

**BUILDING A STRONG, MODERN MINING INDUSTRY IN VIETNAM -
THE NEED TO ENCOURAGE INVESTMENT BY REDUCING UNCOMPETITIVE HIGH
TAXES ON MINING**

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On behalf of the Mining Working Group, and speaking personally from my observations of being involved in mineral exploration and mining in many developing countries, including Vietnam, for over 45 years, the good news for Vietnam is that it is a mineral rich nation and that the country's known, but obviously diminishing, mineral inventory is only a fraction of what may yet be found.

This is because the discovery and exploitation of Vietnam's mineral resources have so far, except for some coal and coal-gas projects, only literally scratched the surface to a depth of 100 to 200 metres, using in too many cases outdated and wasteful mining and processing methods. Below the depth of 100-200 metres 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 investment in modern technology and know-how is not coming to Vietnam for a number of reasons, but primarily because of the crippling mineral royalty rates which are 2 to 5 times higher than the world average.

Royalty tax rates are calculated on the gross sales value of the minerals produced, as they are in many countries, so have a major impact on the economic viability of a mining operation if they are too high, because cost of production is not considered in the tax calculation.

Vietnam's high level of royalty taxes, on top of other multiple taxes on the mining industry, contributed to Vietnam being ranked as low as 95th out of 96 mining jurisdictions surveyed around the world by the well-respected Fraser Institute of Canada in 2012. This has made Vietnam one of the least attractive countries in the world in which to invest high-risk exploration and mining funds.

As a consequence, and unlike in other ASEAN countries, there are currently no recognized major foreign companies investing in the mining sector in Vietnam and only a small number of technically competent Vietnamese companies.

Instead, what we see is that many existing mining operations in Vietnam are now being forced to down-size, close, or in some cases adopt unsafe and environmentally damaging practices to cut corners and reduce costs, and even report lower than actual output for tax purposes in order to stay in production.

Moreover, the high royalty 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 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 high 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 economically unrealistic policies discourage legitimate investment in mining and thereby reduce revenue flowing to the Government and to the local communities involved in mining.

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 introducing a more investor-friendly fiscal regime which is competitive with other countries.

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:

- a) maximize efficient extraction;
- b) maximize returns to the government, the investor and the communities involved; and
- c) minimize the damaging environmental, health and safety issues that are so apparent at present in many low technology mining operations.

Also modern mining is one of the key drivers in infrastructure development in the more remote and mountainous areas where most mineral deposits are discovered, as has been shown in many countries.

Therefore Vietnam has everything to gain by providing incentives to encourage investment and thereby ensuring that mining by high technology and internationally accepted standards becomes an essential, modern, safe and vital part of its growing economy.