



PRESENTATION ON THE IMPACTS OF VAT RULE 18(b)

PRESS BRIEFING

8TH OCTOBER, 2014

MOBA HOTEL – KITWE

Mr. Jackson Sikamo - President, Zambia Chamber of Mines



MISSION STATEMENT

“advancing the interests of our members, local communities, the country and all stakeholders while promoting sustainable and responsible mining”

SOURCE OF DATA

- THE ICMM REPORT on “Enhancing Mining’s Contribution to the
Zambian Economy and Society”
 - This work was supported by the ZAMBIA CHAMBER OF MINES
and was independently conducted by the OXFORD POLICY
MANAGEMENT (OPM)
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SOURCE OF DATA

Statistics were obtained from a number of Government ministries and other organizations,

- Bank of Zambia
- Central Statistics Office (CSO)
- Zambia Development Agency (ZDA)
- Zambia Extractive Industries Transparency Initiative (ZEITI)
- World Bank
- International Monetary Fund (IMF)
- World Health Organisation (WHO)
- United Nations Conference on Trade and Development (UNCTAD)
- United Nations Development Programme (UNDP)

SOURCE OF DATA

The study focused on the four largest companies;

- Konkola Copper Mines and Mopani Copper Mines from the Copperbelt and;
- FQM Kansanshi Mine and Barrick Lumwana Mine from North Western Province.

The study was conducted over a period of 10 months from March 2013 to December 2013.

Insights and feedback from two workshops were incorporated into the report:

First workshop – 12th June 2013 in Lusaka attended by Government and Industry representatives

Second workshop – Multi-stakeholder workshop – exploring the economic and social contributions of mining in Zambia – 7th November 2013 in Lusaka – around 150 participants from a broad selection of Industry, Government and non-government organisations.

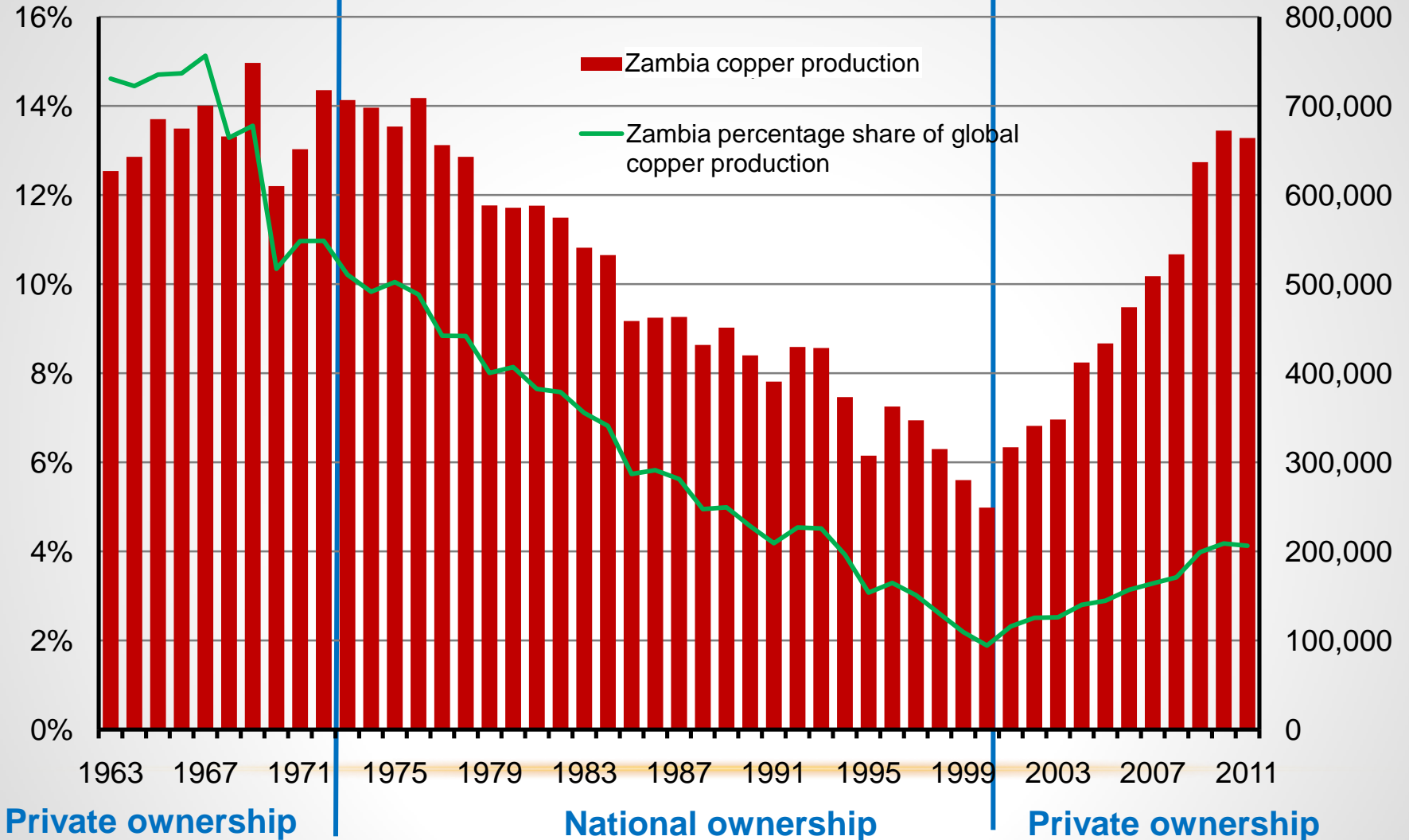
Copper production

Share of global production

(Percentage.)

