PERFORMANCE OF THE MINING INDUSTRY IN 2015

GHANA CHAMBER OF MINES

Overview of the Global and Ghana's Economic Performance in 2015

On the back of contrasting growth outturns in the advanced and developing regions, global economic growth slowed down from 2.6 percent in 2014 to 2.4 percent in 2015, representing a 7.7 percent dip in economic activity. In 2015, developing countries recorded an average growth rate of 4.3 percent relative to 4.9 percent in 2014, the lowest since 2008, while economic activity in the former declined marginally to 1.6 percent as compared to 1.7 percent over the corresponding period.

The primary drivers of the lower than anticipated growth outturn in developing economies were the bearish commodity prices, subdued global trade, heightened financial risk due to the imminent hike in the US policy rate and massive capital outflows. Particularly, the sub-economy's engine of growth, China, experienced bouts of volatility on its stock exchanges, unexpected changes in its exchange rate regime and correction of over-valued assets. This culminated in the tapering of China's growth from 7.3 percent in 2014 to 6.9 percent in 2015. Growth in sub-Saharan Africa also declined from 4.6 percent to 3.4 percent over the same period.

On the other hand, the near-convergence in monetary policy, growth in domestic demand and recovery of the labour market combined to lever up economic growth in the advanced countries. The United States, Euro Area and Japan recorded growth in their respective Gross Domestic Product (GDP) while growth outturn in the economies of United Kingdom and Russia was sluggish in the corresponding period.

The World Bank estimates that global GDP will expand by 2.9 percent in 2016 as advanced countries consolidate their pro-growth policies and their peers in the developing region emerge out of the cyclical and structural challenges that encumbered their economies. However, the gradual but expected tapering of the fiscal stimulus programme by the United States' Federal Reserve Bank could potentially lower global growth by triggering reverse capital flows from developing countries, appreciation of the dollar relative to other currencies and the associated rise in sovereign debt. The net impact of the so called lift-off, however, depends to a large extent on the nature of monetary policy in the other advanced countries as well as the policy response of developing nations.

In addition to the challenging external environment, the combination of persistent disruption in the supply of electricity to households and firms, sudden significant increment in the price of fuel products and electricity tariff paid by domestic consumers as well as the sluggish prices of export commodities, curtailed Ghana's economic growth in 2015. Real GDP increased from 4 percent in 2014 to 4.1 percent in 2015. The Industrial sector recorded the highest growth rate of 9.1 percent in 2015 relative to 0.8 percent in 2014, mainly due to the stand-out performance of the construction sub-sector which grew by 30.6 percent. Two (2) out of the five (5) sub-sectors of the Industrial sector recorded negative growth rates. Specifically, mining and quarrying as well as manufacturing sub-sectors contracted by 3.8 percent and 2.0 percent respectively. The other sub-sectors, electricity as well as water and sewerage, expanded by 3.2 percent and 15.6 percent respectively. The Services sectors trailed the Industrial sector with a growth rate of 4.7 percent and there was no growth in the Agricultural Sector.

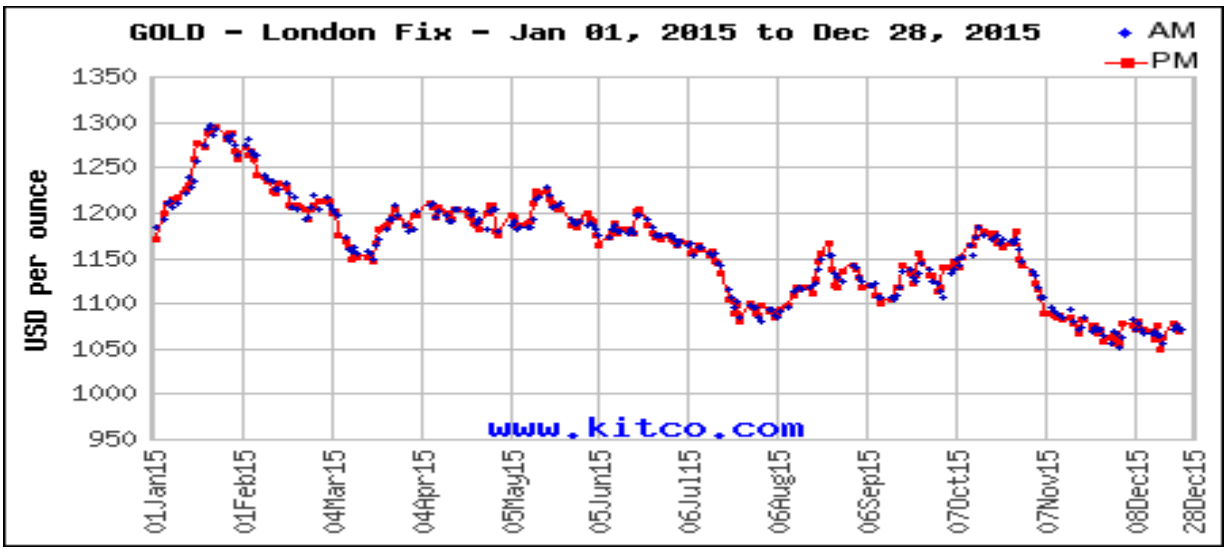
In terms of contribution of GDP, the Services sector continued to be the highest contributor with a share of 54.1 percent in 2015 as compared to 51.9 percent in 2014. Following its impressive growth rate, the contribution of the Industrial sector to GDP expanded marginally from 26.6 percent in 2014 to 26.9 percent in 2015. However, the share of Agriculture in GDP declined from 21.5 percent to 19 percent over the same period.

