospecting or Exploration Licences.

In addition the larger part of *Exclusive Prospecting Areas* (which almost completely tied up the most promising parts of the country) have been surrendered by the existing mining- and exploration companies. (The licences surrendered include those of De Beers for diamond prospecting). However, the areas retained are still big enough (approximately 12½ per cent of the original areas held by the RST and AAC groups) for the companies to maintain the full capacity of their exploration staffs as they have indicated they intend to do (R.S.T. and A.A.C. spent in the past year approximately \$ 3.6 million on pure prospecting outside the Copperbelt area. The exploration costs on the Copperbelt were in the order of \$ 4.5 million).

Large areas have therefore become available for exploration and prospecting and also because of a highly improved taxation system the response on the part of foreign mining companies has been enthusiastic. New prospecting licences have so far been granted over approximately 40,000 square miles or 100,000 square kilometers, while the decision on areas totalling around 19,000 square miles is pending.

Any applicant for a prospecting licence must show that he has the financial resources and the technical competence to carry out the proposed programme of operations which must accompany his application. Programmes also have to be submitted with applications for the subsequent Exploration and Mining Licences. Many safeguards have been incorporated into the Act to ensure that the holder of a prospecting licence who has discharged his obligations diligently will eventually be able to mine any orebody that he may discover. In case of a difference of opinion there is a right of appeal to the Mining Affairs Tribunal.

One of the main considerations in drafting this new Act was to enforce on holders of the various types of licences an acceptable level of activity. This has been achieved by: a) a limitation of the period of time for which any particular right is valid: b) minimum expenditure obligations: and c) penalties if the holder fails to conform to an approved programme. However, it should be stated that the minimum expenditure obligations have been kept at a very reasonable level, and that the Act is quite flexible giving reasonable opportunities for amendments in programmes in the light of new data and circumstances.

A brief description follows of the three different types of mining rights:

I. *Prospecting Licence* – valid for 4 years – no limit of area.

II. *Exploration Licence* – valid for 3 years with a right of renewal for a further two years or, under exceptional circumstances, more. The maximum area is 10 square miles, but if it can be proved that a more extensive orebody may exist, the applicant may apply for more than one adjacent area.

III. *Mining Licence* – valid for a maximum period of 25 years with the right of renewal for a similar maximum period, provided that the holder can show that ore reserves remain, and submits a satisfactory programme for their exploitation. The holder of a prospecting or exploration licence has the right to obtain one or more mining licences.

The responsibility of the overall administration of the new Act rests with the Minister responsible for Mines and the Chief Mining Engineer.

As the State has taken over all mineral rights it also assumes the responsibility of conservation and best possible use of the mineral resources of the country. It is one of the obligations of the Chief Mining Engineer to keep a watchful eye in this respect and to call upon a holder of a Mining Licence to cease using wasteful mining or metallurgical methods if these can be avoided. The decision of the Mining Engineer, however, is subject to appeal to the Mining Affairs Tribunal.

For details of the new Mines and Minerals Act and the historical background the reader should consult the articles mentioned in Refs. 1 and 2 which also contain illustrated maps.

Taxation

An entirely new system of mining taxation came into effect on April 1st. 1970. The most important change is that all mineral royalties, and in the case of copper also the export tax which were "ad valorem" taxes, have been abolished and replaced by a Mineral Tax charged entirely on *profitability.*

The mineral tax on copper is 51 per cent and on lead and zinc 20 per cent. The mineral tax on copper roughly equates the combined average royalty and export tax at normal prices under the old system.

Company tax at a uniform rate of 45 per cent is payable on the balance. The liability for both forms of tax is assessed on the same basis.

Another important change concerns the capital allowances deductable for both mineral and income tax purposes. In the future any mine will be allowed to write off all capital expenditure in the year in which it is incurred. Accumulated losses and unredeemed balances may be carried forward without limitation. Prospecting and exploration expenditures will be fully allowable in the same year.

New mines will pay no tax until the original capitalization and subsequent capital expenditures have been recovered. In the case of the existing mines the balance of unredeemed capital expenditure outstanding on April 1st, 1970 will be written off in equal instalments over 20 years or over the life of the mine whichever is shorter.

The main purpose of the new system of capital allowances is to improve the discounted cash flow rate of return on new investments and thus promote development in the mining sector. Finally, the Mineral Tax Act, 1970 provides for the remission of part or all of the mineral tax paid by new mines where it can be shown that the average after-tax return on equity over a period of three years (starting from the year in which tax is first payable) is less than 12 per cent. Refunds thus obtained are not liable to income tax. The implication of this refund provision in the case of new copper mines is that there is in fact a sliding scale in the overall rate of taxation ranging from a minimum of 22.05 per cent, when all mineral tax is refunded, to a maximum of 73.05 per cent, when no mineral tax is refunded.

Under the provisions of the Mineral Tax Act, 1970, the Minister responsible for Finance has the power to exempt any mining company from the payment of mineral tax, but it may be anticipated that this power will only be exercised in the case of certain very small mines. (After Bottelier, Chief Economist MINDECO in ref. 2).

New developments resulting from the new mining code and new mining taxation

As mentioned above, new prospecting licences have been granted so far over an area of some 40,000 square miles which are divided over 14 areas.

These 14 areas have been allocated to:

SOMIREN:
A subsidiary of Italy's state owned oil corporation Ente Nazionale Idrocarburi (ENI). One of the areas allocated is for the search for radioactive minerals and covers more than 20,000 square miles in the north-western part of the country. Their other allocated

areas are for copper and associated metals.

SIDCO:
A Yugoslav company.

SUICO:
A subsidiary of the Japanese Mitsui Mining and Smelting Company Ltd., and Continental Ore.

GEOMIN:
A Roumenian state-owned company (this company was also granted an exploration licence on the Sebembere copper deposit close west of the Broken Hill lead and zinc mine).

Except for the prospecting licence for radioactive minerals, these licences are mainly for copper and associated metals, including lead and zinc.

The new mining taxation which is particularly favourable for new mines was a strong factor in the recent decision to open up the Baluba Mine (RCM, with a planned annual production of 22,000 m. tons by 1973, 50,000 m. tons by 1978-1979) and Kanshansi (NCCM) with a planned annual production of 15,000 m. tons by 1972).

The new taxation will enhance significantly the possibilities of eventually opening up low-grade and/ or remote deposits.

REFERENCES

1. A.R. Drysdall, Director Geological Survey of Zambia and E.J. Langevad, Chief Mining Engineer Government of Zambia: Zambia's Mines and Minerals Act, 1969. Mining Magazine, April 1970, p. 266, 277.
2. Ditto: The Mines and Minerals Act 1969 and the Mineral Tax Act 1970. Economic Report Geological Survey of Zambia No. 26 (in preparation).

The decision to open up the Mkushi Copper Mine (controlled by Swiss, Canadian and Italian interests) had already been taken before the new mining act and taxation. The mine is scheduled to achieve an annual rate of production of the order of 6,000 m. tons by early 1971.

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