MINING WORKING GROUP REPORT

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Excessive and inconsistent taxation and other regulatory controls on mining have led to Vietnam 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.

The reason investment is not coming to Vietnam is because international perception of Vietnam's mineral policy is very poor. Vietnam is currently ranked 95th out of 96 mining jurisdictions surveyed around the world by the well-respected Fraser Institute of Canada.

By contrast, Vietnam's neighbour Lao PDR introduced investor-friendly legislation known as the Mineral Exploration and Production Agreement (MEPA) in the early 1990s. The MEPA in the last twenty years since it was introduced encouraged investment and has led to the discovery and development of major mines and has benefited the Lao economy dramatically.

According to the International Council on Mining and Metals (ICMM), the mining industry in Lao PDR now represents 80% of foreign direct investment, accounts for 45% of total exports and is responsible for 12% of government revenue and 10% of national income. By comparison, the percentage of Vietnam's national income from minerals is only 1%, excluding income from oil and gas.

Vietnam is rich in mineral resources that are virtually unexplored for beneath 100 metres depth but which can be found by modern exploration technology and expertise, if the incentives are there to do so.

The Ministry of Finance recently proposed an increase in mineral royalties, which proposal is currently being considered by the National Assembly Standing Committee. As an example, the royalty on gold is currently 15%, whilst the general range in world-wide royalty rates for gold, as shown in data from a PricewaterhouseCoopers 2012 survey, lies between 1-5%.

If accepted, any increase in mineral royalties will further discourage investment in Vietnam's mining industry, and existing operations may be forced to down-size or close. Such a move is also likely to increase the amount of illegal mining and the degradation of Vietnam's existing known mineral resources by high-grading. This involves the selective mining of only the higher grade portions of a deposit, either for reasons of obtaining an economic return due to excessive taxes or because operators do not have efficient internationally accepted mining methods to recover lower grades. The result will be that a significant percentage of Vietnam's valuable mineral wealth may be wasted or left in the ground, most likely permanently, as it is usually not economically feasible to go back later to mine only the lower grade material.

Furthermore, any increase in royalty rates will have the opposite effect to that intended by the Ministry of Finance. Rather than increase revenue to the Government, such a policy will further reduce investment in mining, thereby also reducing revenue flowing to the Government and the local communities. There is therefore a strong case for reducing royalties to international levels, not increasing them, and also for introducing new legislation to make Vietnam more competitive with other mineral-rich countries to attract investment.

This will:

- Encourage exploration to increase Vietnam's mineral inventory by new discoveries using new technological methods;
- Allow development of the country's mineral wealth in a responsible, efficient and safe way;
- Accelerate development of infrastructure and service industries in the more remote and often mountainous parts of Vietnam, where mineral deposits tend to be found.

Unlike many other mineral-rich countries, Vietnam does not yet have an established history of modern international exploration, mining and mineral processing practices. Australia, where mining accounts for over 50% of its export income, is a world-leading provider of education and training to the mining sector and is looking at how it can provide this expertise to Vietnam. Through the initiative of the Australian Trade Commission (Austrade), delegates from Australian education institutions recently visited leading universities in Vietnam including the Hanoi University of Science and Technology and the Hanoi University of Natural Resources and Environment to examine bilateral collaboration and training opportunities to help Vietnam build a sustainable mining sector.

In conclusion, the Mining Working Group sincerely hopes that the Government will improve investor confidence in Vietnam's minerals industry so that it becomes a viable, modern, safe and key part of the economy, and most importantly to be a much more significant contributor to Vietnam's economic growth than it is now.