national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

Mineral and Petroleum Resources Royalty Bill

The Mineral and Petroleum Resources Royalty Bill is required to give effect to the objectives of the Mineral and Petroleum Resources Development Act, 2002 (MPRDA). Being a money bill, section 73(2) of the Constitution requires that only the Minister of Finance can introduce it to Parliament, and that such a bill also has to be separate from the principle Act (MPRDA).

The National Treasury first released a draft of the Mineral and Petroleum Resource Royalty Bill in March 2003 for public comment. After extensive consultations, revisions were made to the Bill. The revised draft Bill contains important amendments that address most of the concerns raised during the first round of consultations. These revisions include:

The Royalty Bill attempts to reconcile the objectives of the MPRDA with the broader economic objectives of the mining sector, including the need to stimulate investment in this sector and the need for certainty for potential investors.

The publication of the revised Royalty Bill is meant to facilitate such certainty. Given the tax implications and economic impact of the Bill, Government is providing a further opportunity for consultation with key stakeholders by allowing them the opportunity to provide comments on this revised version of the Bill. Government will table the Bill in Parliament early next year, after taking into account such comments and consultations.

Reduction of rates

One of the key revisions made to this revised Bill is the significant reduction of royalty rates compared to the proposals in the first draft.

Schedule 1 of the Royalty Bill (which classifies minerals subject to the State royalty) provides a summary of the new (reduced) rates. For instance, the royalty rate for diamonds has been reduced from 8.0 to 5.0 per cent and the royalty rate for refined platinum and refined gold are reduced to 3.0 and 1.5 per cent respectively. The reduction of such rates better takes into account the lifecycle of many of the mining operations in South Africa.

The local beneficiation of mineral resources is also viewed as an important policy objective. Therefore, in an attempt to further encourage the beneficiation of South Africa's minerals, further reductions in royalty rates apply to beneficiated / refined minerals.

Tax base

The significantly lower rates mitigate the impact of a tax base based on gross sales rather than profit. This approach is an internationally accepted one. The royalty is also tax deductible.

Marginal mine relief

A special relief system has been created for marginal mines to prevent their premature closure. If a mine proves to be marginal as envisaged by the Bill, that mine will be entitled to receive up to a 75% reduction in the royalty rates otherwise applicable. A marginal mine is defined in terms of operating costs exceeding operating income.

Small business relief

As part of Government's broader initiative to encourage and support small business development, a special relief system has been created for small miners. Small miners, with a maximum turnover of R10 million per year, will be entitled to receive a credit of up to R100 000 per year (i.e. R50 000 per assessment period of six months) as an offset against State royalties payable.

Royalty liability adjustments

This regime allows companies to transfer the royalty liability amongst each other. In the instance of a consolidated group or a relationship between a miner and a refiner, a mining company may shift the royalty liability to the refiner. These provisions will therefore allow a refiner that incurs the royalty liability to take advantage of lower royalty refined rates.

Traditional communities

A number of traditional communities currently receive royalty payments from mining operators who mine on their land. Item 11 of Schedule II of the Mineral Resources Development Act (Act No. 28 of 2002) (the "MPRDA") provides that communities will continue to receive such royalties regardless of whether these royalties are paid with respect to "old order" or "new order" mining rights. A concern raised by some mining companies is the implication of a potential double royalty.

In light of the above concerns Government will encourage communities and mining companies to enter into negotiations to, where appropriate, convert the financial interest of communities into equity stakes in the operating companies. These negotiations will require that role-players make some concessions in order to ensure lasting and sustainable arrangements.

Comment period

The period for comment on the revised Royalty Bill will close on 31 January 2007. A final version of the Bill will then be submitted to Parliament for its consideration in 2007.

The Bill is available for comment on www.treasury.gov.za and comments can be sent to will.bautista@treasury.gov.za

For more information contact Thoraya Pandy on 012 315 5944.

