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SPEECH BY THE MINISTER OF FINANCE

MINERAL AND PETROLEUM RESOURCES ROYALTY BILLS, 2008

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1. Introduction

Madam Speaker, as mentioned previously in this House on 24 June 2008, the Mineral and Petroleum Resources Royalty Bills, 2008 give effect to the policy framework arising from the Mineral and Petroleum Resources Development Act (Act No. 28 of 2002), the MPRDA.

The first draft of the Mineral and Petroleum Resources Royalty Bill was published by the National Treasury for comment as far back as 20 March 2003. The Bills being debated today are the fourth drafts and I can safely say that these bills have been the subject of extensive consultation and debate with all relevant stakeholders.

2. The tax base

The Mineral and Petroleum Resources Development Act (Act No. 28 of 2002), the MPRDA, has laid out some important principles that are intended to ensure that all South Africans benefit from the vast mineral resources that South Africa are endowed with.

Based on extensive research and practical considerations it was decided that the **tax base** will be the value of the minerals mined, i.e. **gross sales** less the transport costs between the seller and the buyer of the final product (mineral). Resource rents or mineral royalties should be payable irrespective of whether mining companies make a profit or not.

3. The tax rate

The earlier versions of the Bill provided for various specific royalty rates for different mineral resources. The need to provide some form of relief (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 proved to be a challenge.

To ensure equitable royalty rates and in response to requests for relief for marginal mines a formula based royalty rate structure has been proposed. In terms of the proposed formulae (one for **refined** minerals and one for **unrefined** minerals) the applicable royalty rates will vary according to the profitability of the mining company, subject to a minimum rate of 0.5 per cent and maximum rates of 5.0 and 7.0 per cent for refined and unrefined minerals respectively. For the purpose of these Bills, oil and gas production will be subject to the refined formula. The lower rates for oil and gas are an acknowledgement that there have as yet not been major findings of these resources in South Africa.

The profitability parameter in the formulae is EBIT (earnings before interest and taxation) and it also allows for 100 per cent capital expensing. The 100 per cent capital expensing is an acknowledgement of the high capital costs associated with deep underground mining, currently in the case of gold and in future some other minerals, and of deep level sea oil and gas exploration and production.

The formulae based royalty rate structure 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. Royalty rates will tend to increase as commodity prices increase and *vice-versa*.

4. Community royalties

The MPRDA protects the right of certain communities to continue to receive community royalties. These 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 such payments to communities are not viewed as double royalties. Mining companies and communities are also encouraged, where deemed appropriate, to convert the interests of communities into equity.

5. Use of revenues from Mineral and Petroleum Resources Royalties

The full earmarking or ring-fencing of mineral royalty revenues is not supported. However, government is amenable to consider an on-budget spending programme targeted at mining and labour supplying communities directed at human and or local economic development, where these are properly justified, on a partnership basis. In this regard a clear framework to prioritise projects, develop effective partnerships, and governance guidelines will be critical.

It should also be noted that mineral royalties revenues will tend to be cyclical, especially given the commodity price cycle, and such revenues may decline over the long-term as a result of the gradual depletion of our mineral resources.

6. Concluding remarks

The benefits of our vast mineral resources, some of which are about to be depleted, has historically accrued to only a few. The MPRDA lays the foundation to ensure that the mining industry transforms to the benefit of larger sections of our citizens. The Mineral and Petroleum Resources Royalty Bills, of 2008 will make a contribution towards greater transparency, sustainability and the distribution of benefits to all South Africans.

I want to take this opportunity to thank the Portfolio Committees of Finance and Minerals and Energy and their able Chairs, Nhlanhla Nene and Eugene Ngcobo for their contribution to the final version of the Bill.