Based on the resolution of the deficit in supply of electricity and policy credibility gains elicited by the country's Extended Credit Facility Programme with the International Monetary Fund (IMF), the World Bank projects that growth rate will increase to 5.9 percent by the end of 2016. The downside risks to the forecasted trajectory of growth are the perennial fiscal slippage, particularly in the run up to the national election, relapse of the curtailment in supply of electricity, poor outturn of export commodity prices and the spill-over effect associated with the expected rise in the policy rate of the US Federal Reserve Bank.

Overview of Global Gold Industry in 2015

After recovering from its 2014 lows, the traded price of gold on the London Mercantile Stock Exchange trended upwards until it reached an all year-high price of US$ 1,296 in mid-January 2015. On the back of an appreciation in the value of the US Dollar and expected rise in the US Federal Reserve's policy rate, investors reallocated their assets away from bullion investments. The sudden glut in supply of gold induced a steady decline in its price till the middle of March. It then rallied upwards and oscillated between a price range of USD 1,150 and USD 1,085 from March to August. It momentarily returned to the trajectory of growth and tumbled to its lowest traded price of USD 1,049 at the end of the year. Overall, the cumulative average price of the yellow metal dropped from USD 1,266 in 2014 to USD 1,160, in 2015, representing a year-on-year decline of 9 percent.

Fig 1: Trend in Gold Price (2015)



Source: www.kitco.com

The price outturn of gold was largely a reflection of the undercurrents of demand and supply conditions in 2015. Total physical demand for gold contracted by 2 percent to 4,124 tonnes in 2015. The five-year low demand was largely attributable to the simultaneous decline in the demand for gold used in jewellery and industrial fabrication, which outweighed the growth in net official sector purchases as well as investment demand.

On the supply side, total mine production increased for the seventh successive year from 3,131 tonnes in 2014 to 3,158 tonnes in 2015. The 0.8% increment in mine supply was driven by growth in output from Indonesia and the United States, which offset the slump in production from major producers such as Ghana, South Africa and China. The world's largest producer of gold, China, recorded a 20 tonne reduction in its output, from 478.2 tonne in 2014 to 458.1 in 2015. According to the GFMS Gold Survey (2016), this outcome was precipitated mainly by the softening of gold price which compelled high cost producers in the country to suspend production. With a 15 percent increase in output, Indonesia was the stand out performer in gold production for 2015. Even though other producers on the Asian continent recorded significant expansion in their output, the recession in China's output slowed total output growth to 0.2 percent, from 873.6 tonnes in 2014 to 875.9 tonnes in 2015.

All three (3) producers of gold in North America; United States, Mexico and Canada, reported growth in production, which culminated in the continent's highest output of 499.3 tonnes since 2001. Specifically, output from the United States, Canada and Mexico increased from 208.7 tonnes to 216 tonnes, 152.1 tonnes to 158.7 tonnes and 117.8 tonnes to 124.6 tonnes from 2014 and 2015 respectively. On the contrary, gold output in South America was mixed. Gold Production in Peru, the leading gold producer in the continent, increased marginally by 1.6 percent to 175.9 tonnes in 2015 whilst Chile recorded the largest decline in output, from 44.2 tonnes in 2014 to 40.4 tonnes in 2015. As a result of the divergent performance in production, the continent's gold output increased by approximately 100 basis points, from 549.2 tonnes in 2014 to 554.4 tonnes in 2015.