Copper production

(Tonnes.)



Source: ICMM (International Copper Study Group from 1996 onwards (Copper Bulletin March 2012 & April 2013; Yearbook 2006; Statistical Yearbook 2008), US Geological Survey Annual Mineral Reports 1963-1995

MAJOR INVESTMENT PROJECTS 2000 TO DATE (US\$10.85BN)

Project	Mopani	KCM	FQM	Lumwana	Kansanshi
Mopani Synclinorium	323m				
Mufulira Deep Shafts	327m				
Mindola Deep Shaft	232m				
Mopani Concentrator	300m				
Trident Project			2bn		
330KV Power line – Lusaka to Solwezi			230m		
Kansanshi Mine expansion					1.9bn
Kansanshi Mine Smelter					640m
KDMP new smelters, 3 concentrators, TLP Expansion		2.9bn			
TOTAL	US\$1.18bn	US 2.9bn	US\$2.23bn	US \$2bn	US\$2.54bn

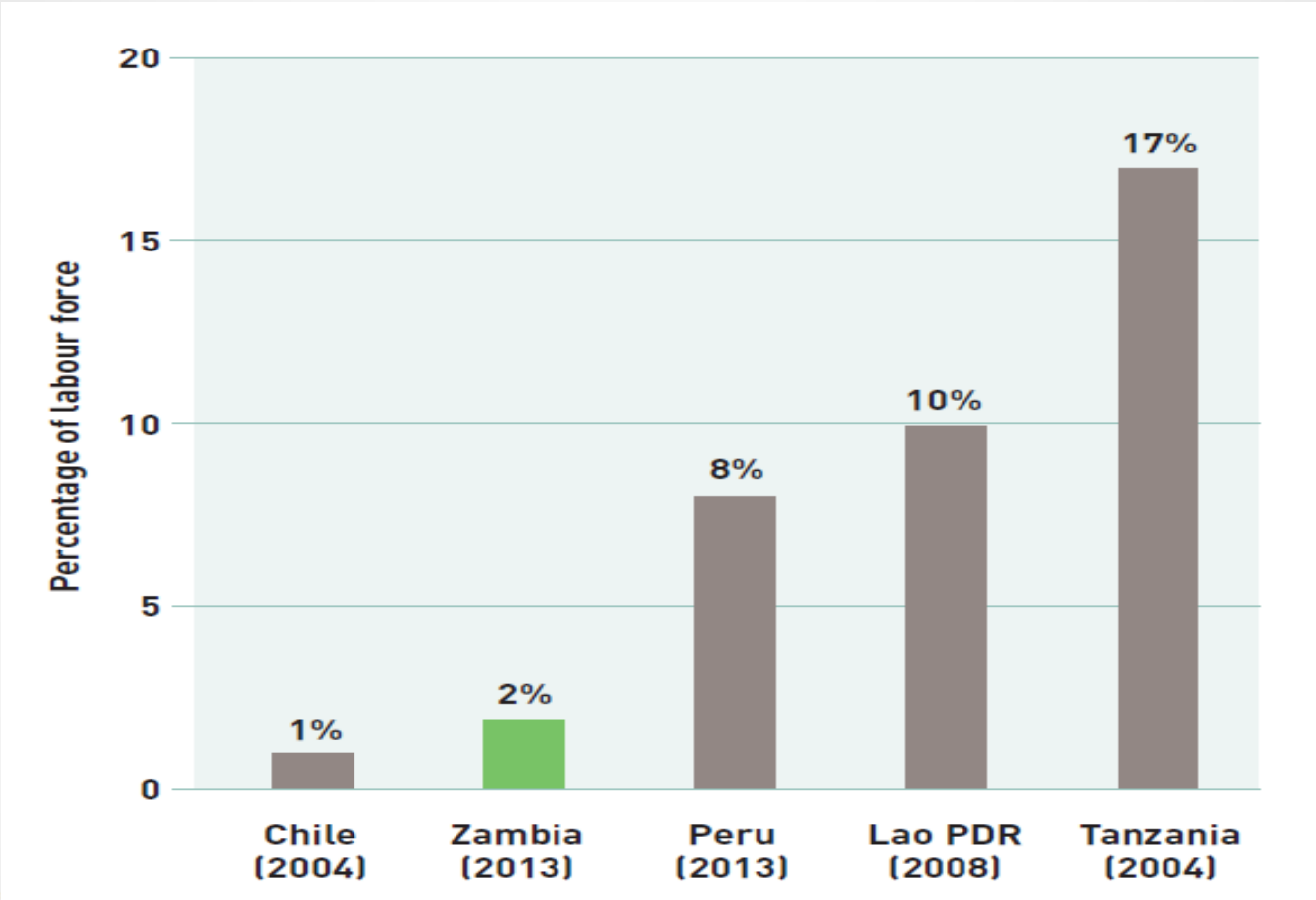


EMPLOYMENT

Type of Employment	Copperbelt	North-Western	Total
Direct employment, mining companies	16,800	3500	20,300
Direct employment, contractors	23,800	12,100	35,900
Indirect employment, service providers	1,200	2,000	3,200
Indirect employment, goods providers	4,200	-	4,200
Indirect employment, social spending	6,500	3,100	9,600
Induced employment	53,000	21,500	74,500
Total	105,500	42,200	147,700
Of which indirect and induced	64,900	26,600	91,500
Implied multiplier	2.60	2.71	2.63
Total as share of total employment	15.9%	14.8	

Source: Company data and OPM's calculations

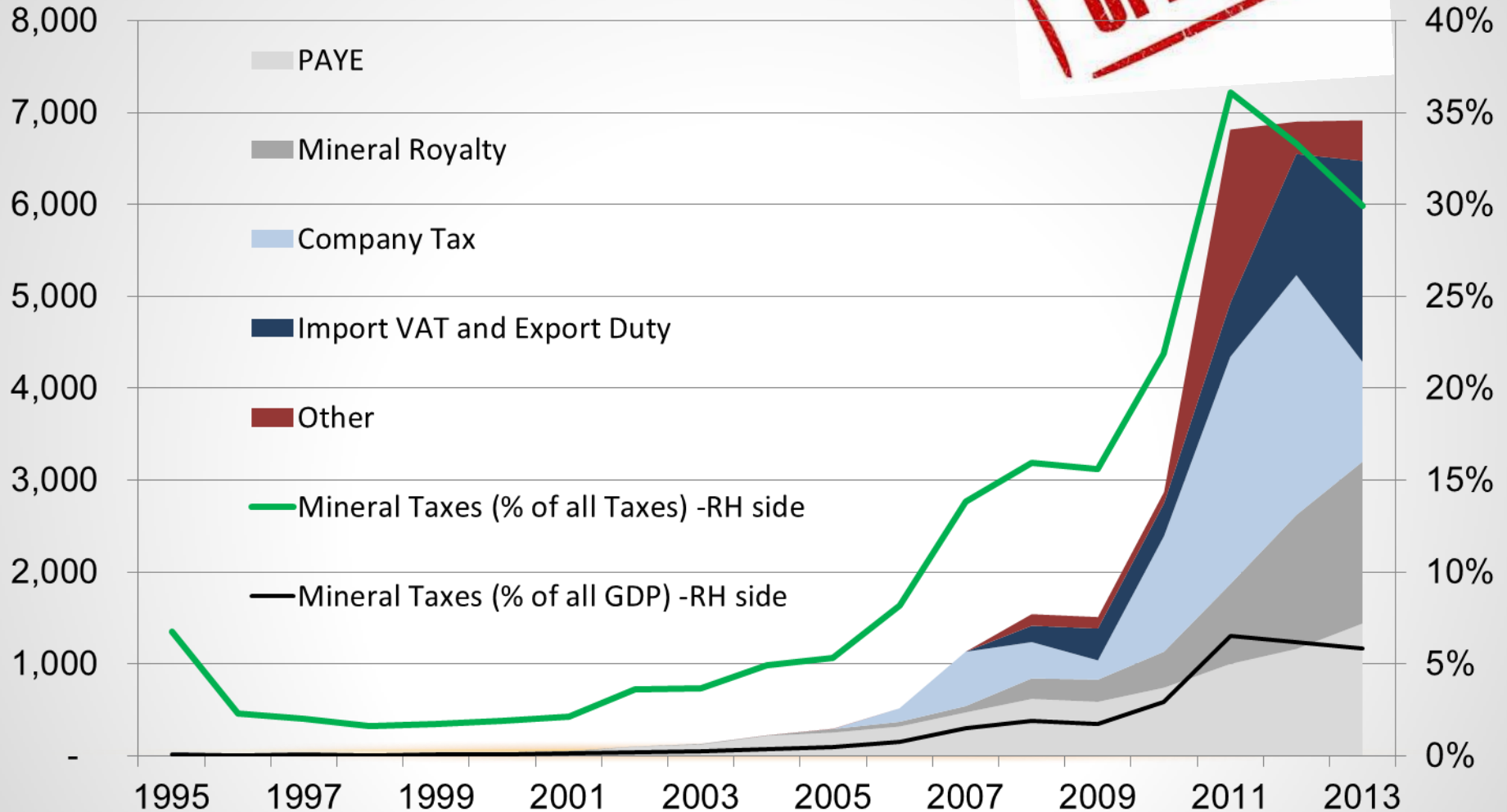
EMPLOYMENT CREATION (EXPATRIATE RATIO)



