



MINING CODE

Guinea's New Mining Code and Policy

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Promoting Transparency and Win-Win Partnerships

Context

- In 2010, President Alpha Condé became the first democratically elected president of Guinea
- Guinea has undertaken a democratic transition after more than 50 years of authoritarian regimes, corruption and bad governance
- Bad governance and corruption inherited from the past have prevented Guinea from unlocking its mining and natural resource potential: Guinea remains one of the poorest countries in the world, although it is rich in natural resources
- Guinea has one of the largest deposit in the world of untapped iron ore, two-thirds of the global bauxite resources, and more than 6 million hectares of arable lands that are 70% unexploited
- Many existing mining agreements are not sustainable

Ambitions & Vision

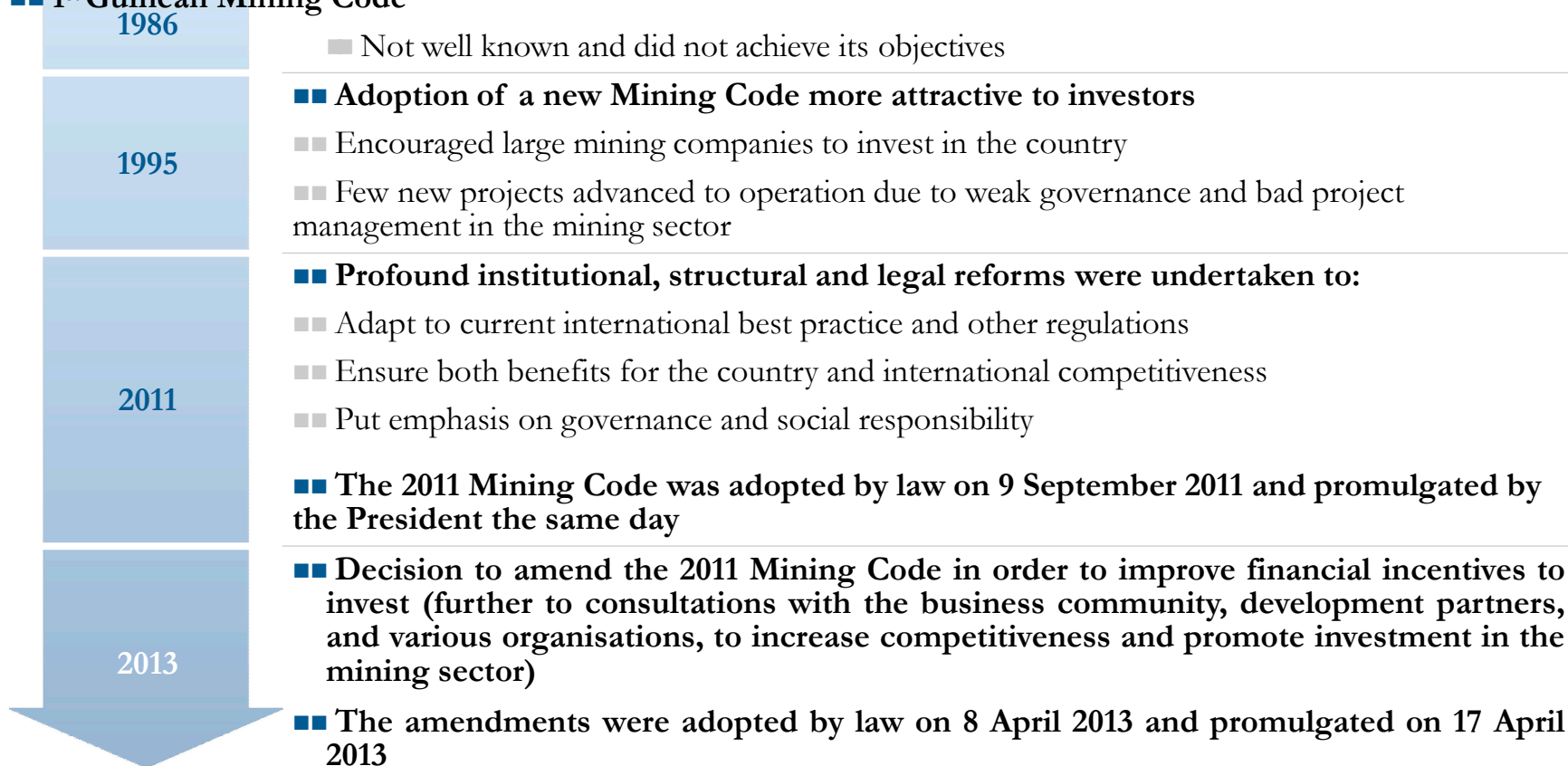
- Since 2011, Guinea has seen its economy stabilize, the country open up to the world and strengthened the rule of Law
- Guinea's future rests on sustainable mining sector development which should act as catalyst for economic growth
- The Government is taking a new approach to business partnership
- Looking to build mutually beneficial partnerships with reputable investors, taking a long term approach
- Promoting transparency, to improve the business climate and benefits to the population
- Advancing well-designed infrastructure development through fair conditions for investors, careful involvement of the State and a consistent infrastructure policy