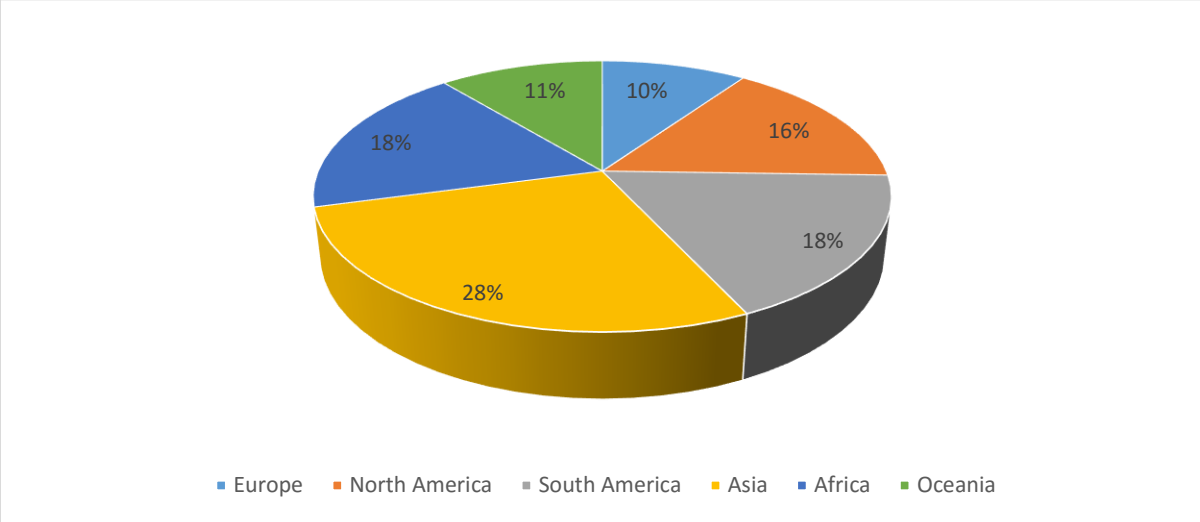
A 2 percent increase in Russia's gold output, Europe's top producer, pushed total gold production on the continent from 304.7 tonnes in 2014 to 305.4 tonnes in 2015, representing a growth rate of 1.9 percent. Australia's gold output also increased by 1.9 tonnes to 275.9 tonnes in 2015. Coupled with increases in output from other producers, total gold production from Oceania grew by 0.8 percent, from 343.7 tonnes in 2014 to 346.7 tonnes in 2015.

Total gold output by African countries reduced from 581.7 tonnes in 2014 to 576 tonnes in 2015. The near one percent decline in output was triggered by a slump in output from South Africa, Ghana and Sudan, which masked the impressive output performance of other producers such as

Democratic Republic of Congo, Mali, Cote D'Ivoire and Zimbabwe. The output of the continent's two largest producers, South Africa and Ghana, receded steeply by 9 percent to 150 tonnes and 12 percent to 95 tonnes in 2015 respectively. It must be noted that the contraction in Ghana's gold output was the highest on the continent and second to China at the global level.

Despite the peculiar country challenges and diverse performance, the five (5) leading producers of gold in 2015 were unchanged relative to 2014. Canada displaced South Africa as the sixth largest producer of gold and Indonesia moved up to the eighth position on the log of gold producers. Ghana maintained its position as the tenth largest producer of gold, accounting for 3 percent of global gold output.

Fig 2.0: Distribution of Gold Output by Continent

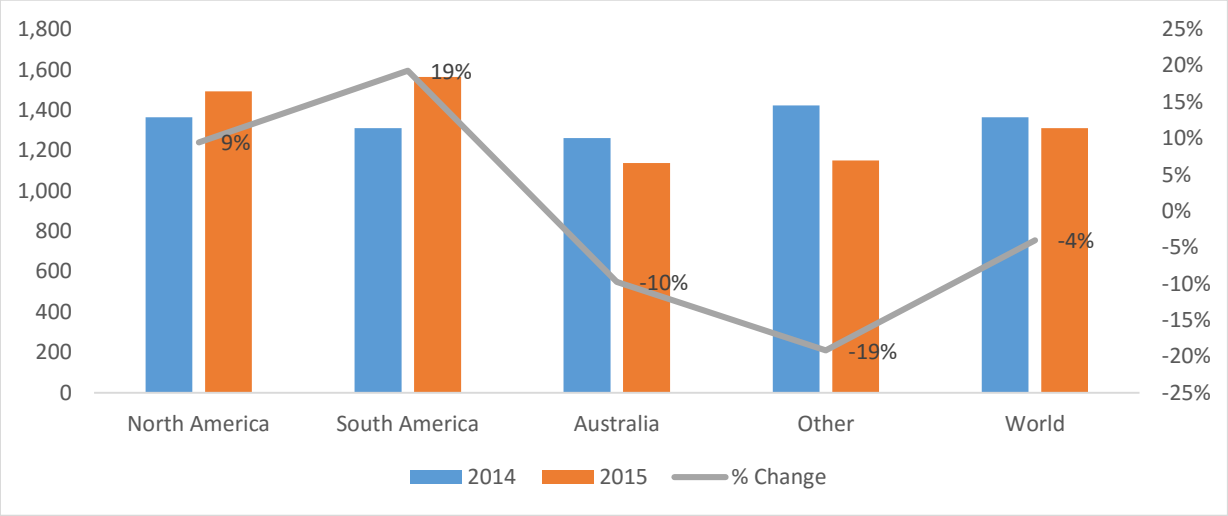


Source: Based on data from GFMS Gold Survey, 2016

In line with the softening prices, most gold producers continued to reorganize and streamline their business processes in order to rein-in costs. These cost curtailment measures which have been pursued since 2013, particularly, led to decline in global cost of gold production. The average all-in-cost of production, which is the summation of total production costs, ongoing capital expenditure, indirect costs and overheads, reduced from USD 1,365 in 2014 to USD 1,310 in 2015, a fall of 4 percent. While this outturn may be explained by multiple factors, the decline in crude oil price and appreciation of the US Dollar are often cited as the principal drivers of the cost

reduction in 2015. Australia recorded a 10 percent year-on-year decline in all-in-cost of production, the largest decline in cost by a producing country in 2015. As shown in Fig 3.0, all-in-cost increased by 9 percent and 19 percent in North America and South America respectively.