MINING'S CONTRIBUTION TO GOVERNMENT TAX REVENUES

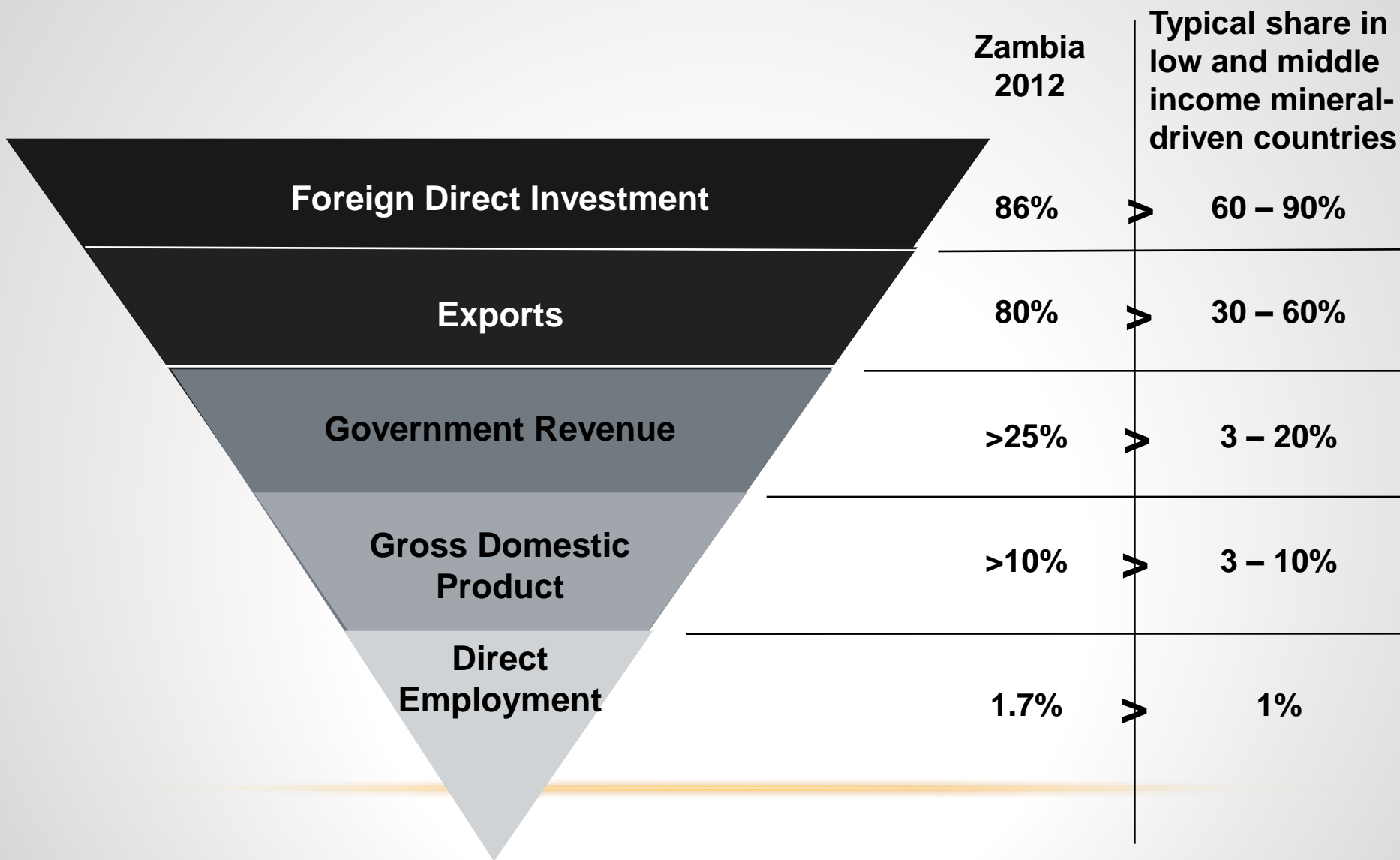


Government revenue
(Kw million)