- The development of Guinea's mining potential requires substantial and long-term investment from private partners
- Adequate mining regulation is the cornerstone of attractive and sustainable investment

History of the Guinean Mining Legislation

CHRONOLOGY OF EVENTS

■ ■ 1st Guinean Mining Code



Why a New Code?

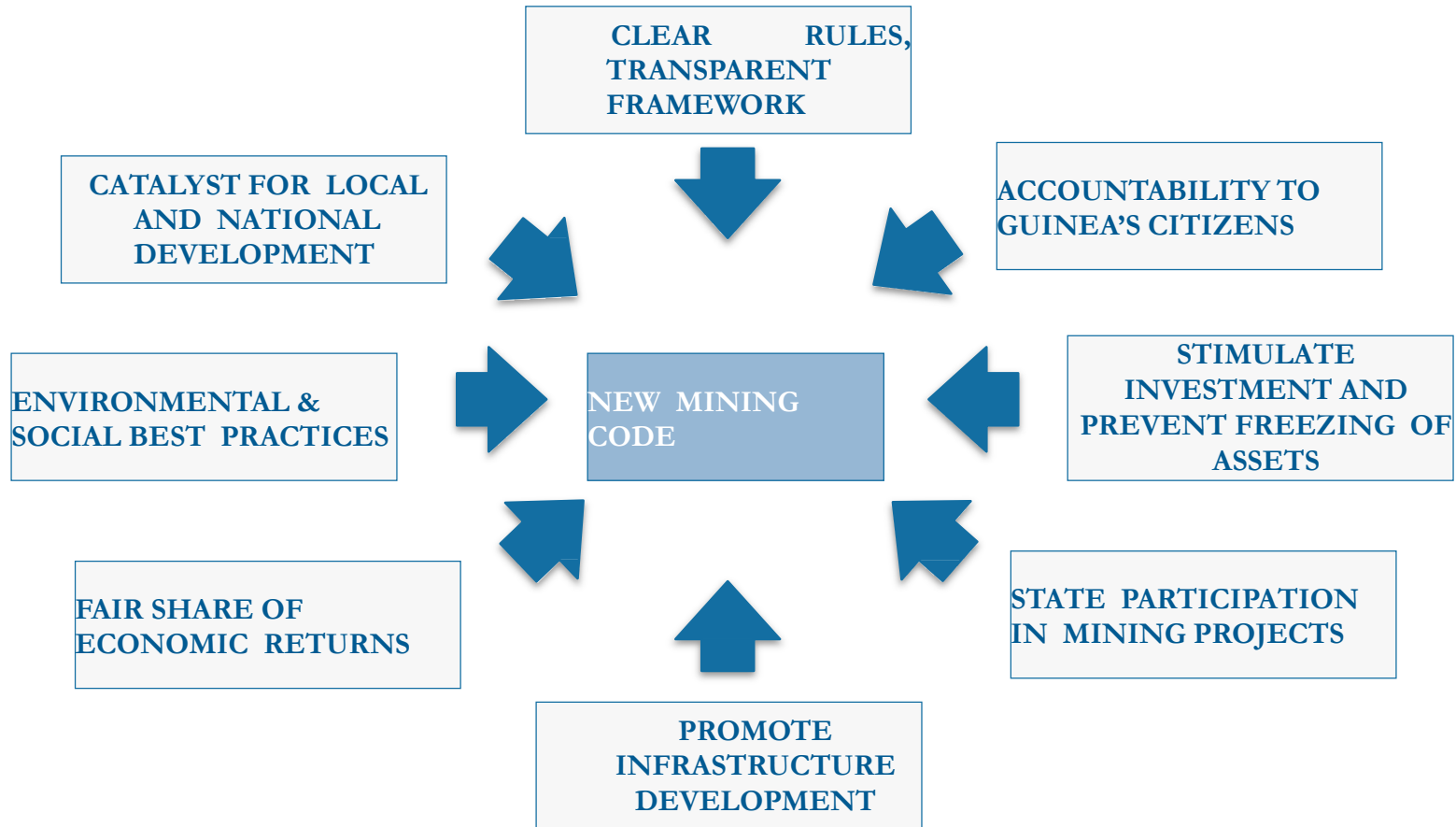
- 1 Promoting long-term, win-win partnerships: optimizing benefits for the country and its people while reinforcing attractiveness for
- 2 Implementing an ambitious transparency and anti-corruption agenda: fair and transparent deals
- 3 Promoting international best practices in terms of governance as well as environmental and social corporate responsibility
- 4 Out-dated mining regulations
- 5 Harmonizing with other regulations and correct inconsistencies