Fig 3.0: Regional All-In-Cost of Gold Production (USD)



Source: GFMS Gold Survey, 2016

The Performance of the Ghanaian Mining Industry in 2015

The GFMS Gold Survey (2016) reports that total gold output in Ghana shrank by nearly 12 percent to 95 tonnes in 2015, relative to 107 tonnes in 2014. Ghana's poor gold output performance is partly explained by the suspension of mining by AngloGold Ashanti Obuasi, persistent curtailment in supply of electricity and a general rise in the cost of doing business. Notwithstanding the particularly difficult business environment faced by gold miners and producers of other minerals, the industry continues to be the bastion of value to support the developmental objectives of the country.

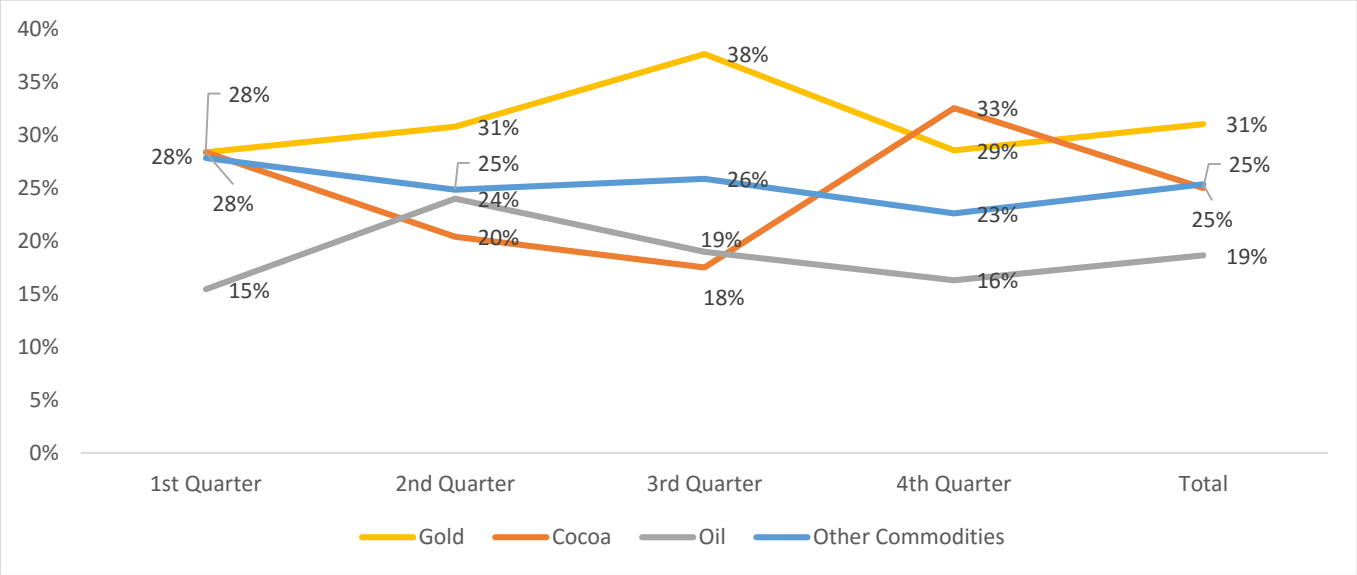
Local Impact across the Value Chain

Statistics from the Ghana Revenue Authority (GRA) indicates that the minerals and mining sector continues to be a leading source of fiscal revenue for the country. Its contribution to the national kitty in 2015 was GH₵ 1.35 billion. Even though it represents an 8 percent increment over the GH₵ 1.24 billion recorded in 2014, the mining industry's share in total direct tax ebbed from

16.2 percent in 2014 to 14.8 percent in 2015. The sector's fiscal payments comprised GH₵ 463.12 million in corporate taxes, GH₵ 485.6 million in royalties, GH₵ 404.74 million in PAYE and GH₵ 0.87 million in other taxes.

Against the backdrop of persistent deficit in trade balance and its induced negative effect on the exchange rate, price level and overall monetary policy objective of the Central Bank, the regular supply of foreign exchange is fundamental to achieving macroeconomic stability. Through its supply of forex to the banking system, usually above the statutory retention of 20 percent, the mining sector contributes significantly to the attainment of monetary policy goals. According to the Bank of Ghana, the mining sector was the leading source of foreign exchange in 2015, contributing in excess of 31 percent of total merchandize exports. Invariably, the inflows from the mining sector contributed largely to the relative stability of the local currency in 2015.

