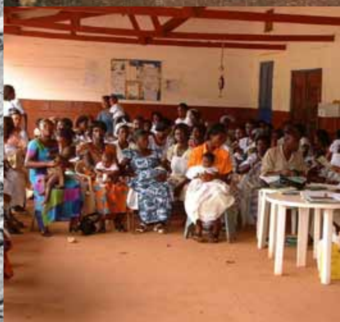
GHANA CHAMBER OF MINES

WORKING TOGETHER



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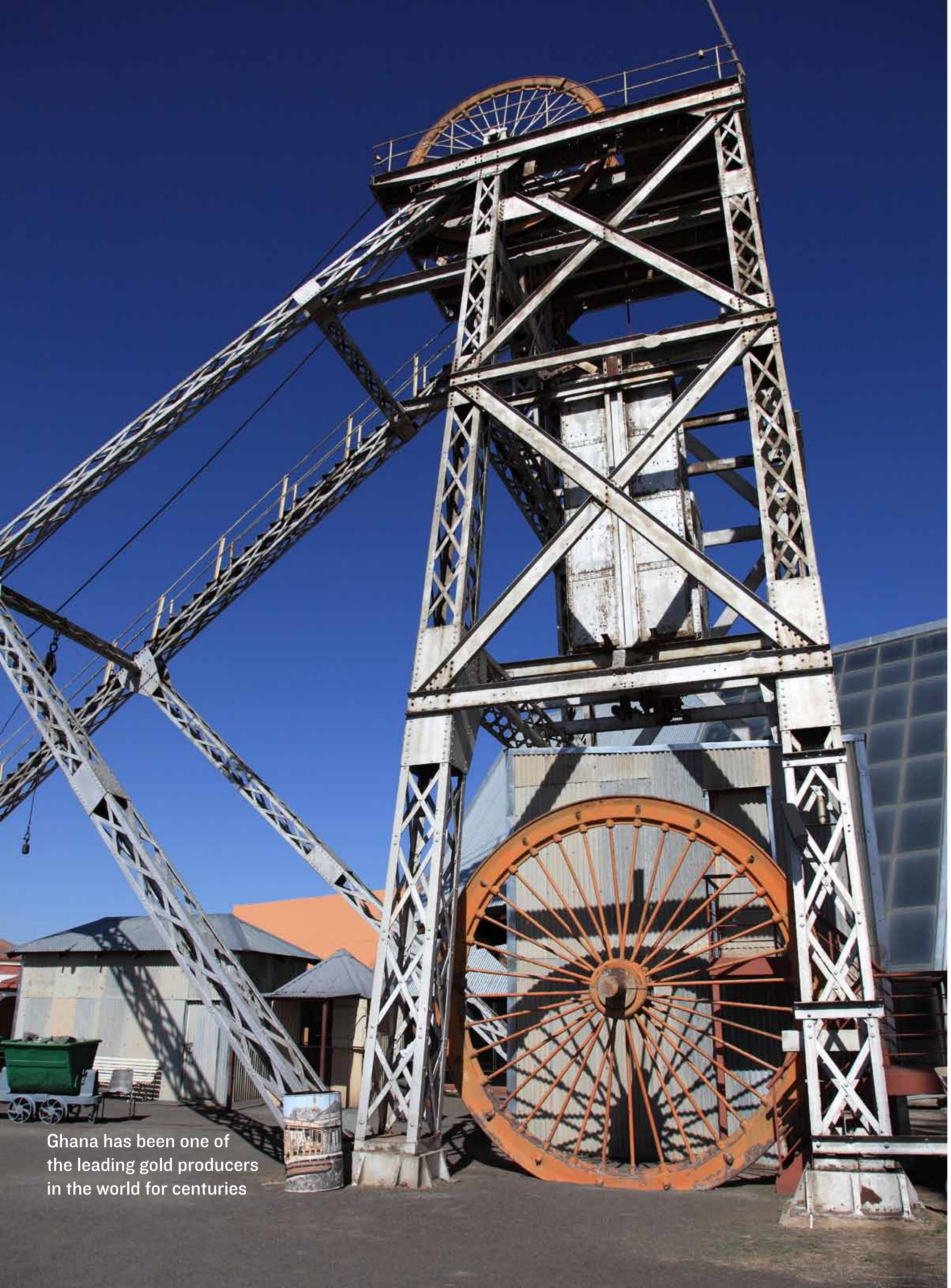
WORKING TOGETHER