- The 2013 amendment reinforces Guinea's attractiveness for investors
- The amendments were drafted after the Government undertook lengthy consultation with the industry and other stakeholders: development partners, civil society
 - ✓✓ Reduction of royalties, custom duties and corporate income tax
 - ✓✓ Clearer rules on transfers of interests
 - ✓✓ Longer fiscal stabilization period
 - ✓✓ Other improvements and clarifications to ease investors implementation of the regulation

Key Elements of the New Mining Code

- 1 ■ New Mining Code
- 2 ■ Mining Rights
- 3 ■ Governance, Transparency and Fight against Corruption
- 4 ■ Community Development and Local Content
- 5 ■ Fiscal Regime
- 6 ■ State Participation
- 7 ■ Infrastructure and Local Processing
- 8 ■ Protection of the Environment
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1 New Mining Code Principles



2 Mining Rights

EXPLORATION LICENSES

- ■ First-come, first-served basis
- ■ Non transferable but holder can enter into technical partnerships

EXPLORATION AREAS

- ■ Revised upwards in the amendment to the code to incentivize exploration :
 - ■ Maximum of 3 permits of 500 km² each for bauxite and iron ore (from 350 km²)
 - ■ Maximum of 5 permits of 100 km² each for other minerals (from 50 km²)

EXPLOITATION LICENSES/ CONCESSIONS

- ■ As for exploration licenses, competitive bidding wherever feasible (known deposits, competing interests)
- ■ Awarded upon agreed clear, well-defined work schedules and feasibility studies
- ■ Regulation and gradual formalisation of artisanal mining

INVESTMENT REQUIREMENTS

- ■ Minimum investment to obtain a mining concession reduced to USD 500 millions (from USD 1 billion) for minerals other than iron ore and bauxite

PREVENT ASSET FREEZING

- ■ Stricter rules and conditions relating to the renewal of rights
- ■ Projects which include local processing are entitled to an additional year to start operations

INCREASE ACCOUNTABILITY AND SECURITY OF MINING RIGHTS

- ■ A multi-stakeholder independent national mining commission to validate decisions on rights

3

Governance, Transparency and Fight against Corruption

■ ■ Stronger governance lowers the cost of doing business, increases returns for investors and for Guinea

