STATEMENT AT THE AFRICA DOWN UNDER CONFERENCE

BY

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COMESA SECRETARY GENERAL

2nd SEPTEMBER 2015,

PERTH, WESTERN AUSTRALIA

The Honorable Premier Colin Barnett

Honorable Ministers

Honorable Members of Parliament

Your Excellencies

Members of the Diplomatic Corps

Distinguished Delegates

Members of the Media

Ladies and Gentlemen

I am very delighted that we meet again in this beautiful city of Perth, the capital of Western Australia, for the annual Africa Down Under Mining Conference. This Conference is particularly important for all of us as it helps strengthen partnerships focused on how minerals and other natural resources should be exploited for broader socio-economic development in COMESA, Africa as a whole and in Western Australia.

Honorable Premier,

On behalf of my colleagues at the COMESA Secretariat and indeed on my own behalf, I would like to sincerely thank the Government of Western Australia for the warm reception and the excellent facilities at our disposal at this Conference. The warm reception accorded to my delegation, delegates from COMESA member States, and the delegates from other African countries shows the deepening relationship between Africa as a whole and Western Australia. Furthermore, for us at the Secretariat, the high level participation from COMESA member States is an endorsement and vote of confidence in the importance of the Memorandum of Understanding signed between your Government and COMESA on the 31st January 2014 with the primary aim of improving the management of natural resources so that they contribute to sustainable socio-economic growth and development and transformation within the region. I strongly believe that the MOU which has cemented the relationship between your government and COMESA states has been instructive to other African countries on the benefits of collaboration with leading mining economies and hence the high level participation from across the continent. The experience of Australia in using its resource base as a springboard for socio-economic transformation continues to draw African countries to ADU to seek optimal ways to exploit the continent's vast mineral resources to underpin development. Furthermore, Australia has become a key player in financing minerals exploration and mine development, the world over and thus Africa looks at ADU as an opportunity to showcase geological potential and the prospectivity for certain minerals in its diverse geology. The collaboration between Australia and the African continent has seen more and more Australian mining companies on the African continent. This is further reflected in the recent mining trade missions undertaken by companies such as Armour Energy Limited in May 2015 to Zambia, Uganda, Malawi, Kenya and Tanzania. We also observe that the number of Africa students studying mining and related disciplines in Western Australia is on the increase.

As you are aware, COMESA Member States supported by the Secretariat and in collaboration with the Government of Western Australia are working tirelessly to fulfill the objectives of the Memorandum of Understanding. **S**ince the signing of the MOU in January 2014, the implementation process has begun in earnest under the auspices of the joint working Group (JWG) of experts set up by COMESA and the Government of Western Australia. The JWG developed a work program to Operationalize the MOU and despite some teething problems, including lack of finance to support key activities, significant progress has been made towards the overall objectives. Under the MOU, the Secretariat is working on profiling mineral beneficiation in the region and on developing policy frameworks to cover the important areas of fiscal frameworks, sustainable mining development, corporate social responsibility, institutional strengthening and human skills development. Mineral beneficiation and value addition is the cornerstone of the of the COMESA industrial development strategy as well as for the Tripartite COMESA-EAC-SADC Industrial Development agenda. Higher mineral beneficiation in COMESA member States will consolidate linkages and deepen the role of the minerals sector in COMESA. I strongly believe that our regions industrialization endeavours will be further strengthened with enhanced value addition to natural resources within the COMESA region.