Ghana's resource industry is regulated by the government but it is a complex business. For nearly 110 years, the Ghana Chamber of Mines has been working to create the right basis for addressing key issues relating to the role of mining in national development


Ghana has been one of the leading gold producers in the world for centuries

It's not quite one year since Dr Toni Aubynn was appointed as the new chief executive officer of the Ghana Chamber of Mines. Dr Aubynn comes with wide experience of the industry that is Ghana's life blood, having spent over 20 years in leadership within the country's resource industries. Right now, Ghana is preparing for an offshore oil bonanza that could double its economic growth rate, but it's no accident that the country used to be called the Gold Coast. Ghana has been one of the leading gold producers in the world for centuries; and with prices at an historic high, the minerals that come out of its mines—and these include manganese, diamonds and bauxite—are going to sustain the economy for a long time to come.

23%

Gold production by illegal mines in Ghana

The Chamber has a diplomatically sensitive job to do in bringing together the interests of government and the private companies that extract the minerals. It was set up by the government and is supported as a voluntary private sector employers' association representing companies and organisations engaged in the minerals and mining industry in Ghana, funded entirely by its member companies.

These fall into three categories. Represented members are drawn from the producing companies, both indigenous and global and include the major operators of gold, manganese and bauxite mines; pre-production, contract mining and exploration membership caters for the other first tier companies, while any company involved in the supply chain can become an affiliate member.

The commercial interests of the members in no way conflict with the national interest, but it is possible for legislators to interpret the high prices obtained for minerals on the international exchanges as high profits for the operators. The 2012 budget presented to Ghana's parliament in December brings in a 10 per cent windfall tax on miners, who will also be subject to a corporate tax increase, raising rates from 25 per cent to 35 per cent. Capital allowances, which used to start at 80 per cent in the first year and 50 per cent in a declining balance, are to be slashed to a uniform 20 per cent for five years, a particular challenge for those undertaking expansion projects and new entrants. It will discourage small mining enterprises from getting off the ground. "I think the key challenge for the industry is to help the stakeholders, including the government, understand the complexity of the business," says Aubynn.

It is tempting, he agrees, to look at the top line and conclude that profits must follow revenues, but the extractive industries also face heavy capital investment demands as well as rising costs. It is well known that the tax regime has an influence on investment decisions, and many Chamber members are uneasy that the proposed measure will threaten upcoming projects as well as discouraging new entrants. To take just one company, Gold Fields is planning some $1 billion of expansion and reinvestment within Ghana and with extraction costs already higher than in many other jurisdictions; but Nick Holland, the CEO of Gold Fields, has already described the new tax structure as unsustainable.

On the other hand, Ghana has long been seen as one of the safest places for investment on the entire continent of Africa, and that has a lot to do with having a favourable tax regime, Aubynn believes. "The new tax proposals are a response to the perception that the industry was making super profits and from a broader perspective on the part of politicians that Africa is not getting enough from its mineral resources. These perceptions are fed into government policy and led to significant increases in taxes which our members have to deal with. That is one of the key challenges that we face today."

The situation is not yet fixed in stone, and the signs are that the government is coming to realise the negative impact of the new tax proposals. Aubynn has had meetings to discuss whether a windfall tax is really the best way to raise the industry's contribution to the economy without impacting inward investment. The measures appear to have been announced without consultation or warning, leaving the Chamber of Mines to negotiate a pragmatic and workable solution.

