NOTES TO THE VIETNAM BUSINESS FORUM

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Lack of Investment in Vietnam's Mining Industry by Foreign Mining Companies

Unlike most ASEAN countries, there are no major international mining companies currently active in the mining sector in Vietnam, and only about six technically-capable junior foreign companies listed on recognized stock exchanges such as London, Toronto and Australia.

It is clearly Vietnam's sovereign right to decide the pace at it wishes to develop the country's mineral resources and to what extent it wishes to open up such development to foreign investment. However, on the assumption that Vietnam does welcome foreign participation, it is worth exploring briefly why the country is attracting such little foreign interest in the minerals sector at this time.

Pin-Pointing the Disincentives

International mining experts generally agree that the New Mineral Law 2010 and the fiscal regime related to mining in Vietnam contain two main areas that present significant disincentives:

1. Lack of clarity, transparency and practicality in the wording of the Law and decrees, particularly with regard to the proposed "auctioning" process, despite considerable input from the Mining Working Group and World Bank experts during the formulation of the Law; and

2. The cumulative burden of corporate taxes, royalties, export fees and mining rights fees imposed on mining activities. The recent draft proposal by the Ministry of Finance to significantly increase export tariffs on all mineral concentrates in two stages in 2013 and 2014 merely adds to the disincentive equation. Whilst it is a commendable objective to process minerals as far as possible within Vietnam, such ambition cannot be economically justified until mined or mineable ore inventories in-country are high enough to feed and justify the cost of construction of down-stream facilities such as smelters and refineries.

These disincentives have deterred foreign companies who have the capacity to introduce efficient exploration, mining and processing technology, together with appropriate environmental protection and worker health and safety measures from investing in Vietnam. It is simply not economic for foreign companies to develop a profitable, state-of-art mining operation in Vietnam under current legislation and taxation conditions.

Such companies will take their knowledge and expertise to other countries competing for international exploration and mining funds that have clearer laws and more favourable fiscal regimes.

Consequences

Without tapping world-best-practice mining and processing methods, it is an unfortunate consequence that a significant portion of the country's mineral wealth is currently being permanently squandered and lost, in addition to the cost of serious environmental degradation, and risks to the lives of mine workers.

Vietnamese state-owned companies who are still using relatively low technology in mining operations and, even worse, the widespread artisanal or illegal mining activities that are using primitive methods to high-grade mineral deposits (selectively picking out only the higher grade portions of the deposit) will leave a significant percentage of Vietnam's valuable mineral wealth in the ground permanently, as it is usually not economically feasible to go back later to mine only the remaining lower grade material. By contrast, efficient internationally accepted mine scheduling aims to balance the recovery of higher-grade and lower-grade resources during life-of-mine to achieve the optimum economic recovery of the total deposit. Vietnam should be aiming to recover the optimum percentage of its non-renewable resources.

The international mining community looks forward to working with the relevant Vietnamese authorities to contribute to maximizing the efficiency and safety of mining in Vietnam and minimizing environmental damage, under conditions that encourage profitable, responsible mining practices.