Fig 4.0: Share of Commodity in Merchandize Exports (2015)



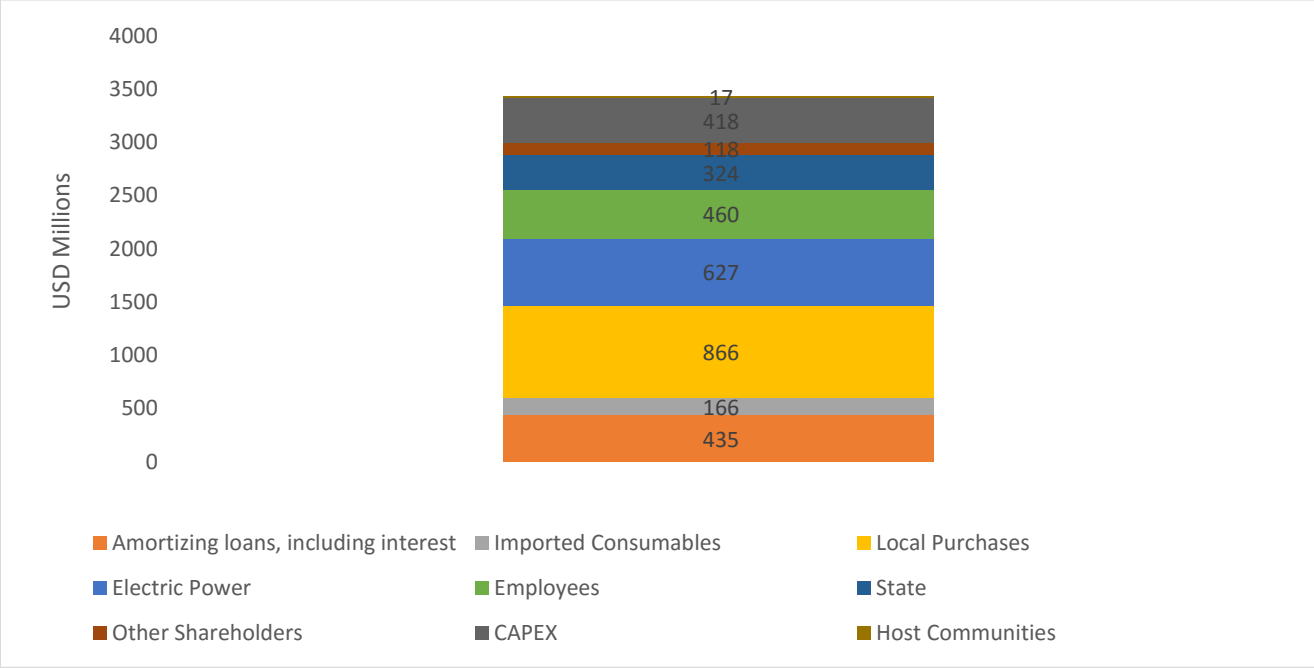
Source: Based on data from the Bank of Ghana

In the year under review, producing member companies of the Chamber returned 85 percent of their realized mineral revenue, USD 3.1 billion, into the country. USD 2.1 billion out of the repatriated revenue of USD 2.6 billion was returned through the commercial banks and the remnant via the Central Bank. The companies spent 28 percent of their mineral revenue on local purchases,

which represents a nominal value of USD 865 million. Similarly, USD 166 million was used in importing consumables to support the production process. It is worth mentioning that expenditure on local purchases increased from 18 percent of mineral revenue in 2011 to 28 percent in 2015 while expenditure on imported consumables declined to 5 percent from 15 percent over the same period. This impressive outturn underscores our member companies' commitment to local content so as to deepen the integration of their operations into the non-mineral economy by substituting imported inputs with comparable domestic products.