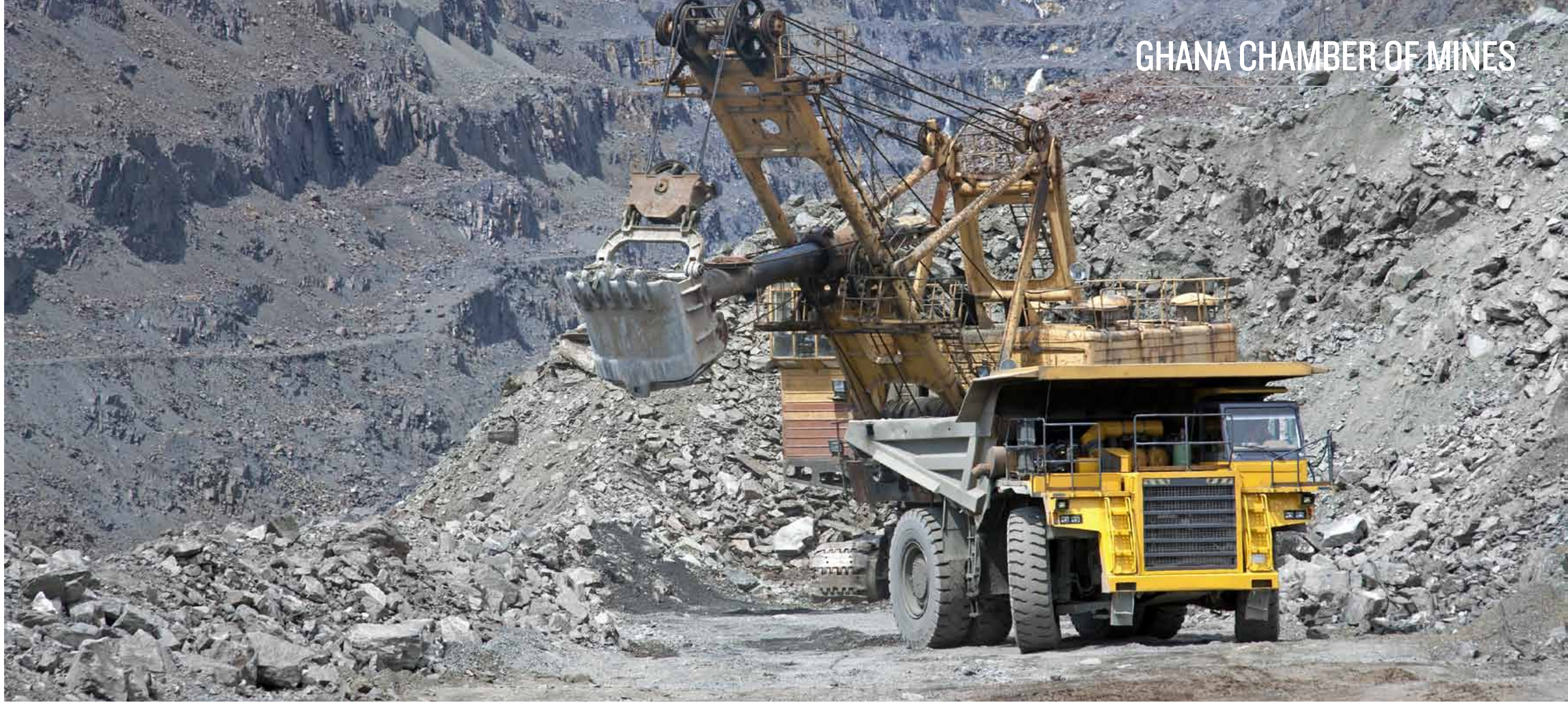
"THE KEY CHALLENGE FOR THE INDUSTRY IS TO HELP THE STAKEHOLDERS, INCLUDING THE GOVERNMENT, UNDERSTAND THE COMPLEXITY OF THE BUSINESS"

Perhaps the most important stakeholders in Ghana's mining industry are the people whose lives are affected, negatively or positively, by mining operations. One thing they would all agree on is that while employment and trade are stimulated at a local level, the communities are not seeing a fair share of mining revenues ploughed back into their schools, roads and social amenities. "Most of the benefits you see are the ones provided by the mining companies. Even the local authorities refer communities to the mining companies rather than shouldering the responsibility themselves. Of the royalties paid by the companies on every ounce they extract, only five per cent is currently returned to these communities, and we believe that this should rise to at least 30 per cent."

But don't just hand the money over to the local administrators, he counsels. It is essential that the money is linked to specific projects that are agreed by the authorities, the companies and above all, the communities themselves. That way they can see the benefits of improved housing, schools, roads and healthcare facilities sustained by money from the state's share of mineral revenues. The draft Minerals Development Fund Bill 2010 aims to address the need to set a higher proportion of royalties aside for development projects to be undertaken in mining communities, but the bill contains many ambiguities.

