

Snapshot: the Ethiopian Mining Industry

Ethiopia has many of the essential elements required for success as a mining nation. It is unquestionably resource rich, with a vast breadth of undeveloped minerals and resources, including significant gold and tantalum deposits. Positioned in the Horn of Africa, it is also strategically located for foreign investment from Europe, Asia and Australia. Finally, together with a stable political environment and a recently revamped mining code it is highly attractive to investors. Indeed, its mining code has been designed to promote transparency and fair investment in Ethiopia and is similar to the best practices of well-known mining countries. Public enterprises continue to dominate Ethiopia's developing economy, but the potential for private investment remains largely untapped.

However, Ethiopia has its fair share of challenges not only for investors, but also for the Ethiopian government and local communities. Ethiopia is one of the poorest countries in the world, with an extremely low per capita income and high rates of unemployment. Currently Ethiopia's economy revolves around agriculture, and is one of Africa's leading coffee producers, but the industry is subject to constant threats of drought and other natural disasters. Ethiopia is also recovering from a protracted war with neighbouring Eritrea, which formally ended in 2000.

This article is a snapshot of the mining industry in Ethiopia, summarising briefly recent legislative reforms and initiatives in the mining sector. It includes mining code requirements and in our experience, some of the practical issues that may be faced by investors.

Current state of mining in Ethiopia

A wide variety of mineral resources are available in Ethiopia and in particular gold production is considered to have huge potential. While the history of mining can be traced back to Biblical times, there has

been a recent spike in interest, with reports of investors from China, India, Germany, Australia, Sweden and South Korea each actively seeking to become key stakeholders in upcoming mining projects. For example, mining giants Vale and BHP are already working on projects near the Oromia region and actively exploring for further gold reserves and base metals, such as silver, copper, cobalt and zinc. Additional explorations have confirmed the presence of deposits of platinum, tantalite, soda ash and phosphate rock. Petroleum and other metallic, industrial and chemical minerals have also been identified. The Ministry of Mines and Energy of Ethiopia (the "**Licensing Authority**") which is responsible for issuing licences and regulating mining activity, has confirmed there has been a recent increase in applications for exploration licences.

Recent legislative reforms and initiatives to encourage investment in mining sector

Ethiopia opened its mining sector to private investors in 1991. The recent enactment of the Mining Operations Proclamation No. 678/2010, which came into effect in 2010, revised mining laws in Ethiopia by broadening the range of mining licences available. The Proclamation confirms the requirement for environmental impact assessments and regulates health and safety matters. New legislative incentives have been introduced. These include lower royalty payment levels, exemption from customs duty and taxes on mining equipment, guarantees in respect of the right to sell minerals locally or abroad and the availability of dispute resolution procedures, such as arbitration.

The Ethiopian government provides guarantees in respect of the opening of a local account in a foreign currency, retaining foreign currency earnings and remittance of profits, dividends, principal and interest on foreign loans out of Ethiopia.

Mining code requirements

Five types of key licences can be issued by the Licensing Authority, being summarised as follows:

- *Non-exclusive reconnaissance licence* – is valid for up to 18 months and is not renewable. An applicant must show that it has sufficient financial resources and technical ability to conduct the proposed exploration, that the estimated expenditure complies with the prescribed minimum exploration expenditure and the environmental impact plan is approved.
- *Exploration licence* – is valid for up to three years and may be renewed twice for a period of up to one year. The licensee has the right to apply for and be granted a retention licence or a mining licence. Such licensee may remove and transport minerals found during exploration to conduct tests with the prior written consent of the Licensing Authority. The licensee must commence exploration activity within 60 days from the date of the licence and keep duplicates of samples removed and transported for tests or analysis.
- *Retention licence* - is granted for up to three years and can be renewed for up to three years. Applicants must demonstrate the discovery of a mineral deposit which is of commercial significance and cannot be developed immediately because of adverse market conditions or unavailable processing technologies. The licensee has the right to be granted a mining licence prior to the expiry of the retention licence. Annual progress reports are required to be submitted to the Licensing Authority regarding market conditions and technical factors, noting why a retention licence is required and what efforts are being taken to ensure mining operations commence before expiry of the licence.
- *Small and large scale mining licences* – are granted to applicants where the proposed work program is approved, the applicants have access to financial resources and technical ability to conduct the proposed mining operations and the environmental impact assessment has been approved. A small scale licence is valid for up to ten years and may be renewed for up to five years. A large scale mining licence is valid for up to twenty years and may be renewed for up to ten years. The holders of small or large scale mining

licences shall have the right to market and sell the minerals produced. In addition, mining operations must be commenced within one year from the date on which the licence becomes effective.

- *Artisanal mining licence* - provides an exclusive right to explore and mine for the minerals within the licence area. A licensee shall be obliged to undertake mining operations according to the environmental, health and safety standards prescribed for artisanal mining in the relevant laws. This type of licence is valid for up to three years and may be renewed twice for three years each.

Practical issues

While practical issues faced often largely depend on the nature and size of the project, we have summarised a few of the key issues and risk factors for investors in the region:

- **Terrorism** - with radical groups such as the Oromo Liberation Front (the “OLF”) continuing to resist and attempting to undermine the current government, the EPRDF coalition, terrorism is a real threat in Ethiopia. While most recently on 1 January 2012 it was reported that the OLF had dropped its secessionist demands for the Oromia region, the real risk of violence (to personnel), damage to equipment and conflict continues to affect mining projects. Large gold deposits have been found in Oromia’s Okote area and terrorist activities are likely to affect commercial assets and individuals associated with the government, which would include gold mines as Adola and Birbir Valley in Wollega.
- **Inflation** - Ethiopia is currently experiencing high inflation rates which are continuing to undermine growth and poverty reduction efforts. Inflation appears to have been caused by heavy monetary financing into the public sector.
- **Infrastructure** - Given the size of the country, infrastructure and local services are severely underdeveloped. As mineral development sites are often in remote areas, with little to no infrastructure, they are sometimes only accessible by camel or helicopter. As a result any long term investment in Ethiopia will require investment into road development, water access and general infrastructure needs.

- **Lack of skilled professionals** – Coupled with Ethiopia’s high rates of unemployment, the lack of skilled professionals in Ethiopia (such as geologists, mining engineers or servicer providers) in common with other jurisdictions is a key practical issue for investors. Working alongside government led efforts to train and develop specialists in this country is a key capacity building factor for any project of this nature.

As with all mining projects, a sustainable and successful project, is in part dependent upon the degree of engagement with the local community and government, as cooperation and communication can be key mitigating factors against the risks and practical issues outlined above. Ethiopia may face certain practical issues, these are certainly not insurmountable or uncommon in the African region. It is well publicised that investors are aware of the country’s mineral rich landscape. Therefore, with the continued efforts of the Ethiopian government to utilise its newly established mining legislation and assist in mitigating against the practical issues faced by investors, it is a country to be carefully monitored for its plethora of investment opportunities.

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