MAYER • BROWN

Article

This article was first published in *Mining Journal* on 23 December 2016

From Energy to Mining – a Diversification Strategy

By Ian R. Coles, Partner and Global Head of Mining, Mayer Brown LLP

The collapse of prices in the current energy cycle has – notwithstanding the recent partial recovery – started to stress the economies of several countries in the emerging markets, particularly in Africa. Growth in countries such as Venezuela, Angola, Nigeria and Mozambique during the course of this century has in large part been fuelled by sales of oil and gas to the developed markets in North America, Europe and Asia. With oil prices falling below $50 per barrel growth has necessarily stalled and the governments of several such countries have found themselves unable to meet election promises and budgetary forecasts. Those with available resources have therefore started to turn to developing alternative resources, such as mining, to bolster government revenue.

Nigeria is one country which has started to look at developing a mining industry as a supplemental source of revenue. Historically mining was a significant industry in Nigeria but deteriorated with the rise in energy prices and has struggled to make a significant contribution to national revenue since that time. With plentiful oil and gas deposits mining has historically only accounted for around 0.3% of GDP. The country is quite prospective, with potentially significant iron ore, coal and gold deposits. The government has identified seven minerals as strategic - coal, bitumen, limestone, iron ore, barites, gold and lead/zinc. Estimates of the amounts needed to kick-start development of the industry vary. In the short term experts estimate that an investment of around $500 million is required. In the longer term investment in the region of $7 billion over a period of a decade could be required.

Perhaps less obviously (given its significant wealth) Saudi Arabia is reportedly turning its attention to the mining industry. Saudi Arabia is clearly the richest nation - from the perspective of mineral deposits - in the Gulf region. Principal deposits include gold, copper and phosphate. Press reports suggest that the government intends to install the mining industry as the "third pillar" of the local economy - after oil and petrochemicals. In a recent article Reuters reported on the opening of a $35 billion mining and minerals processing complex. Projects within the complex include a $5.6 billion phosphate project operated in partnership between Ma'aden (the SOE established for investment in the mining industry) and SABIC as well as a $10.8 billion aluminium facility operated by Ma'aden and Alcoa. However, investment in the industry has to date been funded principally by the government. With government finances running in the red if the mining industry is to expand then external sources of funding will need to be found. If the government is to reach its target of increasing the contribution to GDP made by the mining industry to $64 billion by 2030 (by which time, according to some analysts, Saudi Arabia could be a net oil importer) this is going to involve a significant amount of external investment.

Angola is another jurisdiction which has been impacted by falling energy prices and has indicated an intention to invest substantially in the growth of the mining industry. Historically the mining industry in Angola has concentrated on diamonds. The government believes that potential for expansion of the

Ian R. Coles
Partner and
Global Head of Mining, London
E: icoles@mayerbrown.com
T: +44 20 3130 3205

diamond business is substantial although obviously international competition from the likes of Botswana and Russia is significant. The mining industry in Angola is growing at the rate of 5.3% per annum and is expected to be worth $7.5 billion in 2018. Angola is the world's 4th largest diamond producer and while diamonds will continue to be the principal product iron ore, copper and phosphates are expected to increase in importance. However the mining industry still only generates 5% of GDP. At a Chatham House presentation in 2014 the government explained that the two main methods of increasing investment in the mining sector would be to enhance the attractiveness of the local mining code and the National Geology Plan. To date it is not clear whether either goal has been accomplished. On the other hand infrastructure - in particular transportation - is in the process of being developed. The current domination of the energy industry is shown by the fact that oil exports have historically accounted for around 97% of external revenue. The danger of reliance on the industry is equally illustrated by the fact that foreign currency inflow generated by oil exports in 2015 was 44.5% down from the previous year. As with many other countries looking to expand revenue from the mining industry the principal challenge is to identify the sources of investment which will provide the growth. In an interview held earlier this year the Minister of Geology and Mining stated that current available projects alone would require $1.58 billion of investment. These included an iron-ore project in Cutato-Cuchi as well as a phosphate project in Lucinda and a gold project in Mpompo. Due to constraints on funds available to the government the implementation of the National Geology Plan seems likely to be delayed to 2018. Very recent reports suggest that the government is considering the creation of a mining investment fund to attract investors to the industry.

In summary over the last couple of years many countries have announced plans to expand their mining industries as a reaction to declining energy prices and the knock-on effect to growth plans for local economies. The challenge to accomplishing this however are two-fold. First, long term planning is required to grow a sustainable mining industry. A favourable legal and regulatory structure is required as well as plans to develop local physical infrastructure necessary for mining. The danger is that the stated intent to grow mining activity is merely a knee-jerk reaction to a revenue crisis which will be summarily forgotten when energy prices rebound (as inevitably they will). Second, substantial investment is required at a time when most emerging market governments simply don't have the revenue. International investment will therefore be key.

Mayer Brown is a global legal services provider advising many of the world's largest companies, including a significant portion of Fortune 100, FTSE 100, CAC 40, DAX, Hang Seng and Nikkei index companies and more than half of the world's largest banks. Our legal services include banking and finance; corporate and securities; litigation and dispute resolution; antitrust and competition; US Supreme Court and appellate matters; employment and benefits; environmental; financial services regulatory and enforcement; government and global trade; intellectual property; real estate; tax; restructuring, bankruptcy and insolvency; and wealth management.

Please visit www.mayerbrown.com for comprehensive contact information for all Mayer Brown offices.

Mayer Brown comprises legal practices that are separate entities (the "Mayer Brown Practices"). The Mayer Brown Practices are: Mayer Brown LLP and Mayer Brown Europe-Brussels LLP, both limited liability partnerships established in Illinois USA; Mayer Brown International LLP, a limited liability partnership incorporated in England and Wales (authorized and regulated by the Solicitors Regulation Authority and registered in England and Wales number OC 303359); Mayer Brown, a SELAS established in France; Mayer Brown Mexico, S.C., a sociedad civil formed under the laws of the State of Durango, Mexico; Mayer Brown JSM, a Hong Kong partnership and its associated legal practices in Asia; and Tauil & Chequer Advogados, a Brazilian law partnership with which Mayer Brown is associated. Mayer Brown Consulting (Singapore) Pte. Ltd and its subsidiary, which are affiliated with Mayer Brown, provide customs and trade advisory and consultancy services, not legal services.

"Mayer Brown" and the Mayer Brown logo are the trademarks of the Mayer Brown Practices in their respective jurisdictions.

© 2016 The Mayer Brown Practices. All rights reserved.