

April 6, 2010

The New Mineral Law for Vietnam

Discussion on the international perception of Version 5 and its likely impact on future investments in the metal mining sector

Commentary by the VBF Mining Working Group

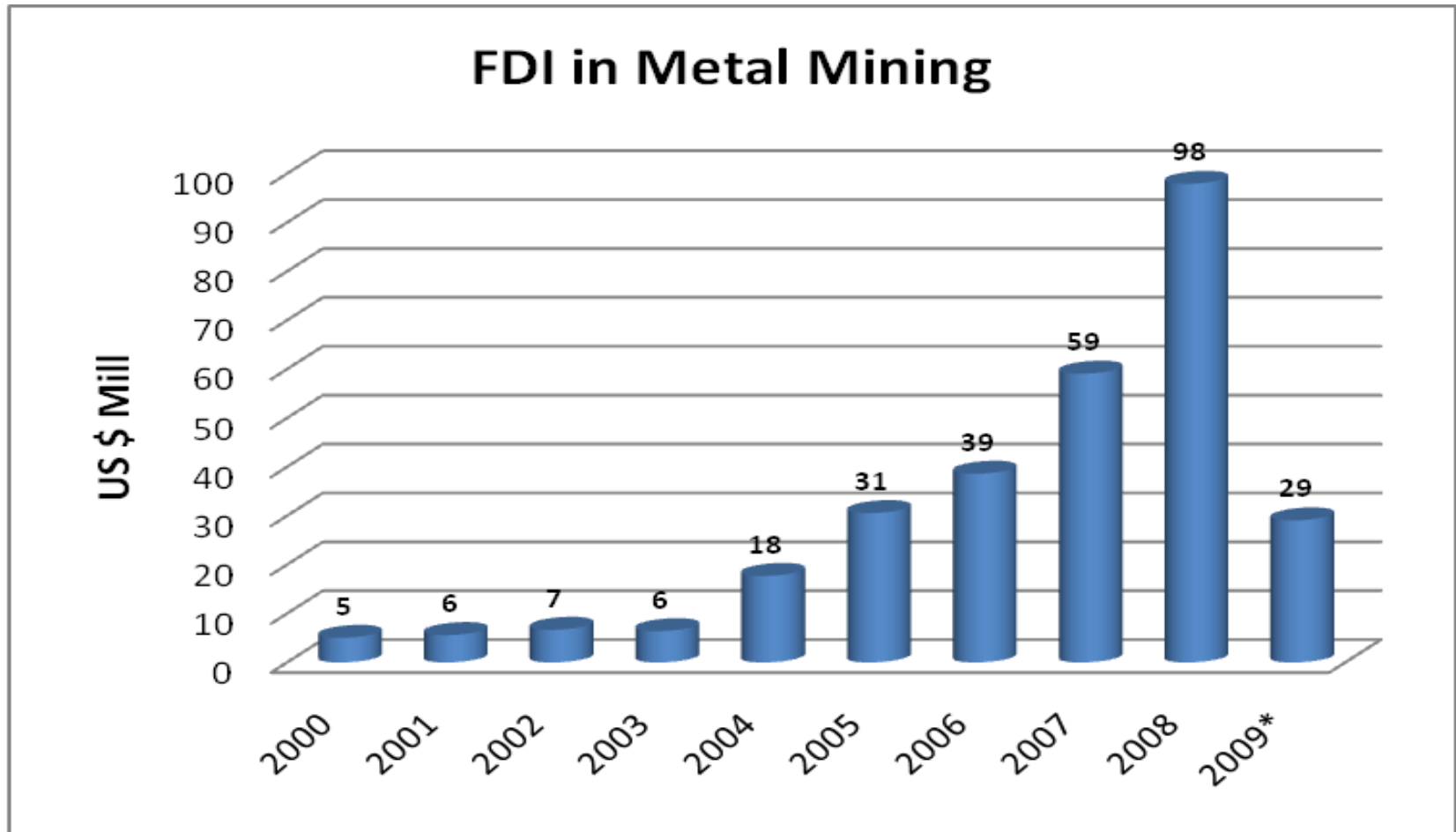
Discussion topics

- **Sector profile - introduction & overview**
- **Management of mineral resources**
- **International view on exploration**
- **Feasibility, construction & mining**
- **Mineral policies**
- **Fiscal environment**