SCHEDULE 1: ROYALTY RATES AND CLASSIFICATION

A. Minerals with a single rate

Group	Minerals	Rate %
1	Unpolished natural diamond (gem and industrial), crystalline quartz (smokey quartz, citrine, rose quartz, amethyst, rock crystal), cryptocrystalline quartz (jasper, opal), chalcedony (blue lace agate, moss agate, onyx, rainbow chalcedony), chalcedonic replacements (silicified wood, tigers-eye), blue asbestos (crocodolite), beryl (emeralds, aquamarine, morganite, heliodor, goshenite, bixbite),chrysoberyl (cat's eye, alexandrite), corundum (rubies, sapphires), garnet (almandine, pyrope, almandine-pyrope, grossular, spessartine, uvarovite), Iolite, kyanite, sodalite, sugilite (royal lavulite, royal azel), tourmaline, verdite (serpentine), topaz, copper minerals (azurite, malachite, chrysocolla), enstatite, epidote, feldspar group (moonstone, amazonite) and spinel.	5
2	Andulasite, asbestos, vermiculite, silliminite, kieselguhr, calcite, granite, marble and siltstone.	1
3	Feldspar, fluorspar, barytes, gypsum, magnesite, mineral pigment, sulphur, silica, talc, slate, shale, attapulgite, bentonite, flint clays, kaolin and fire clay.	0.5
4	Limestone, lime and dolomite, phosphate rock, salt, quartzite, schist, plastic clays, fire clay (construction grades), kaolin (construction grades) aggregate and sand.	0

B. Minerals with two rates - unrefined and refined rates

Group	Minerals	Unrefined rate %	Refined rate %
5	Platinum Group Metals (platinum, palladium, rhodium, iridium, ruthenium and osmium).	6	3
6	Chrome, manganese, silicon, vanadium, iron, cobalt, copper, nickel, lead, zinc, antimony and tin.	4	2
7	Illmenite, rutile and zircon.	3	2

8	Gold and silver.	3	1.5

C. Energy

Group	Mineral	Specification	Rate %
9	Coal.	Above 15% Ash Content.	1
		Below 15% Ash Content.	3
10	Hydrocarbon fuel (oil and gas).	Mining in water deeper than 500 m.	1.5
		Mining in water shallower than 500 m.	3
11	Uranium.	Oxide (yellow cake) and Uranium Hexafluoride.	1.5
		Uranium concentrate.	3

Definitions of refined Minerals

Group 5.

Platinum Group Metals: Platinum Group Metals are refined once processed to at least 99,9 per cent purity.

Group 6.

Chrome: Chrome is refined once processed to ferrochrome or for use in the foundry, refractory or chemical industries.

Manganese: Manganese is refined once processed into an alloy, ferro alloy product or manganese dioxide.

Silicon: Silicon is refined once processed into silicon or ferrosilicon.

Vanadium: Vanadium is refined once processed into ferrovanadium.

Iron: Iron is refined once processed into Pig iron, DRI iron, HBI iron or steel.

Cobalt: Cobalt is refined once processed into cobalt metal or cobalt sulphur.

Copper: Copper is refined once processed into copper metal slabs, blister copper or cathode copper of at least 99 per cent purity.

Nickel: Nickel is refined once processed into a metal, or other form (*e.g.* ferro nickel, nickel metal or nickel sulphate).

Lead: Lead is refined once processed into bars and billets containing at least 99 per cent pure lead.

Zinc:	Zinc is refined once processed into zinc metal, plates or slabs containing at least 98,5 per cent pure zinc.
Antimony:	Antimony is refined once processed into antimony oxide, metal or any other product that has been through a process of refining.
Tin:	Tin is refined once processed into tin ingots or other related products.

Group 7.

Illmenite and Rutile:	Illmenite and rutile are refined once processed into titanium slag and sponge, ferrotitanium or pig iron.
Zircon:	Zircon is refined once processed into Zirconia or Zirconium products.

Group 8.

Gold:	Gold is refined once processed to at least 99,5 per cent purity.
Silver:	Silver is refined once processed to silver metal or silver nitrate.