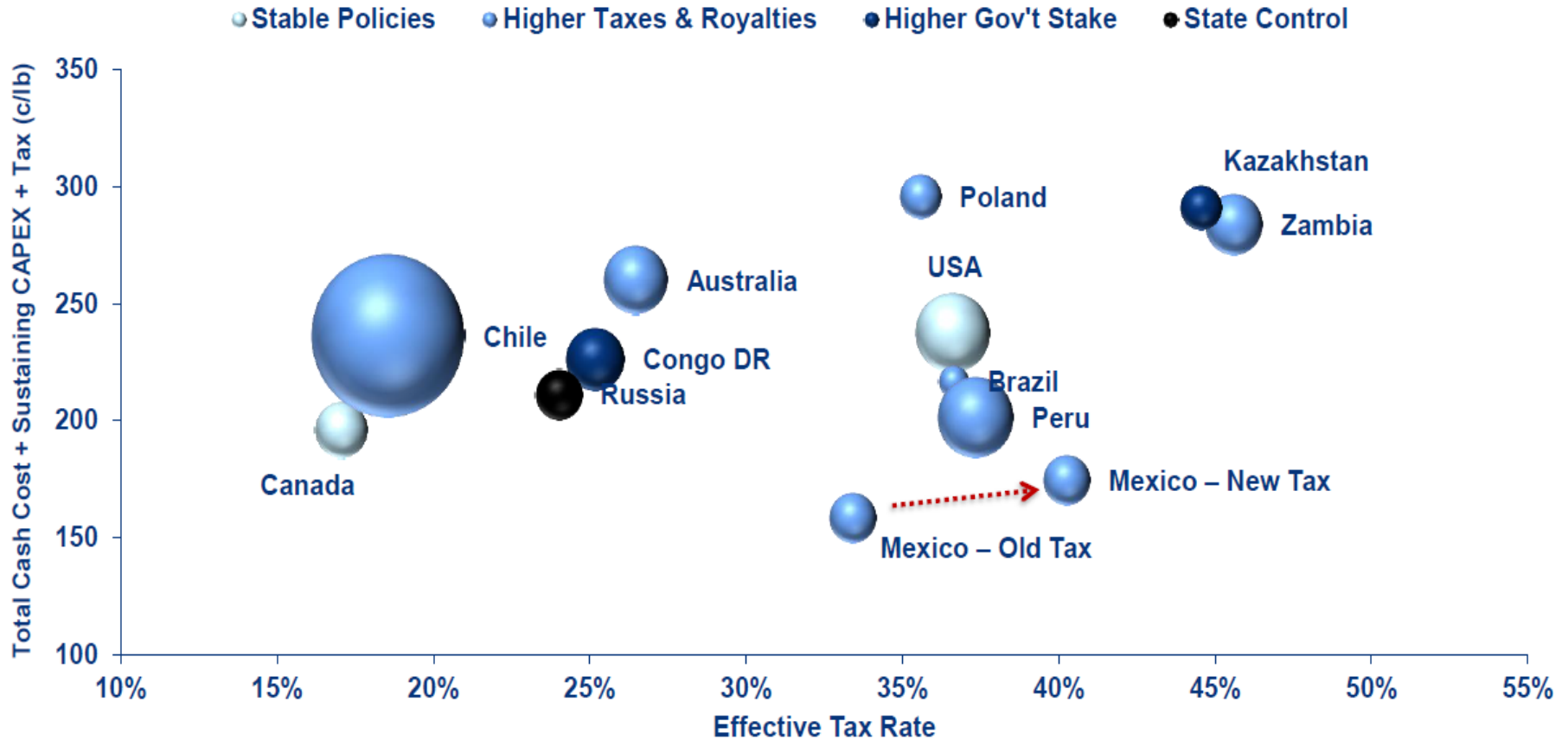
Source: Zambia Revenue Authority, 2014– includes revised data and latest 2013. **This data is not in report**

