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INTRODUCTORY SPEECH BY THE MINISTER OF FINANCE

MINERAL AND PETROLEUM RESOURCES ROYALTY BILLS, 2008

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1. Introduction

Madam Speaker, before us today is the much anticipated and debated Mineral and Petroleum Resources Royalty Bills, 2008. These Bills complete the policy framework arising from the Mineral and Petroleum Resources Development Act (Act No. 28 of 2002) (the "MPRDA"), which restructured all South African mineral rights. As many in this Assembly remember, the MPRDA requires conversion of all "old order" rights into "new order" rights by 1 May 2009. The newly proposed royalty is designed to tie into this conversion.

It should be noted that the proposed royalties have been the subject of extensive consultation and debate. Numerous meetings and workshops were held to ensure that the final versions of these Bills are consistent with the best interests of all stakeholders and the objectives of the MPRDA.

2. The tax base

In deciding the appropriate base, it is crucial to have a clear understanding of the primary objective of resource royalties. Resource royalties are not a tax; they instead represent compensation for the permanent loss of non-renewable commodities. These royalties are payable to the State as custodian of the country's mineral wealth.

Based on extensive international comparisons and practical considerations, it was decided that the tax base will be the value of the minerals mined and transferred (i.e. an *ad valorem* gross sales charge). We resisted proposals to use the profit of the mine as the base of the royalty calculation. Resource rents or mineral royalties should be payable irrespective of whether mining companies make a profit given the irrecoverable loss of mineral resources.

3. The tax rate

Earlier versions of the Bill provided for different specific royalty rates for the various mineral resources. These different specific royalty rates were largely based on international comparisons and an implicit assumption that the more valuable resources (e.g. diamonds) should be subject to higher royalty rates.

However, a need existed to provide some form of relief in the form of lower royalty rates in the case of marginal mines – both during start-up operations and when a mine is close to the end of its lifespan. In order to remedy these concerns, the final version of the royalty utilises two formulae – one for **refined** mineral as listed in **Schedule 1** and one for **unrefined** minerals as listed in **Schedule 2**.

The logic of having two formulae is that refined minerals have undergone more processing and therefore more costs were incurred to develop the mineral ore into its refined stage. This results in a larger base (gross sales) – hence, the

slightly lower royalty rates. In the case of unrefined minerals, the production chain is shorter, resulting in a relatively smaller tax base – hence, the slightly higher royalty rates.

The formula not only provides automatic relief for marginal mines but also allows for the State to share in the upside in times of high commodity prices. The royalty rate structure should thus provide for long-term certainty and predictability to both the State and the private sector.

4. Community royalties

It is important to stress that the MPRDA protects the right of certain communities to continue to receive community royalties. The proposed royalty equally does not interfere with community royalties. In addition, community royalties will not be allowed as an offset against royalty payments to the State. Contrary to the views of many mining companies and analysts, payments to communities should not be viewed as double royalties. Mining companies and communities are also encouraged, where appropriate, to convert the interests of communities into equity. Some mining companies and communities have already concluded successful negotiations in this regard.

5. Use of revenues from Mineral and Petroleum Resources Royalties

Both labour unions and mining companies have requested that revenues from mining and petroleum royalties be ring-fenced for projects identified in mining towns. The earmarking or ring-fencing of mineral royalty revenues is not supported. Not only is earmarking contrary to sound fiscal policy, but also earmarking would negate the underlying principle of the MPRDA that the minerals of our country belong to all South Africans.

Notwithstanding these concerns, on-budget spending is supported to the extent this spending targets mining and labour supplying communities directed at human and/or local economic development. In this regard, a clear framework to prioritise projects, develop effective partnerships, and governance guidelines will be critical.

6. Concluding remarks

There is much debate about the benefits of being a country that is endowed with mineral and other natural resources. The discovery of minerals with which South Africa is so richly blessed have been critical for the development of the South African economy. Unfortunately, the benefits of these vast mineral resources, some of which are about to be depleted, have historically accrued to only a few. Although the MPRDA lays the foundation to ensure that the mining industry transforms to the benefit of a larger section of our nation, much more needs to be done to ensure that all citizens, ordinary workers and local communities share in these benefits. The Mineral and Petroleum Resources Royalty Bills, of 2008 will make a contribution towards greater transparency, sustainability and this wider distribution of benefits.

I would like to thank Chairman Nhlanhla Nene and the members of the Portfolio Committee on Finance (PCOF) and also the Chairman and members of the Mineral and Energy Portfolio Committee for their valuable role in the process. Madam Speaker, I hereby introduce the “Mineral and Petroleum Resources Royalty Bills, 2008.”