

**DIỄN ĐÀN DOANH NGHIỆP VIỆT NAM**  
**Vietnam Business Forum - VBF**  
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February 15, 2009

Attention: Government Office  
Ministry of Finance  
Ministry of Industry and Trade  
Policy Department of Ministry of Finance  
General Department of Taxation  
Ministry of Natural Resources and Environment  
Department of Geology and Mineral of Vietnam

Investment in the Mineral Sector as a Stimulus for Economic Growth

Dear Sirs,

The Mining Industry Working Group operates under the umbrella of the Vietnam Business Forum and consists of directors and management of foreign and local companies engaged in mineral exploration and mine development in Vietnam. We would like to send you our best regards and submit the following issues to you for your attention and consideration.

The year 2008 was a very difficult year for the domestic mining industry. In the first half of 2008, the strong world economy supported high prices of most commodities including oil, coal and other minerals. This encouraged many companies to expand their exploration programs and at least three companies enjoyed strong inflows of capital and commenced development and construction of new mining operations.

However in the second half of 2008 the Government and Ministry of Finance introduced several changes in tax policy on minerals including:

1. Removal of VAT incentives:  
Unprocessed minerals (not yet processed into other products) were transferred into VAT exempted category, i.e. mineral processing enterprises (not yet metal products) and they will not benefit from any refund of VAT. This increased production costs
2. Increases in export tariffs:  
The export tariff for various kinds of mineral underwent 3 amendments. At present, export of most ores are subject to tariffs of 20% (up from 5% at the start of the year)
3. Increase in corporate income tax (CIT):  
Commencing 1 January 2009, enterprises of other industries will enjoy a reduction of CIT to 25% however the CIT on mining enterprises will increase to between 32-50% (depending on the specific project)

4. Increase in royalty:

In late 2008, the Ministry of Finance recommended that royalty rates on minerals be increased. In January 2009, royalty rates applied to most minerals was increased from 5% to 7% and gold from 6 to 9%

5. Fees and charges:

- During the year the Government introduced a new environment protection fee which was payable on every ton of ore mined;
- In January 2009 the fee for exclusive right of exploration was increased.

The introduction of these changes were made at the height of a robust world economy that was creating an unprecedented boom in metal prices however taken all together they made the Vietnam mining industry one of the most heavily taxed mineral sectors in the world. In the second half of 2008, the world economy went into dramatic decline and the price of most metals plummeted to levels last seen more than 5 years ago (please see the attached charts).

The outlook for most countries has changed dramatically with many facing deflation and shrinking economies. Governments all over the world are aggressively seeking solutions to limit the damage and most are providing incentives and economic stimuluses to assist enterprises to cope with the difficult conditions and continue operation/production. The Vietnam government has acted swiftly and the Ministry of Finance has recently introduced several mechanisms to assist small and medium sized domestic enterprises in other industries and services including:

- reducing 50% VAT
- exempting CIT for 4th Qtr of 2008 and the year 2009
- deferral of changes to the PIT rates

However the value of these concessions to those operating in the mineral sector is small and does little to compensate for the additional burdens imposed during 2008. Some relief in the form of reductions in tariffs have been granted to specific sectors (steel, and more recently coal) but the retention of high tariffs and imposition of blanket bans on the export of other commodities (despite the absence of domestic markets) is threatening closure of a number of existing operations and has forced others to review development plans.

The Mining Working Group is aware of three companies that had planned to invest more than \$200 million in exploration, development and construction during 2009/10 that have recently dramatically down sized their plans and suspended all expenditure on exploration activities. This is a direct consequence of the negative sentiment of overseas investors towards Vietnam following the legislative and fiscal changes introduced during 2008.

The MWG respectfully submits that a robust and developing mining sector can play a major role in alleviating poverty and hardship in many of the remote areas of the country most of which have limited opportunity to attract investment and employment from other sectors. We would welcome the opportunity to meet with representatives of the Government and MOF to discuss ways in which confidence in the industry can be regained and investment into Vietnam increased.

We are sincerely thankful for the opportunity to contribute and look forward to working with the Government, where appropriate, in developing a vibrant and prosperous mineral industry in Vietnam.

*Signed or on behalf of the Mining Industry Working Group:*



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