■ ■ Public disclosure of contracts, titles and related official decisions

<http://www.contratsminiersguinee.org/>

■ ■ Full chapter dedicated to transparency, the fight against corruption and the prevention of conflicts of interests

■ ■ Transparent management of mining rights carried out by a new entity (National Commission of Mines)

■ ■ Code of Good Conduct and Surveillance Plan against corruption

■ ■ Obligation to respect the twelve principles of the Extractive Industries Transparency Initiative (EITI)

■ ■ Government looking to work with companies on the regulation and implementation of these provisions



Community Development and Local Content

- ■ **Populations to benefit from mining activities (« social license to operate »)**
- ■ **Local development convention: multi-stakeholder, collaborative approach**
- ■ **3 types of measures to encourage the development of local communities through investment in revenue-generating activities and local development priorities:**
 - ■ Annual surface taxes to be entirely directed towards the respective local communities
 - ■ Local development tax: 0,5% of sales for bulk commodities (iron ore and bauxite), 1% for gold mining
 - ■ 15% of royalties to be transferred to local government's budget, country-wide
- ■ **More local content is good for business and good for Guinea**
 - ■ Progressive employment quotas at different stages of mining activity, for different qualification levels, with a view to develop national expertise and optimize labor cost
 - ■ Promotion of on-the-job training
 - ■ Favorable provisions for the creation of SME and SMI's at every stage of mining activities, to develop local services at competitive prices and ultimately reduce sub-contracting costs
 - ■ Local content provisions for suppliers
- ■ **Government looking to work collaboratively with companies for a smooth and more efficient implementation of mining activities**

5 Fiscal Regime

CORPORATE INCOME TAX

- The income tax was reduced from 35% (general scheme) to 30% to align the Guinean tax system with other countries in the region

VAT

- VAT is exempt on all imported goods on the Mining List for phases of research, construction and operation

- In the operating phase, the VAT is due but neutral (reimbursed to exporters)

- Provisions concerning customs duties have been specified and clarified, for easy and accurate application

- Exemption from customs duties for all companies during the operating phase (aligned with international best practices)

CUSTOMS DUTIES

- Custom duties applicable on material and equipment related to the processing of ore during the operating phase has been reduced from 6% to 5%

- Custom duties applicable to material and equipment related to the extraction of ore during the operating phase has been reduced from 8% to 6.5%

- Heavy fuel oil for the extraction, concentration and processing of the ore, is exempt from VAT and customs duties for all phases of activity

BUSINESS LICENSE FEE

- Mining companies are no longer subject to a business license fee

5 Fiscal Regime – Royalties

- Based on international indexes and aligned with international standards
- Two-step royalty on extraction and export, to encourage in country processing of bulk commodities
- Royalties on bauxite exports have been reduced to 0.15% (from 0.55%). This royalty comprises 0.075% of extraction tax and 0.075% of export tax (not due on locally transformed bauxite)

MINING CODE	RATE	BASE	EX: 1 TON, 45% AL ₂ O ₃ BAUXITE, LME PRICE: \$1900/TON
Extraction tax	0,075%	LME Aluminium price (3	\$1,6
Export tax	0,075%	months-seller)	\$1,6
Total	0,15%	x AlO ₃ content/40%	\$3,2

- Royalties on iron ore have been set at 5%. This royalty comprises an extraction tax of 3 % and an export tax of 2%

- LME reference for iron ore replaced by recognized index on the mineral itself (Platt's)

EX: 1 TON, 62% FE CONTENT, MINING CODE	RATE	BASE	PLATT'S: \$120, BALTEX: \$17/T
Extraction tax	3%	(Platt's index for iron ore	\$3,09
Export tax	2%	finer 62% - Baltic Capesize	\$2,06
Total	5%	Index Route C3) x Fe content / 62%	\$5,15

5 Fiscal Regime

STABILIZATION OF THE FISCAL REGIME

- The stabilization period has been extended from 10 to 15 years
- Only rates are stabilized, not the fiscal base (except the one used for royalties) to allow for application of future General Tax Code revisions