Overview: Macroeconomic contributions of mining



Changing mining policies – additional development risk

Cost competitiveness vs. effective tax rate

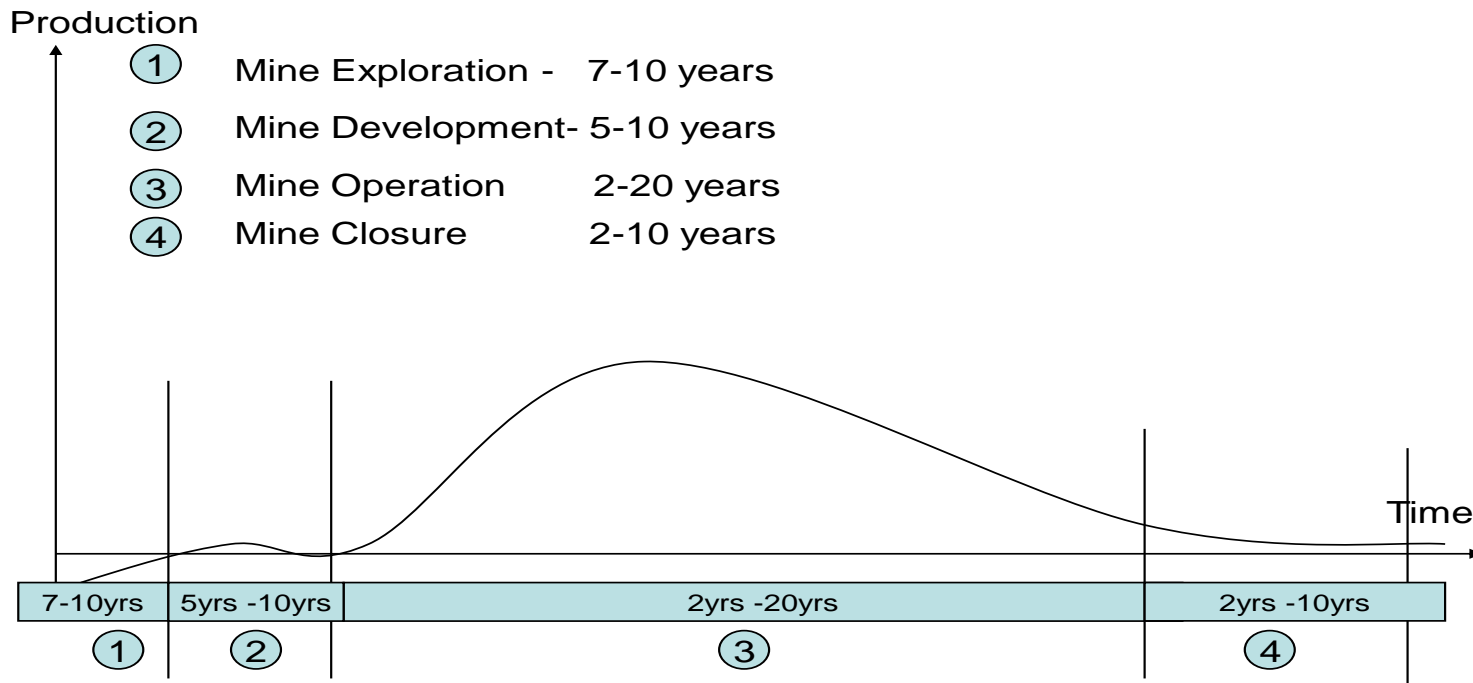


Source: Wood Mackenzie

AUDITS CARRIED OUT ON MINING COMPANIES

TYPE OF AUDIT	RESPONSIBLE AUDITOR
STATURORY EXTERNAL AUDITS	REPUTABLE INTERNATIONAL AUDITING FIRMS: <ul style="list-style-type: none">• KPMG• PriceWaterhouse Coopers• Deloitte and Touche• Grant Thornton
GOVERNMENT AUDITS	<ul style="list-style-type: none">• ZRA Annual Audits• ZRA Adhoc Audits• Auditor General's Office Audits Government Departments (GSD, ZEMA, MSD)• Mineral Value Chain Monitoring Project (MVCMP) - NO REPORT OF AUDIT FINDINGS TO DATE
VOLUNTARY AUDITS	Zambia Extractive Industries Transparency Initiative (ZEITI)