Honourable Premier

Dear Delegates

This year`s African Down Under Conference, is taking place in the background of a Tripartite Agreement reached by three regional economic communities-COMESA, EAC and SADC at the Summit held in Sharma el Sheikh, Egypt on 10th of June 2015. The Summit launched the Tripartite Free Trade Area of twenty six Member States of the African Union. These Member States have a combined population of 625 million people and a combined gross domestic product of US$1.3 trillion. The Tripartite accounts for almost half the membership of the African Union and sixty percent of the continent`s gross domestic product. The total lands mass of the countries that make up the Tripartite region is 17.3 million square kilometers, some of it with underexplored and highly prospective greenstone belts. The Tripartite land mass is twice the size of China . Intra -trade in the Tripartite stood at US$ 62 billion in 2008 and rose to US$ 98 billion in 2013 implying therefore that the market potential is huge and will rise as the borderless economy is created in the Tripartite region. Currently most of the trade within the tripartite is in intermediate goods and manufactured goods implying therefore that the Tripartite FTA can serve as a basis for industrialization anchored on beneficiation and value addition of the natural resources. The single market of the Tripartite will create a borderless economy where trade, investment and services will move freely. For Western Australia, the regional market will be enlarged as economic transformation takes place and integration deepens. The volume and diversity of exports from the Tripartite to Western Australia will increase. The Tripartite is therefore expected to mutually benefit Western Australia as well as the COMESA-SADC-EAC member States.

The Tripartite Free Trade Area, one of the building blocks of the African Continental Free Trade Area which will come into force in 2017, is based on the following three pillars; market integration aimed at removing trade and investment barriers in the region; infrastructure development which is aimed at improving physical connectivity in the region to reduce the cost of doing business and facilitate the movement of goods, people and services; and industrial development to address the productive constraints with the objective of realizing inclusive and sustainable transformation of the region from low productivity economies that rely on export of unprocessed primary commodities with either little or no value addition to high competitive economies that produce and export value added products. Mineral beneficiation and value addition is a key economic activity under the pillar of industrial development. Sectoral policy alignment and harmonization anchors regional integration and economic cooperation and thus forms the basis of accelerated integration. The Tripartitie is thus working on accelerating the harmonization of policies and programmes for deeper integration.

Honourable Premier

Distinguished Delegates

Allow me to focus more pointedly on the sector which has brought us here, mining and situate our aspirations in the sector within the overall regional integration framework under the TFTA. In an environment where mineral prices are declining, for example, gold prices have declined from a high of about US$1,900 per ounce in August 2011 to US $1,100 per ounce today and the copper LME settlement prices has declined from US$9,800 per tonne in February 2011 to US$5,550 in July 2015 and mining companies are cutting down on mineral exploration, there is pressure on Governments to redesign fiscal frameworks to enhance attractiveness to investors. As you aware, the current retreat in mineral prices or the dissipation of the commodity super-cycle is expected to result in a further decline in global mineral exploration spending, mainly grassroots, by an estimated 10 to 15 percent in 2015 alone. This anticipated decline will be the third consecutive annual fall and will put global spending at its lowest level since 2009. Grassroots exploration has continued to decline as prices of metals have retreated due various factors including the cooling of the Chinese economy and rising metal stocks as projects mature. However, expert opinion asserts that mineral prices will rebound during the later part of the year and thus restore confidence. In such an environment, a buyers market has emerged and there is pressure on Governments to adjust the fiscal frameworks agreed during the commodities price supercycle. The experience in Zambia in 2015 where royalties were reviewed downwards from 9 percent to 6 percent illustrates the pressure Governments are under under the current mineral price environment where profit margins have narrowed. . The easy target under such an environment is any **additional tax item or requirement** seen as adding to the cost of mining and this invariably includes royalties. However, we are all aware that the royalties levied on mineral production either as production/unit royalties, profit-based royalties or ad-valorem/ sales royalties represent the selling price of minerals to the producing countries and therefore are a necessary component in any mining fiscal framework due to the exhaustible nature of mineral resources. What is negotiable though is the rate at which the royalty is levied to avoid raising costs and hence the cut-off grade and sterilizing the resources in the ground. The current mineral royalty rates in COMESA member States vary widely. For example, in Zimbabwe, the royalty rates are; diamond 15 percent, gold 7 percent, platinum 10 percent, other precious metals 4 percent and base metals 2 percent, while in the DRC the royalty rates are; 0.5 percent for iron or ferrous metals, 2 percent for non-ferrous metals and 2.5 percent for precious metals. These rates compare reasonably countries in the Tripartite region, such as ,Botswana where the rates are; precious metals 10 percent, semi-precious minerals 5 percent and other minerals 3 percent and Namibia where rates are; precious metals 5 percent, base metals 5 percent, semi precious metals 4 percent and industrial minerals 4 percent. Royalties constitute a key component of government's take from the minerals sector.