Sector profile

- **Private sector focusing on 'Metal Mining' sector**
 - NOT coal, bauxite, iron ore, precious stones, construction materials
 - Primarily gold/silver, base metals (*copper, nickel, zinc, molybdenum, cobalt, chrome etc.*)
 - Using technology from Western countries with established history of mining (*Canada, Australia, USA, New Zealand, South Africa, Europe etc.*)
 - Consider metals in Vietnam as being in 'early exploration' phase

Metal sector expenditures in VN



Management of mineral resources

- **Role of MONRE & provinces**
 - Centralization of licensing authority with MONRE is welcomed
 - Still many areas of overlap with provincial authority that need clarity
- **Role of MOIT & master plans**
 - Preparation of Master Plans – rigid and inflexible
 - Will severely limit new discoveries
- **Definitions & interpretation**
 - Too few, need more explanation to provide greater clarity (*resource, reserve, feasibility, investment certificate etc.*)
 - *Need to see a draft decree providing guidelines for implementing the Law*

Mineral exploration

- **Licensing**

- Geological baseline studies – inadequately explained
- Area limitation very restrictive and impractical
- Detail & inflexibility in work programs – excessive & restrictive
- *Basis for determining value of work programs is outdated*
- Time limits inflexible & restrictive

- **Auctioning**

- Mineral database not as well defined as in oil sector – not an appropriate model
- Too many unknowns - unlikely to attract widespread international interest
 - *Lead agency? Qualification? Appraisal criteria? Role of provinces?*
- Should only be used for specific ‘advanced’ or ‘world class’ projects (eg coal, bauxite) with large, internationally recognized data bases

Licensing time table

Data review, target identification	Exploration License	4 yrs + 2 yr extension
Field work, resource determination		
Feasibility studies, environment, mining etc	<i>“Right to apply for a ML”</i>	2 years
Financing & Construction	Mining License	Limited to approved reserves
Production		
Expansion	<i>New Mining License</i>	???
Deep processing	<i>New Investment License</i>	???

Feasibility, construction & mining

- **Feasibility**
 - *No clarity of when this is to take place?*
 - Classification of economic reserves not consistent with practice in successful mining countries
- **Mining period** (Operation & production)
 - Area limitations do not recognize expansion/growth
 - Very rigid approach, lack of flexibility in reacting to practicalities of mining (*changes in geology, economic conditions etc*)

