

Report on the IGC/EAZ Public Discussion of 23<sup>rd</sup> February 2012 on Mining Taxation in  
Zambia held at  
Taj Pamodzi Hotel  
Lusaka  
Zambia

The IGC discussion, in collaboration with the Economics Association of Zambia (EAZ) consisted of a presentation by Professor Robert Conrad on his continued work on Mining Taxation in Zambia. The discussion was chaired by Wila Mungomba, the executive chairman of Zambia Consolidated Copper Mines Investment Holdings (ZCCM-IH). Mr. Frederick Bantubonse, the Zambia Chamber of Mines executive director and Dr. Mathias Mphande, a lecturer in the School of mines and formerly chief mining engineer and then Minister of Mines in the reform era of the early 1990 were the main discussants.

The aim of the public discussion was to discuss the work of Robert Conrad, the IGC Researcher who has been working on Zambia's mining taxation closely with the Zambia Revenue Authority for the past two years. It was also envisaged that the discussions of the workshop participants will help to shape policy the debate in the pursuit of the government's continued search for balance between finding optimal mining tax that will yield maximum revenue for development while maintaining competitiveness in mining investment and maintaining stability in its fiscal regime for investors.

The discussion started with Prof. Conrad's presentation, whose main messages were the need for government's active involvement in the mining sector and that the devil is in the details. The presentation notes an array of ways in which government can participate in the mining sector, with corresponding consequences of each. It also presents various tax measures available to government, each with its associated costs and benefits. However, importantly,

Prof Conrad's presentation emphasises the need for government to actively be involved in the measurement and continuous monitoring of mining outputs for tax purposes. These are the building blocks of the royalty tax, which has spillovers to the other taxes levied on mining companies. Getting the basic building blocks in place should be a priority of the government, regardless of the tax policy it chooses to implement. Governments should not rely solely on mining firms to declare their production. Prof. Conrad also notes the challenges that the Zambia Revenue Authority faces in dealing with complex financial concerns in the mining sector such as ring fencing and transfer pricing. However, he argues that Zambia as the resource owner of the mineral resources should set and publish clear rules and regulations so that everyone has a mutual understanding of how the tax is calculated. This transparency benefits both the Government and firms. The presentation further argued for government's need to audit and actively monitor its passive investments in the mining sector through ZCCM-IH as there have to be returns from its minority equity shareholding.

In presenting the Zambia Chamber of Mines' position with regards mineral taxation, Mr. Frederick Bantubonse argued for the need for a fair tax system that will create an environment beneficial in tax revenues to both government and the mining companies. Mr. Bantubonse submitted that with nationalisation and subsequent privatisation in the mining industry which had collapsed, went through a re-birth, re-investment and time lag was thus necessary before they can become tax liable. He stated that investments in the mining sector are not only risky but a long term capital intensive venture too.

Mr. Bantubonse stated that the mining sector is the largest contributor to the government coffers in terms of tax contribution notably through employee tax returns. He further stated that tax contribution from the mines is expected to increase when the mines' investment maturity is met.

The final discussant, Dr. Mathias Mphande from the University of Zambia thanked Prof Conrad for his paper and described it as a seminal paper on mining taxation in Zambia. Dr. Mphande called for an audit of mining production measure to review issues such as ring fencing as well as policies related to the monitoring of input costs and related matters for tax purposes. His main concern was that the current mining tax system in the country was designed for nationalized mines and not the current privatised mining industry. He also lamented at pervasive information asymmetries that exist in the industry and the need for government to invest in bridging the information gap and build capacity in the Zambia Revenue Authority

(ZRA) to adequately tax the mines. He supported Professor Conrad's proposals for the need for a simple but yet robust tax administration system that is implementable with the existing capacity at the ZRA, but with stronger capacity in the Ministry of Mines to monitor and verify the volume and value of metal and mineral production.

During the question and answer session, participants called for the need for transparency in the mining contracts with the government, and also questioned the mining structure with regards by-products of main minerals. Most people argued that the country is being ripped off as no clear benefits from the mining sector are tangible. Others argued for the need for royalty tax to be imposed on all minerals present in the ore, and therefore called for careful assessment of such ore by the government for effective taxation.

With end of the question and answer session, Mr. Wila Mungomba concluded the discussion and thanked all present. He further urged the IGC and EAZ to continue its valuable works and draw many as stakeholders as possible to such important events.

## **Discussion Programme**

Below is the agenda and attendance list:

### **Agenda**

- |                      |  |
|----------------------|--|
| 1. 17:45hrs-18:00hrs | Arrival and Registration of Guests                         |
| 2. 18:00hrs-18:10hrs | Introductory remarks by IGC Country Director               |
| 3. 18:10hrs-18:15hrs | Panel Introduction by Wila Mungomba, ZCCM-IH Chairman      |
| 4. 18:15hrs-18:50hrs | Robert Conrad's Presentation on Mineral Taxation in Zambia |
| 5. 18:50hrs-19:20hrs | Discussants' presentation                                  |
| 6. 19:20hrs-20:00hrs | Questions and Contributions                                |
| 7. 20:00hrs          | Concluding remarks by Wila Mungomba, ZCCM-IH Chairman      |

## **Attendance List**

See attached attendance list.

The event was well attended with 95 guests from different sectors and the media. The discussion was due to end at 8pm but continued to 8.45pm with most of the audience still in attendance.