KONGELIG NORSK AMBASSADE

The economics and politics of copper taxation in Zambia

Olav Lundstøl
Counsellor-Country Economist
Norwegian Embassy in Zambia
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History

- *Prospective mineral resource has been a decisive factor in history with regards to economic and political engagement*
- *Resource and revenue capture a recurring theme up to independence*
- *First decade after independence, govt revenue enabled increased public expenditure and investments*
- *Nationalization and state capture*

Key challenges

- The role of the state and the private sector
- Effective tax regime (incl benefit sharing)
- Local content and regional development (suppliers, value added and jobs)
- Environmental, health, safety and social issues

Late 1990s to 2007

- Privatization
- Development agreements
- Large investments-increased employment, production and exports
- Increase in copper price
- Very limited government take (tax and ownership)
- Domestic focus on ”resource robbery” and ”secrecy of conditions”, election loss of governing party in key urban constituencies

Undermining development?

- Large FDI in resource rich countries will fail to promote development, if there is a limited ability to secure government take and effective use of income
- Purpose of Aid? Why should aid substitute for domestic resource revenues, and subsidize the operations of large resource companies and illicit financial flows?
- National capacity to effectively tax large resource extraction and utilize the revenues, has to be a key element in building a legitimate state

Donors, Civil Society and Government

- Initial analysis and advice (IMF-WB)
- Government renegotiation committee
- Church, civil society and academic analysis and advocacy (www.minewatchzambia.org- publicize agreements, studies, blogs)
- Government delegation visits and dialogue with other resource rich countries (e.g. Chile and Norway)
- Independent multidisciplinary analysis and advice contracted by Government (supported by UK and Norway)
- Government abolish development agreements and introduce a new mining tax regime (april 08)

The economics of copper taxation

- P Collier (IMF seminar 2008): ”Less focus on first best solutions, more on second or third best”
- Most mineral tax regimes rely predominantly on profit taxes, however often combined with value or production based taxes
- Key assumption is that cost, revenue and production data are easy to establish and control, to ensure effective tax collection
- Limited comprehensive empirical evidence (audits) and analysis available to test to what extent this is the case for poor developing countries

The economics of copper taxation

- The mineral tax regime in Zambia from 2001-2008, introduced fiscal terms designed as emergency measures to avoid collapse
- Added to this was limited control of the areas of production, exports and tax revenue, that combined with large investments and loss carry forward led to minimal govt take
- Among lowest av eff tax rate in mining (25-30%) and govt take of 3-5% of the export value

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- New mining tax regime from april 08 that abolished the development agreements, introduced a different combination of value and profit based taxes (windfall, royalty, company tax and variable profit)
- Detail in the regime was faulty, due to political pressures (windfall tax with high rates without deductibility, could for high cost mines and with very high prices trigger a marginal tax rate >100%)
- Temporarily mistake was corrected through adm provisions, however contributed further to the controversy over the change in the fiscal terms through legal change

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- Effect of new tax regime: substantial increase in av eff tax rate, from 25-30% to 45-50%, and estimated additional tax liabilities of above 300 Million USD just for april-august 08
- Viability of mining businesses maintained however, and still the govt take as low as 15% of export value
- Global financial crisis and copper price fall, political transition and lobbying by companies resulted in reversing key elements of the tax regime from april 09
- Despite that the most controversial elements of the tax regime did not apply at low prices, the windfall tax was dropped, 100% capital allowance and hedging reintroduced

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- Copper price incr >50% and future price high, rebound of investments and export to 1 million tons by 2012-13, valued at 6-8 billion USD?
- Potential resource revenue more significant than aid (1.5-2 Billion USD in govt take /yr) with a long term perspective
- Is government ready, can tax regime be effective, fair and stable for all?
- Donors (Norway, DFID, WB and EC) support Zambia (fiscal regime, spec tax adm, EITI and fund man)

The politics of copper tax reforms

- Disproportional ability (know and fin) btw intl. companies and govt to protect interests through regular planning and operations
- Trigger adverse behaviour and unsustainable conditions with limited transparency and accountability (terms of agreements outside the domain of the democratic control)
- How to fill the gap, repair terms of resource extraction beyond only forward looking approaches?
- The responsibility and roles of civil society, academics and donors, how can we jointly work more effective and support action when needed?

Principles for support to resource-revenue mineral management?

- Demand driven, based on competence, trust and arm-length approach when possible in terms of support (selection, contracting and dialogue)
- Comprehensive needs assessment in terms of capacity gaps. However to be anchored on in-depth assessments of the mining business in the country
- Sequencing is important, ideally start with comprehensive work on baseline data and information (audits), tax modelling (using data from audits) and pol-ec work

Principles for support to resource-revenue mineral management?

- Transparency and accountability should be key from the beginning, start process of EITI (++ if possible)
- Dedicated attention to support the engagement of relevant church, academic and civil society organizations
- Short and longer term capacity development preferably through hands-on learning processes

Conclusions

- Without an effective resource tax regime, mining cannot promote sustainable development (enclave ec and large costs)
- What constitutes an efficient mineral tax regime in a poor developing country, should be re-examined based on actual data
- Privatization and concessions in Zambia did save the mining activity, but limited future benefit sharing and development
- Donors can and should enable a more level playing field between govt and intl resource companies, this is good aid that can effectively promote development