

BENEFITS OF THE CONTRACT OF WORK FORMAT

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1. A Contract of Work (CoW) is a contract between a foreign business entity and the Government of a sovereign state, in the case of the example presented by the MWG it is with the Republic of Indonesia, which has proved exceptionally successful in attracting foreign exploration risk money and development investment money in the mineral resources sector over the last twenty years. The CoW embraces every ministry and instrumentality of that Government, and does not require separate exploration, investment and mining licences from different ministries, as is the case in Vietnam.
2. The CoW is a one-stop, one-shop contract that lays out clearly in one document all aspects of a mining operation from mineral discovery to production through every stage of the operation, which both the government and foreign entity are obliged to follow for the duration of the mining operation:
 - General Survey (Prospecting) including, where necessary, a Preliminary Survey Licence (known as a SIPP) which allows some survey work to be conducted even before the formal date of granting the CoW to help ensure that discovery and development of the country's valuable mineral resources is not held up by long administrative procedural delays. The Preliminary and General Survey Licences also importantly confer an essential exclusive right even at this early stage (unlike under Vietnam Mineral Law);
 - Exploration;
 - Feasibility Study;
 - Development;
 - Construction;
 - Mining;
 - Processing;
 - Marketing; and
 - Rehabilitation.
3. In addition, the CoW clearly sets out binding contractual arrangements and commitments for the life-of-mine with regard to:
 - Import and re-export provisions and obligations;
 - Tax obligations, including rates for land rentals, royalties, corporate and personal income tax, and any withholding, VAT and sales taxes.
 - Employment and training of national employees;
 - Local business development in conjunction with mining activities;
 - Environmental management and protection;

all of which are vital for the socio-economic development of the country, particularly when the resources of a mine are exhausted and communities have to adjust to new industries to sustain them.

4. The CoW sets out a realistic timetable and length of time for each phase based on practical knowledge of the international mining industry from prospecting through to production:

Preliminary/General Survey (Prospecting) Period	1yr + 1yr
Exploration Period	3yr + 1yr + 1yr
<u>Total time for continuous prospecting/exploration</u>	<u>7 yr</u>
Feasibility Study	1yr + 1yr
<u>Total time to decision to mine and start of construction</u>	<u>9 yr</u>
Construction Period	3yr extendable
<u>Total time to commencement of production</u>	<u>+ 12 yr</u>

Comments:

Before a foreign company commits to costly mineral exploration it needs to know exactly what its economic risks are should it be successful in making a mineral discovery. The foreign company is prepared to accept the high expenditure risk that exploration may not lead to an economic mine, but it needs to be clear what the fiscal conditions and framework will be should it make such discovery, so that it can plan accordingly and properly inform its shareholders of the risk/reward equation. The CoW format provides this framework.

There is no certainty under Vietnam's current Mineral Law of continuity of tenure through the prospecting to exploration to feasibility to construction stages because of the requirement to apply to different ministries for different parts of this process.

Tax and other obligations in Vietnam may change without reason or consideration of the fundamentals of a mining operation, making it impossible to make sensible long-term economic forecasts for a mining operation.

Prospecting and exploration work programs under the CoW system are determined solely by the foreign entity, and do not have to be "approved" by State experts, as is the practice in Vietnam. However, there are minimum expenditure commitments to be met per square km of the licence areas and relinquishment of parts of the areas is compulsory after defined periods, as under the Vietnam Mineral Law, to make sure companies do not "sit" on areas without spending money to advance knowledge of the area's mineral potential.

The CoW system was incorporated into the Lao Mineral Exploration and Production Agreement (MEPA) format in 1992 and led to two major copper-gold discoveries at Sepon and at Phu Bia in 1993 which came into production in 2005. Note the lead time of 12 years from exploration discovery to first production. The fact that the foreign companies involved were prepared to risk large amounts of exploration expenditure to discover and develop economic mineralization over a long period of time was because of confidence under the security of the MEPA (CoW) arrangement.