Although the commercial exploitation of minerals resources is generally still a growing sector in many countries in the COMESA region, it is well developed in DRC, Zambia and Zimbabwe where mining contributes significantly to Gross Domestic Product (GDP), export earnings and government revenues. For example, in 2012 mining accounted for about 12 percent of GDP in Zambia, 80 percent of export earnings, 86 percent of foreign direct investment and 25 of government revenues. The sector also accounted for about 2 percent of the labour force. Yet even in these countries, mining remains weakly linked to other sectors of the economy due to limited mineral beneficiation. Nevertheless, the export of various base metal (copper, tin, chrome, nickel, etc) in the form of ores, mattes, billets and concentrates from COMESA member States remains a key source of revenues and increased by 22 percent from US$3.5 billion in 2010 to US $4.3 billion in 2014. For copper ores, concentrates, billets and matte, the value of exports from the region increased the highest by 41 percent during the same period from US$789 million to US$1.2 billion. The export of niobium, tantalum, vanadium ores and concentrates from Rwanda increased from US$18.7 million to US$103 million during the same period. However, the export of these minerals as billets, concentrates, matte and ores, represents lost opportunities along the mineral value chain as further processing would generate more local benefits through further downstream linkages. Furthermore, the dependence on the export of semi-finished mineral products, ores and concentrates, also exposes COMESA member States to the vagaries of mineral commodity price cycles. We are aware that the prices of finished products are more predictable compared to those of mineral commodities.

Honourable Premier,
Dear Delegates;

One of the priority areas of focus under the MOU is the development of a harmonized mineral policy, legal and regulatory framework in

COMESA to address the current differences so as to level the operating environment for mineral resources exploitation. Guided by the directions provided by the Africa Mining Vision, the regional minerals policy framework would, among others, emphasize mining for development and socio-economic transformation and would centre of expanding the role of forward, backward, lateral, and knowledge linkages in COMESA member States. This resonates very well with aspirations under the tripartite where an integrated minerals sector would be a key component of the tripartite industrialization strategy. The base metals produced in the region are critical feedstocks into a growing manufacturing sector and well as into the development of infrastructure. An important aspect of the harmonized environment would be on optimizing the fiscal frameworks through appropriately configured taxation mechanisms. The regional taxation framework, ideally based on resource rent taxation allowing for the efficient capture of the benefits commodity price booms, would allow the region to collect optimal revenues for deployment towards other developmental objectives, including investment in infrastructure and the creation of sovereign wealth funds and community development funds and trusts. Although much more difficult to administer compared to royalties, resource rent taxes are non-distortionary as they will apply over and above the required return on investment. It will be important to build capacity to audit the mineral value chain as a key support framework to support the resource rent tax framework. This is where the expertise from Western Australia will be required. Furthermore, among other important innovations, the regional policy, legal and regulatory framework should provide COMESA member States with common principles on the award of exploration and mining permits, including, for example, **the introduction of auctioning of terrain of known** geological potential. The harmonized regional framework should also provide for enhancing the sector's contribution through maximizing local content and facilitating regional economic diversification through capturing all economically viable upstream, downstream, side-stream and lateral linkages along the mining value chain.

We need to accelerate the pace of developing the harmonized regional policy framework and this should be aligned to our regional integration aspirations as well as the Tripartite FTA agreements. The domestication of the framework will ensure a uniform environment across COMESA.

I strongly believe that, with your support and learning from the achievements of Western Australia in the minerals sector, COMESA and indeed Africa will be able to create a transparent and accountable mineral sector which is focused on addressing the continent's diverse development challenges. In that regard, the MOU between COMESA and the Government of Western Australia provides a framework to jointly explore the attainment of these objectives for mutual benefit.

I sincerely look forward to interacting with business partners and government officials gathered here to dialogue further on prospects and opportunities in COMESA and in the tripartite FTA.

I thank you for the kind attention