TYPICAL PRODUCTION PROFILE

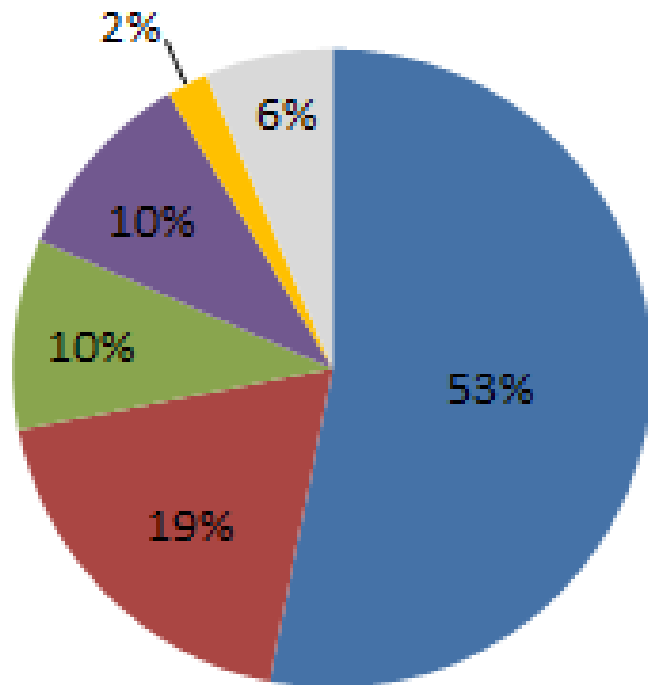


SOCIAL INVESTMENT BETWEEN PROVINCES

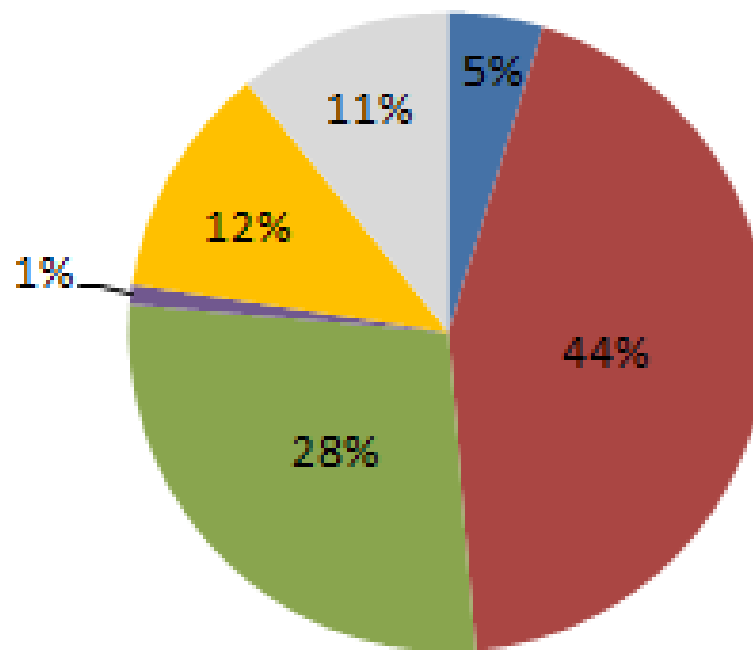
(2012 data from the four mining companies)



- Health
- Infrastructure
- Education
- Business Development
- Livelihoods
- Other



Copperbelt

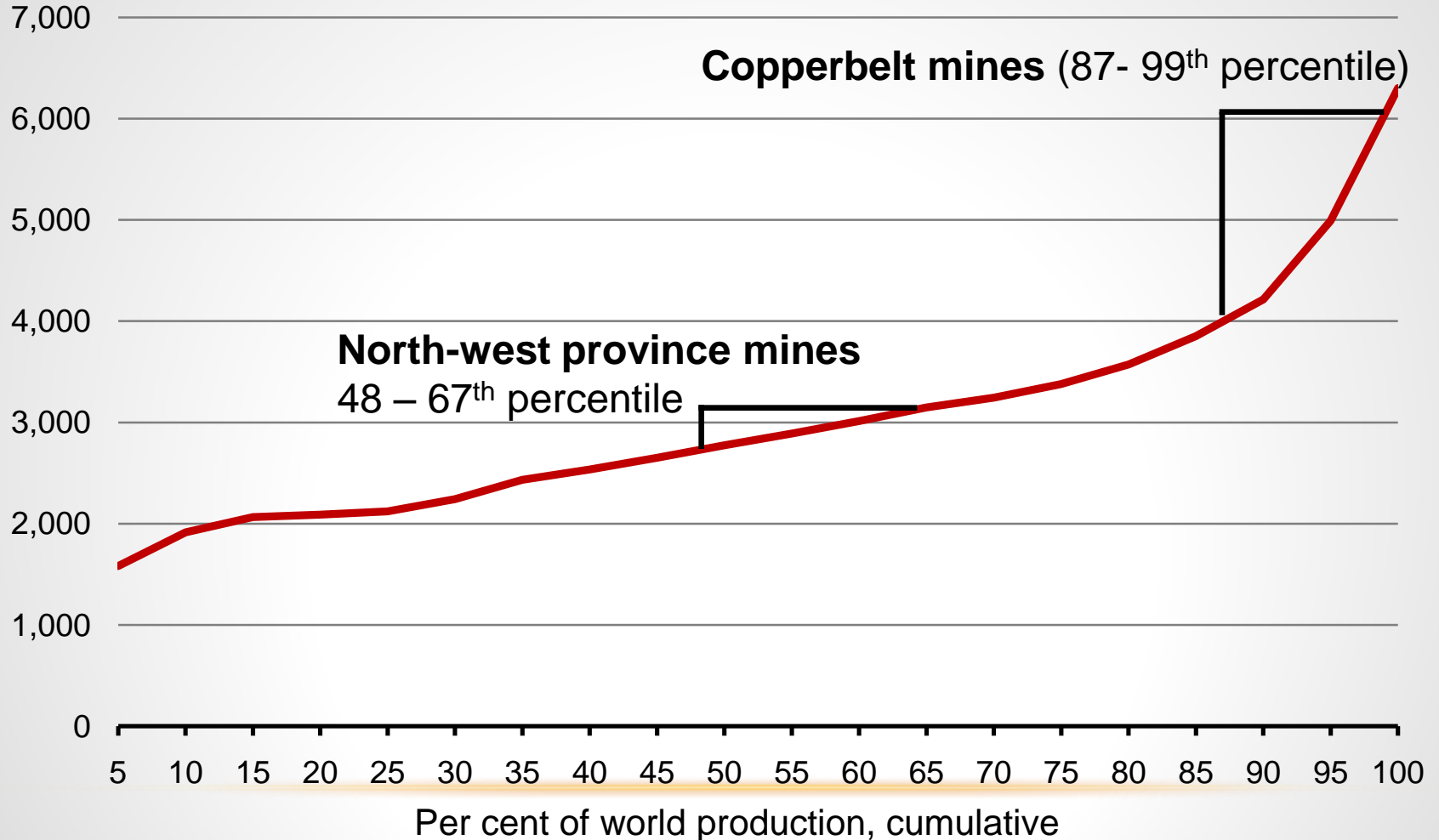


North Western

WORLD COPPER INDUSTRY COST CURVE

Cash costs

(C1, US\$/tonne)



Source: Raw Materials Group, Sweden.