OPERATING RING-FACING

- Provisions to prevent the abuse of exemptions granted to companies in the research phase and the construction phase. A company cannot benefit from the tax exemptions of a research permit for imports related to operating activities and/or non-mining activities
- State approval for long-term pricing of mineral sales or possible pre-emption right on quantities sold below market price
- Further regulation relating to taxation in Guinea can be found in the General Tax Code

SUB-CONTRACTORS REGIME

- Direct sub-contractors benefit from the same fiscal and custom exemptions for imports only (VAT and customs)
- The definition of sub-contractor has been specified, and the system of direct sub-contractors precisely defined in order to facilitate the application for operators, while limiting the potential for abuse

6 State Participation

- ■ Aim: promote investment, support project development and build capacity
- ■ 15% free equity in Guinean entity, non-transferable
- ■ Much lower stakes for projects engaged in processing (i.e. alumina 5%, aluminum 2,5%)
- ■ Option to purchase 20% additional stake at market price
- ■ State national mining company to manage state equity
- ■ State's optional rights to the marketing of minerals at market rates

SUBSTANCE	FREE CARRY INTEREST	OPTIONAL CONTRIBUTIVE INTEREST
Bauxite	15%	20%
Intergrated Bauxite-Alumina Project	5%	30%
Alumina	7,5%	27,5%
Aluminum	2,5%	32,5%
Iron Ore	15%	20%
Steel	5%	30%
Gold and Diamonds	15%	20%
Uranium	15%	20%
Other	15%	20%

7 Infrastructure and Local Processing

- ■ Central role of infrastructure development costs for bulk commodity exports
- ■ Promotion of a mining infrastructure master plan, with the support of the World Bank
- ■ Shared or independent ownership to be considered to maximize projects value
- ■ State control optional, if sensible and after full recovery of capital costs by private partners
- ■ Guinea aims to promote in country processing of minerals and industrialization
- ■ Processing is now encouraged by positive incentives (lower royalties and state equity), but not imposed on companies
- ■ Better infrastructure and a trained labor force will in time create a more favorable environment for in country processing









Protection of the Environment

- ■ **Under the new Mining Code, holders of authorizations and mining titles must:**
 - ■ Prevent or minimize any negative impact of their activities on the environment
 - ■ Prevent and/or reprocess any discharge in order to neutralize the impact on nature
 - ■ Promote or maintain the living environment and good health of local population
 - ■ Manage waste materials through minimizing their production and ensuring they are not dangerous
- ■ **Mining rights holders must also meet obligations relating to the closure and rehabilitation of their sites, including the opening of a rehabilitation account**

Contract Review: Transparency, the essence of the entire process

- ■ **Guinea is fully committed to transparency in the contract review process being conducted by the *Comité Technique de Revue des Titres et Conventions Miniers***
- ■ **Progressive implementation of the new Mining Code to existing contracts, to promote harmonization of good practices while sustaining activity and investment**
- ■ **3 categories of amendments to be agreed on:**
 - ■ Non-negotiable: governance, local development, environmental provisions
 - ■ Progressive application: local content
 - ■ Negotiable: fiscal regime and state participation
- ■ **The license-holder has rights to present its own case and evidence, and be formally heard before any recommendation is made. The license-holder also has the right to make its case to the Comité Technique, to the Comité Stratégique and to the government. The license-holder can appeal any adverse, ultimate decision in the Guinean courts, and may pursue any other dispute resolution rights it may have.**

Conclusion: Fair and Transparent Deals for Mutual Benefits

-  The new Mining Code provides strong emphasis on good governance and a fair treatment of investors in the mining sector in Guinea for mutual benefits
-  The new Mining Code promotes the fight against the freezing of assets
-  The new Mining Code encourages clear, fair and transparent deals
-  The new Mining Code encourages mining development and better management of the mining sector
-  The new Mining Code protects the rights of investors by providing them with clearer and more transparent procedures for a better business climate
-  The new mining code guarantees the country and its people fair revenues from the exploitation of its mineral resources

Thank you for your consideration