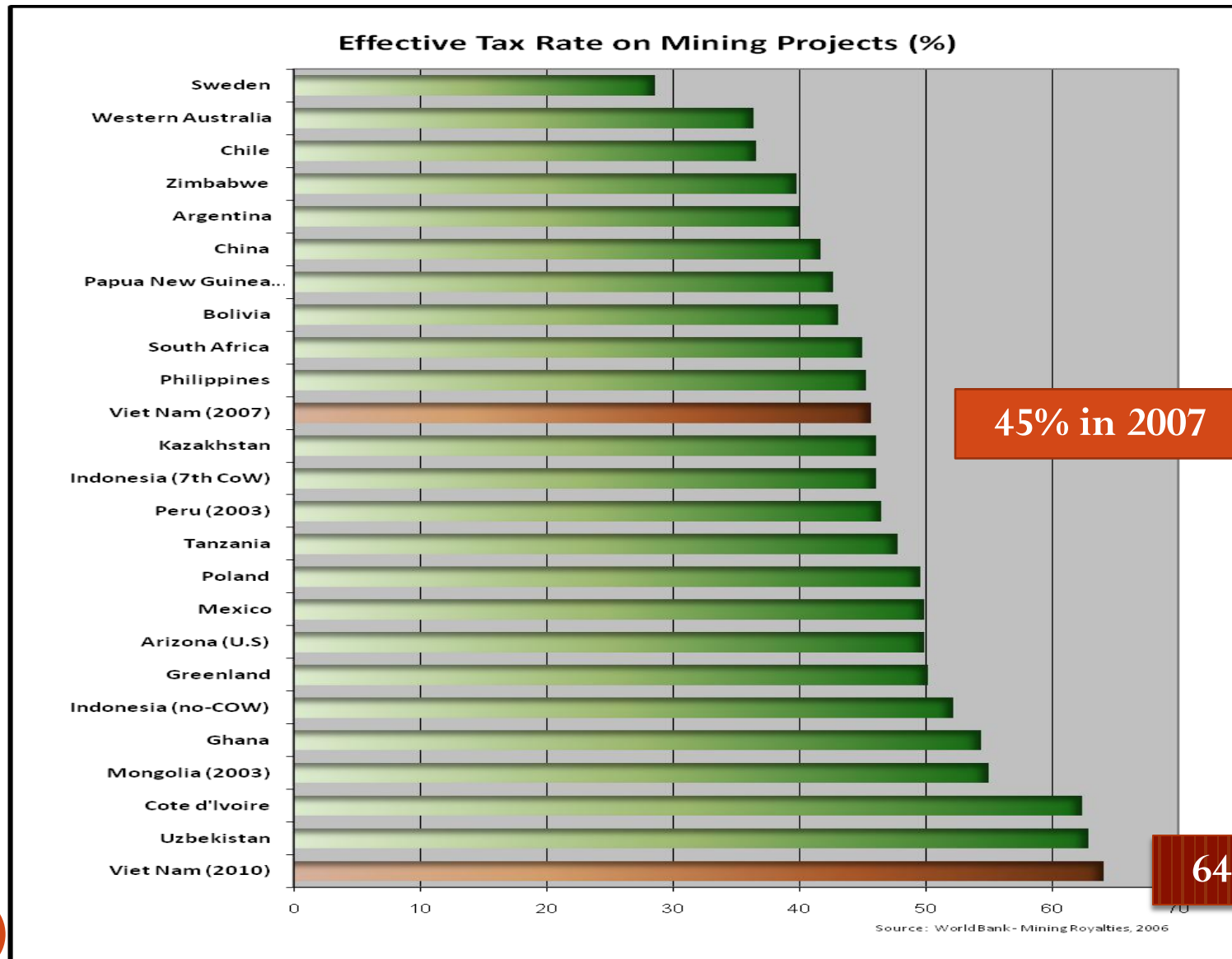
Mineral policies & master plans

- **Master plans (mineral policies)**
 - Drafted by MOIT but implemented by MONRE
 - Unrealistic time frames for development of deep processing
 - Use of outright bans & heavy tariffs is very damaging
- **Stability of policy/legal/fiscal environment**
 - Existing operations not protected from changes
- **Dispute resolution & compensation**
 - Existing operations have no mechanism of appeal
 - No acknowledgement of an investors right to compensation in the event of loss of rights/income

Fiscal environment

- Taxes
 - **CIT reduction not applicable to all mining**
 - *Mining is long term & needs a stabilization clause*
- Royalties
 - Rates are amongst the highest in the world
 - Use of an undefined 'range' (5-30%) very unsettling
- Fees
 - New fees being contemplated (*'resource compensation fee'?*)
- Export constraints
 - Tariffs do not recognize reality of domestic markets
 - Imposition of bans do not acknowledge realities of industry timings
- Effective Tax Rates & international competitiveness
 - World bank measure for determining government share of mining operations

International competitiveness - Vietnam



Fiscal fairness – Effective Tax Rate

Investor		State	
Gross metal sales	100		
Operating costs	50		
Environment fee	1	Environment fee	1
Resource compensation	?	Resource compensation	?
Gross project income	49		
Royalty (<i>7% of gross</i>)	7	Royalty	7
Export tariff (<i>20% of gross</i>)	20	Export tariff	20
Income before tax	22		
CIT	6	CIT	6
Investor's receipts	16	Govt receipts	34

$$\text{ETR} = 69\% \quad (34/49)$$

Thank You

*The VBF Mining Working Group
April 6, 2010*