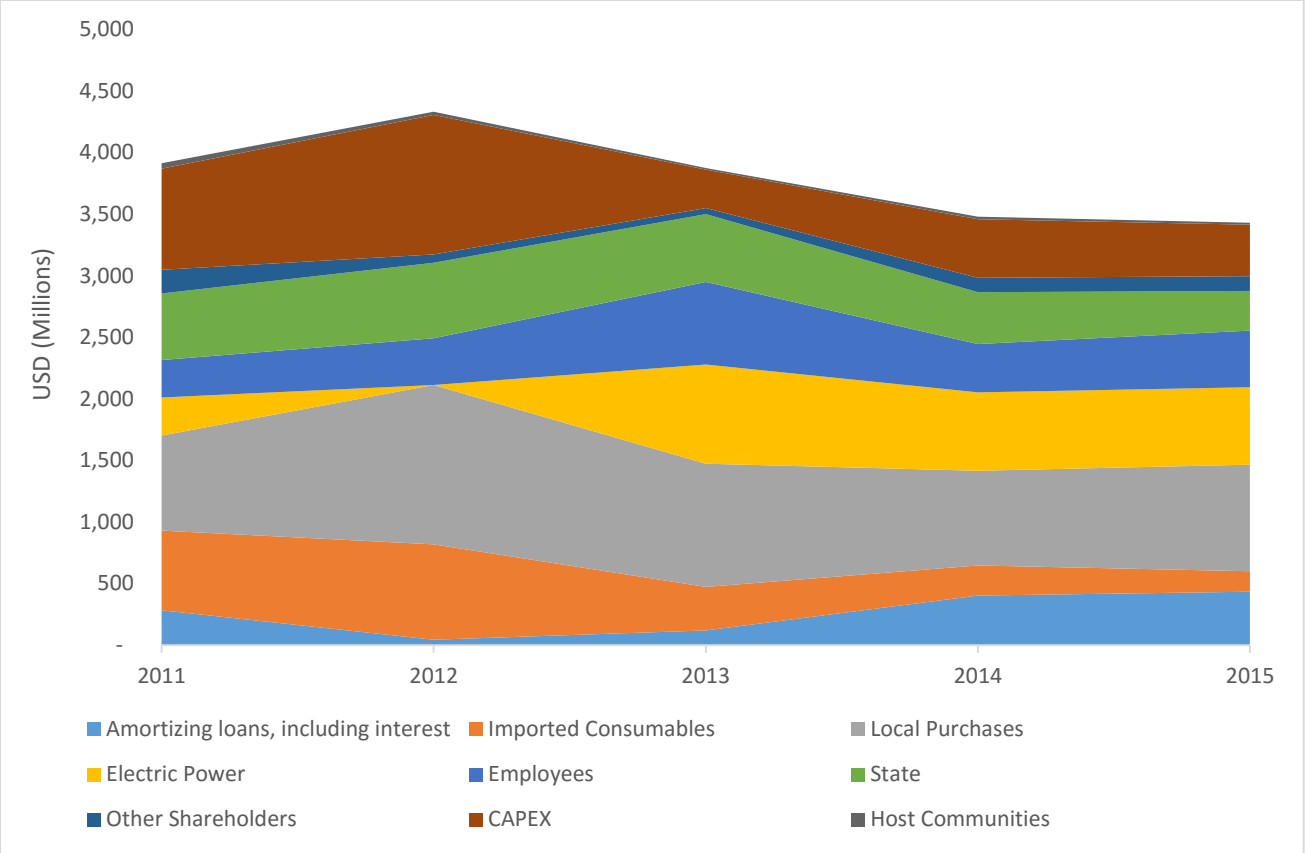
Expenditure on electricity and diesel increased from 17 percent of mineral revenue in 2014 to 20 percent of mineral revenue in 2015 whereas the proportion of mineral revenue spent on amortization increased by 300 basis points to 14 percent. Employees, CAPEX and the state accounted for 15 percent, 13 percent and 10 percent of the realized mineral revenue respectively. Conversely, dividend payments to other shareholders represented 4 percent of the total revenue in 2015. As an organization committed to supporting the development of host mining communities, our producing member companies invested USD 17.09 million in a variety of social and economic projects.

Fig 5.0: Distribution of Mineral Revenue to Big Ticket Items and Beneficiaries in 2015



Source: Ghana Chamber of Mines

Fig 6.0: Trends in Distribution of Mineral Revenue (2011-2015)



Source: Ghana Chamber of Mines

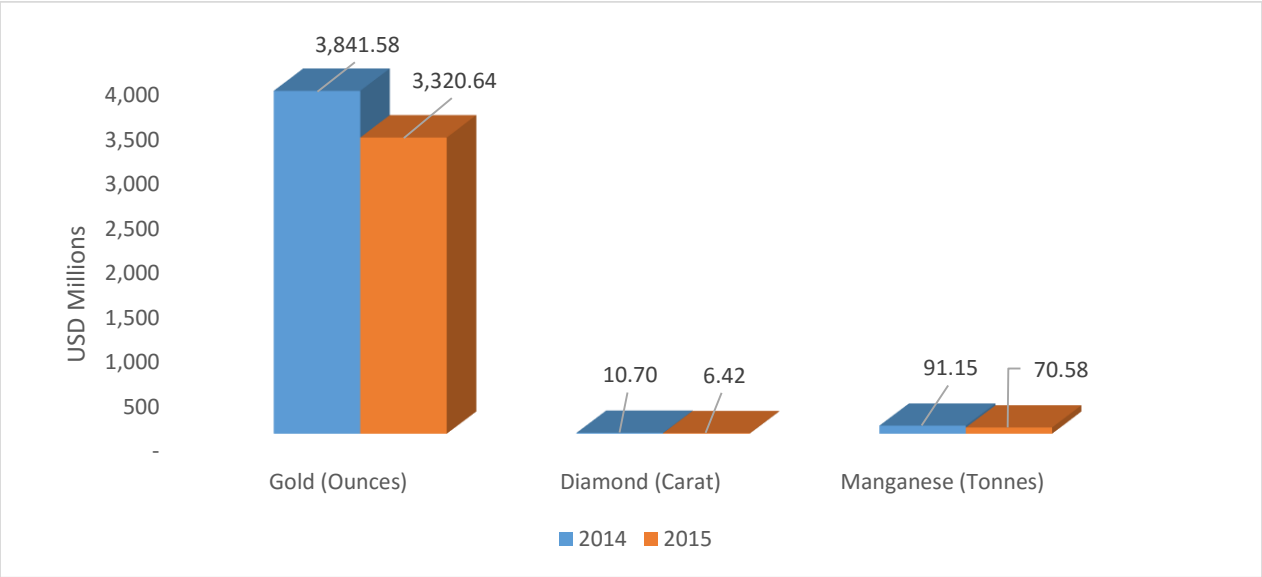
The total workforce employed by the producing member companies stood at 9,939 at the end of 2015 as compared to 12,382 in 2014. Natural employee attrition and staggered employee rationalization at the various mines are the main reasons for the 20 percent reduction in total employment. Ghanaian employees constituted 98 percent of the labour force, with the remaining employees being expatriate.