Note: C1 costs exclude depreciation, amortization, net interest charges or taxes.

COST CREEP

- Electricity tariff increment
 - Increase in levies and fees;
 - Workmen's Compensation Fund increase of assessment rate
from 6% to 14%
 - Reduction in capital allowances
 - Continued uncertainty about taxation and fiscal regime
-

VAT RULE 18

In its current form, VAT Rule 18 requires;

- a) *Copies of export documents for the goods, bearing a certificate of shipment provided by the Authority;*
- b) *Copies of import documents for the goods, bearing a certificate of importation into the country of destination provided by the customs authority for the country;*
- c) *Tax invoices for the goods exported;*
- d) *Proof of payment by the Customer for the goods;*
- e) *Documentary evidence proving that payment for the goods has been made by the customer into the exporter's bank account in Zambia; and*
- f) *Such other documentary evidence as the authorized officer may reasonably require”*

RESEARCH ON VAT RULE 18

June 2014 Study requested by Ministry of Finance for analytical support revealed that VAT Rule 18 in its current form is;

- a) *Not imposed in any other country from an international comparison of nine countries;*
- b) *Counter-productive;*
- c) *Administratively burdensome;*
- d) *Impractical/impossible for mining companies to meet*
- e) *Increases cost of business*

HISTORY OF VAT RULE 18

We strongly want to bring to the attention of the nation that;

- every finance minister since 1997 has been treating all copper/cobalt and copper/cobalt-related products as zero rated for vat purposes and as such have been consistently refunding input VAT.
 - The situation changed when Gazette Notice No. 26 of 2013 was released by ZRA, which adjusted all VAT Returns to standard rate export sales until proof of compliance to the Rule had been made in order for exporters to claim VAT Refunds
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FAILURE TO RESOLVE VAT RULE 18 - IMPACTS

The immediate impacts of cashflow constraints due to lack of refunds have been;

- Suspension of capital projects,
 - Deferment of capital projects,
 - Cancellation of capital projects,
 - Slowing down of production levels,
 - Payments to suppliers pushed back by 90 days or more
 - Reduction on CSR programs.
-

FAILURE TO RESOLVE VAT RULE 18

The long-term impacts are projected to affect;

- Mine production,
- Production costs,
- Jobs (Direct, indirect and induced)
- Suppliers of goods and services to the mining industry will have no business,
- Overall reduced revenue collection by ZRA

STAKEHOLDERS ENGAGED OVER VAT RULE 18

STAKEHOLDER	DATE	OFFICIAL MET
Ministry of Finance	23 rd January 2014	<ul style="list-style-type: none"> Honorable Minister of Finance Secretary to the Treasury
ZAMBIA REVENUE AUTHORITY	14 th April 2014	Commissioner General
Zambia Private Sector Alliance	9 th May, 2014	<ul style="list-style-type: none"> Zambia Association of Manufacturers (ZAM) Zambia Chamber of Commerce and Industry (ZACCI) Zambia National Farmers' Union Customs to Business Forum
Zambia Revenue Authority	3 rd June 2014	Commissioner General
Zambia International Trade Fair	7 th July, 2014	Various Stakeholders
Private Sector Development Reforms Programme	August 2014	Coordinator
Zambia Private Sector Alliance	27 th September, 2014	President
	30 th September, 2014	Secretary to the Cabinet
Ministry of Mines, Energy and Water Development	3 rd October, 2014	Honorable Minister of Mines

CORRESPONDENCE SENT REGARDING VAT RULE 18

STAKEHOLDER	DATE	OFFICIAL
Ministry of Finance	4 th February 2014 (sent)	Secretary to the Treasury
Zambia Revenue Authority	23 rd May 2014 (sent)	Commissioner General
Zambia Revenue Authority	28 th May 2014 (received)	Commissioner General
Zambia Revenue Authority	5 th June 2014 (sent)	Commissioner General
Zambia Revenue Authority	10 th September 2014 (sent)	Commissioner General
Zambia Revenue Authority	12 th September 2014 (received)	Commissioner General
Ministry of Mines Ministry of Finance Ministry of Commerce Ministry of Labour Private Sector Development Reform Programme	22 nd September 2014 (sent)	Honorable Ministers Coordinator, Private Sector Development Reform Programme

THE WAY FORWARD

Our sincere appeal is that VAT rule 18 be looked at urgently and resolved and the VAT refunds made to all exporters so that we can continue to progress on the path of increasing mining and manufacturing production to sustain and continue to create jobs. The
Zambian Mining Industry will continue to be the Engine of the Zambian economy for a long time to come. This industry needs to be nurtured so that we continue to generate revenues required to diversify our economy.
