Saturday, May 18 2013

Challenges of Fiji's mining sector

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The mining sector is now emerging as the new engine of growth in developing economies in all the regions.

Pacific region is no exception.

Papua New Guinea (PNG) is a leading example, Fiji with its copper, bauxite and manganese minerals in Namosi and Waisoi areas is the next to join the list.

The Revenue Watch Institute (RWI), a non-profit organization striving for effective accountable management of oil, gas and mineral resources in its report of May 15 says 32 out of 58 countries that rely on mineral revenues did not meet "basic standards of resource governance". These countries produce 85 percent of the world's oil and 80 percent of copper.

The RWI calls for full public disclosure of contracts between governments and extracting companies and greater transparency on revenues.

PNG is increasingly getting aware of the need for wise use of natural resources and equal distribution of wealth to all. There are new policy initiatives. These include downstream processing, mine waste management, mine closure, sustainable development, study into state equity options, state fiscal provision, royalty options and compensation rate review and dispute resolution.

Its mining sector contributes 57 percent of PNG's country's export revenue for the last 15 years. It is the largest contributor to the economy since 1967. While agriculture contributes 23 percent of the country's export earnings, minerals contribute more: crude oil: 15 percent, copper: 19 percent and gold: 37 percent.

The mining industry and its contributions to economic growth, in developed and developing economies and the role of mining and future implications for Fiji are the focus of attention in different forums.

FNU Conference paper

On May 8, Fiji National University (FNU) opened its three-day *Conference on Finance and Investment in Fiji* with an important paper on Australia's mining experiences and neglect of its own non-mining sector. There are important lessons for Fiji.

Mr Raj Prasad in his paper pointed out to the failure by successive governments in Australia to promote value-added manufacturing activities. Australia, which was the biggest supplier of coal, iron ore and natural gas to China, failed to establish processing industries.
Mr Prasad gave an example: The 20- litre oil drums are made from Australian iron ore, which are processed in China; the metal is then shipped to Singapore and pressed in drums; and empty drums were shipped to Australia for food industry.

That was responsible for shrinking manufacturing base and loss of technology, aside from environmental degradation caused by uncontrolled mining activities.

Mr Prasad had a piece of advice for policy makers of Fiji:

- Build a rigorous legislative framework;
- Draw on global experience to frame proper legislation; and
- Ensure the existence of a framework before issuing licences.

The multinationals would respect sitting legislations rather than new impositions.

Since Fiji wants to develop its mining sector, the country should develop the ability to counter-balance the might of multinationals. It should implement an effective resources rent tax.

Mr Prasad called for hiring an independent panel of mining experts for preparing and reviewing financial feasibility to provide guidance on environmental protection. He wanted establishing a supervising and monitoring unit for observance of proper accounting procedures with built-in criminal and civil penalty provisions for non-compliance.

The African case

Same concerns in regard to mining were expressed by a report released in Africa just about the same time. On May 10, a panel chaired by the former UN Secretary General Kofi Annan called for end to 'unconscionable' exploitation of Africa's mineral resources.

Other members included Sir Bob Geldof, the chief executive of the Prudential, Tidjane Thiam and Ms Linah Mohohlo, Governor of Botswana's central bank.

The Report is an annual feature, known as Africa Progress Report. The 2013 Report said how the economic benefits of extracting natural resources such as oil and iron ore often fail to flow through to the local population.

Mr. Annan writes in his foreword to the Report: "Africa loses twice as much in illicit financial outflows as it receives in international aid".

Mr Annan says some companies, often supported by dishonest officials, are using unethical tax avoidance, transfer pricing and anonymous company ownership to maximize their profits, while millions of Africans go without adequate nutrition, health and education.

A number of resource-rich African states including Equatorial Guinea and Angola recorded high economic growth rates in recent years due to mining activities, but little trickled down. There is widening inequality. The Report emphasises that industrialised countries should "enforce corporate transparency for making it clear to Africans who owns the companies involved in mining deals".

Mr Annan wants "a crackdown on the international tax rules that allow multinationals to shift profits from one country to another with impunity".

Strengthening capacity

The Report stresses the need for African governments improving their governance and strengthening national capacity to manage their mineral industries.

Putting transparency and accountability at the heart of their natural resource policies will ensure and secure fair share of natural resource revenue for their citizens for spreading benefits of revenue via equitable public spending.

While launching the Report, Botswana's central bank governor Moholo stressed that African governments should own at least a 50 percent stake in any new mining venture in order to ensure the country receives more of the revenue that flows from a project than the mining company receives.

Further, the governor made it clear that central banks should handle the revenue flows from mining. "The country, or the government, must receive more of the revenue flows out of a project than the company does". Further, there should be definite dates ending the tax holidays often granted for a project to start.

Governor Moholo declared:

"The state's role is far greater than just being a partner that extracts profits and collects taxes".