Output and Revenue of Members of the Chamber

For the third consecutive year, member companies of the Chamber reported a decline in their aggregate mineral revenue. Proceeds from the export of minerals contracted by 14 percent, from USD 3.94 billion in 2014 to USD 3.39 billion in 2015. Coupled with the softening of gold price, the reduction in mineral revenue was explained by the downturn in production and purchases of gold as well as shipments of manganese. While the latter recorded a 5 percent dip in total shipments,

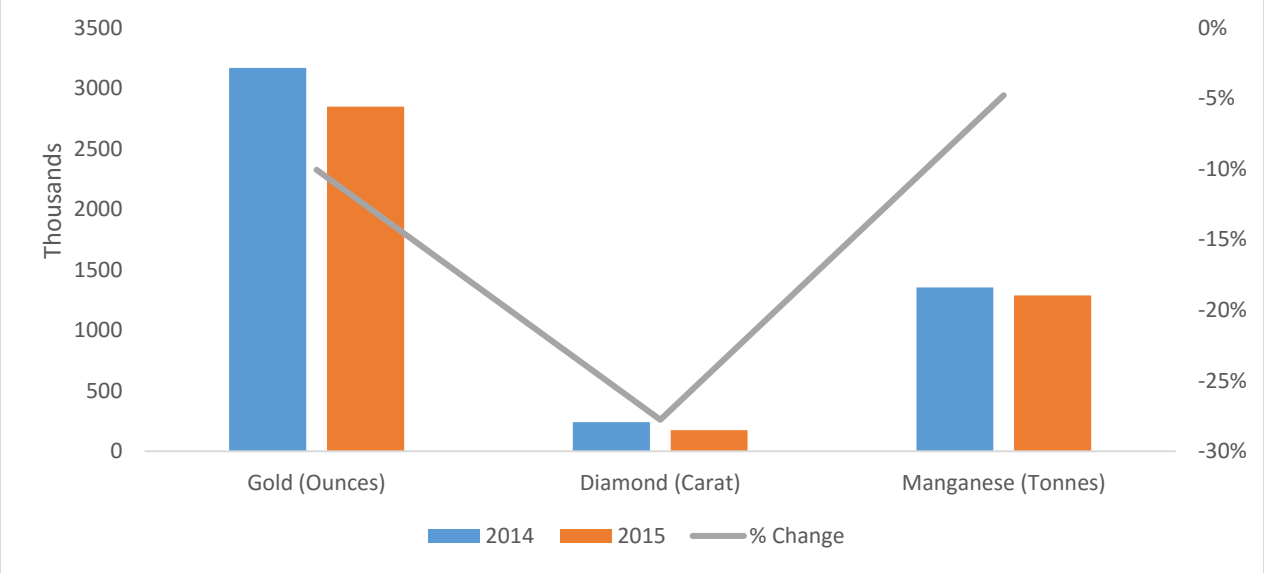
the volume of gold exports withered by 10 percent. Similarly, purchases of diamond by Precious Minerals and Marketing Company (PMMC) decreased by 28 percent.

