

## **MAKING VIETNAM INTERNATIONALLY COMPETITIVE IN ITS MINING INDUSTRY IN THE ERA OF NEW TRADE AGREEMENTS**

*Presented by  
Bill Howell, BSc Geol (Hons)  
Fellow of the Australasian Institute of Mining and Metallurgy  
Fellow of the Society of Economic Geologists  
Head of the Mining Working Group*

### **THE ISSUE**

Vietnam is a mineral rich nation, but the country's known mineral inventory is only a fraction of what may yet be found.

This is because the discovery and extraction of Vietnam's mineral resources, except for three modern mining operations and some coal and coal-gas projects, have so far only literally scratched the surface to depths generally in the order of 50 to 100 meters, using in too many cases outdated and wasteful mining and processing methods. Below the depth of 100 meters there are almost certainly many large and valuable deposits awaiting discovery, which can only be found and developed by modern state-of-the-art technology and equipment not currently used in Vietnam.

Unfortunately, the much-needed major investment in modern exploration, mining and processing technology and know-how not coming to Vietnam to develop its minerals industry. Excessive and inconsistent taxation and other regulatory controls on mining continue to leave Vietnam in the position of being by-passed for vital international and local investment funding that should be flowing into the country to build the mining sector as an important part of, and sustainable contributor to, Vietnam's growth.

Although the National Assembly did not support a Ministry of Finance proposal to increase royalties on some minerals in 2014, royalties in Vietnam are still well above world average. For example, royalty on gold remains at 15% whilst the general range in world-wide royalty rates for gold is between 1-5%. This has been compounded by the introduction of a "mining rights" fee which in effect is an additional royalty by a different name.

As long as Vietnam's royalties/fees/taxes exist, international best-practice methods and investment in Vietnam's mining industry will continue to be discouraged, which in turn encourages inefficient and wasteful mining practices and degradation of Vietnam's existing known mineral resources and in particular its environment

Moreover, the high taxation rates have also encouraged increased illegal mining and illegal export of minerals on which no tax is paid. At the same time, small-scale illegal mining only exploits the higher grade, richer portions of a deposit, meaning that a significant percentage of Vietnam's valuable total mineral wealth will never be recovered:

- a) either lost because of primitive and inefficient processing methods; or
- b) permanently left in the ground, as it is usually not economically feasible to go back later to mine only the lower grade material left behind.

Imposing excessive mineral royalty rates and other multiple taxes are having the opposite effect to that intended by the Ministry of Finance in trying to raise revenue for the Government. Rather than increasing revenue, such fiscal policies discourage legitimate, legal investment in mining and thereby reduce revenue flowing to the Government and to the local communities impacted by mining.

## SUGGESTED ACTIONS

The mineral wealth of Vietnam is owned by Vietnam as it should be, but as Vietnam prepares to enter into new trade agreements, we respectfully urge the Government to improve investment confidence in Vietnam's minerals industry by:

1. Introducing more investor-friendly mining legislation which is competitive with other countries, and which includes an equitable tax system that is fair to both the Government and the investor, and legislation that provides for consistent policies for long-term commitment. This will:
  - encourage exploration to increase Vietnam's mineral inventory by new discoveries using modern technological methods;
  - allow development of the country's mineral wealth in an environmentally responsible, efficient and safe way;
  - increase revenue to government and communities;
  - accelerate development of infrastructure and service industries in the more remote and often mountainous parts of Vietnam, where mineral deposits tend to be found.
2. Establishing a task-force to investigate the incorporation of the best elements of other successful mining legislation around the world where a balance has been achieved between attracting modern, high technology in exploration, mining and processing of mineral resources, while at the same time returning equitable revenue to the host nation whose resources are extracted. This will enable Vietnam to better manage and build up its valuable mineral reserves by attracting world-best practice methods in exploration, mining and processing in order to:
  - maximize efficient extraction;
  - maximize returns to government, the investor and communities involved; and
  - minimize the damaging environmental, health and safety issues that are so apparent at present in many low technology mining operations.

## PROGRESS

The VBF in collaboration with MPI's Foreign Investment Agency convened a meeting on 31 October 2014 to bring together representatives of MOF, MONRE and the General Department of Taxation to discuss issues surrounding the royalty tax, mining rights fee and environmental protection fees. Earlier, on 10 October 2014, VCCI and MONRE jointly held a national workshop to examine efficiencies of revenue collection and governance shortcomings in the minerals extractive industry in Vietnam.

Vietnam does not have a long, established record of modern exploration, development and mining of minerals, but with increasingly greater knowledge of mining, the high risks and potential rewards involved, and the long uncertain lead-time required to convert mineral discovery into successful development and mining, the Mining Working group believes that the Government will recognize the benefits of encouraging a strong minerals industry to contribute to Vietnam's economic growth.