Where employment is concerned, mining does better than many other sectors though. When banking moves into new areas it tends to bring its human resources with it:

Provision of improved educational facilities



Mining operations

in the case of mining only at the higher levels do you need to bring in talent from outside—most of the labour comes from the communities around the mine. The level of commitment is therefore high—all the more reason for the community benefits to be tangible.

Other challenges for the industry are infrastructure and logistics. Ghana's growth is a headache when it comes to supplying so many new customers with energy, and intermittent supplies are a constant problem. While the road network has improved, rail has deteriorated and is in urgent need of modernisation. "Bauxite production went down significantly last year simply because of problems with bulk transportation. Rio Tinto sold off its 80 per cent stake in Ghana's bauxite mine at Awaso in 2009 citing poor infrastructure as one of the major reasons for its move. Bauxite production is in serious distress because the rail link taking the ore to the harbour is not working." Aubynn says the same plight may befall magnesium production.

But the work of the Chamber is not all about fire-fighting. There are massive opportunities, and one that is clearly very dear to Aubynn's heart is to increase the involvement of local entrepreneurs in the industry, both as small miners and as suppliers. Two examples—activated carbon and grinding balls for the miners' ball mills—exemplify the opportunity. Ghana still imports activated carbon despite the fact that product made from coconut shell (and there's plenty of that along the coast) is superior to activated carbon from other sources. Given the right incentive, a whole new industry is waiting to be developed, he says. And steel balls are now being produced locally from scrap metal that used to be exported. Here is another chance for local operators to add value in the supply chain, he says. "Some of our members are already getting their supplies from local manufacturers: initially there were quality issues but I understand these are being overcome."

> "BAUXITE PRODUCTION IS IN SERIOUS DISTRESS BECAUSE THE RAIL LINK TAKING THE ORE TO THE HARBOUR IS NOT WORKING"

29

Number of product areas identified as amenable to local participation

The Chamber of Mines is actively working with the government and other agencies to grow local input to the mining supply chain. The Chamber has signed a memorandum of understanding with the World Bank and the Minerals Commission (MINCOM), the regulatory agency for the minerals sector in Ghana, to support local participation in the mining industry. Some success has been had in transportation and logistics, he continues: companies that used to be self-sufficient are now outsourcing their staff transit requirements.

He identifies steel fabrication and lime production for cement as work that need not be sourced outside of Ghana. "We have identified 29 product areas which we think are amenable to local participation. We want to get Ghanaians involved, but we are realistic about the need for time and for the continued involvement of overseas suppliers. We won't sacrifice efficiency on the altar of import substitution! But our vision in this direction is quite clear: increase local participation in the industry to a significant level."

He wants to bring as many as possible of these independent suppliers into affiliate membership of the Chamber, as a means of spreading best practice and giving them access to training. This is quite separate from the need to address Ghana's unregulated mining sector. Though who knows: many of them may end up under the Chamber's umbrella—in an ideal world, most of them! These are the Galamsey or artisan miners that make up an estimated 60 per cent of Ghana's mine operators.

Let us be clear: artisanal and small-scale mining was legalised in 1986. We are talking here about opportunists working outside the legal framework. Whether this is a problem with implementation or with the way the law is framed, it has an adverse effect on the whole society. "We have seen young people dying, trapped by rock falls or machines, as well as things like environmental degradation through unregulated use of chemicals, notably cyanide and mercury and direct discharges into river courses."

> "OUR VISION IS QUITE CLEAR: INCREASE LOCAL PARTICIPATION IN THE INDUSTRY TO A SIGNIFICANT LEVEL"


Mining companies support more community initiatives than the local authorities do


Health outreach at a mining community

Because this activity is unregulated, there is no redress in law. And Ghana loses an incalculable amount of revenue. Last year illegal mines produced 23 per cent of Ghana's total gold production but paid nothing in tax or royalties to the government. "I think it is something we need to look at as a nation," says Aubynn. "I am fully supportive of encouraging Ghanaians to participate in mining even if through the artisanal and small-scale route but it needs to be properly supervised and regulated to minimise these negatives." He enjoys nothing more than talking to entrepreneurial Ghanaians, giving support and advice on establishing and growing their business—such people, he believes, represent the future of the industry in Ghana every bit as much as the global mining companies. BE

For more information about Ghana Chamber of Mines visit: **www.ghanachamberofmines.org**

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