Fig 7.0: Comparison of Mineral Revenue (2014 and 2015)



Source: Ghana Chamber of Mines

Fig 8.0: Production of Member Companies by type of Commodity



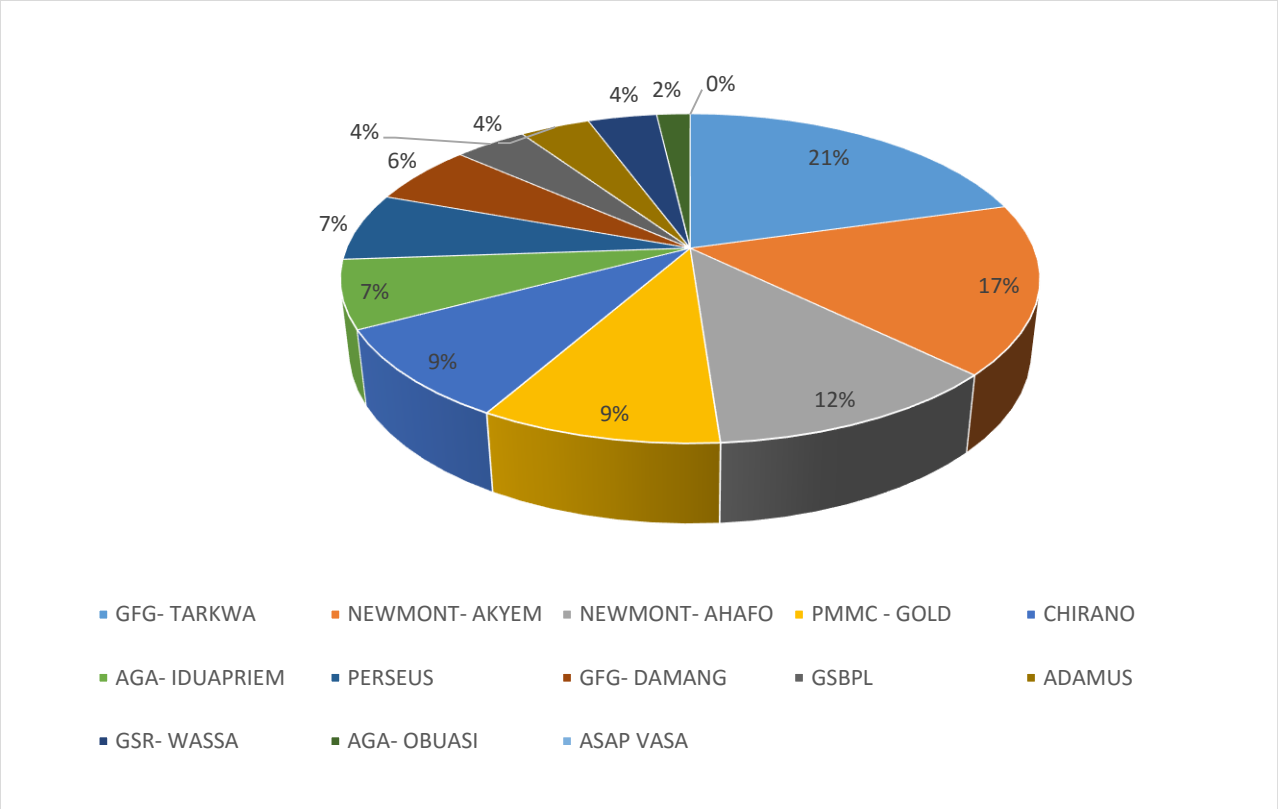
Source: Ghana Chamber of Mines

Revenue from Ghana's preponderant mineral, gold, fell to USD 3.32 billion 2015 as compared to USD 3.84 billion in 2014. The 14 percent reduction in revenue was precipitated mainly by the plunge in output of member companies and average realized gold price. Total gold output dropped from 3.1 million ounces in 2014 to 2.8 million ounces in 2015. The steep decline in overall output could be attributed to the declines in production at AngloGold Ashanti Obuasi, Golden Star Bogoso Prestea, Abosso Goldfields, Golden Star Wassa, Chirano, Newmont Ahafo and purchases by ASAP VASA. While the other member companies, namely, AngloGold Ashanti Iduapriem, Gold Fields-Tarkwa, Newmont Akyem, Adamus, Perseus and PMMC recorded growth in output, it was insufficient to offset the dip in output from the previously mentioned companies.

The output of the country's largest mine, Gold Fields-Tarkwa, increased by 5 percent to 586,051 ounces in 2015 relative to 558,222 ounces in 2014. The modest growth in production was due to higher grades mined from the Teberebie pillar and adjoining areas in the main pit as well as improvement in the throughput of the processing plant. In contrast, the output of Abosso Goldfields-Damang, ebbed from 177,741 ounces in 2014 to 167,831 ounces in 2015. The 6 percent reduction in gold output was driven partly by the processing of lower grade ore. This challenge was on account of the mine's inability to expose the available higher grade ore in the Juno South East and Saddle Bridge areas of its pit. As a result of the mixed output of both mines, Gold Fields Ghana's share in total gold output stood at 27 percent at the end of 2015 as shown in Fig 9.0.

Newmont maintained its position as the largest gold mining group in Ghana with a share of 29 percent in total output. Newmont-Akyem, the second largest producer of gold, recorded a marginal 0.2 percent lift in its output. The expansion of production from 471,658 ounces in 2014 to 472,632 ounces in 2015 was in line with the company's objective to consolidate output growth. Conversely, the curtailment in supply of electricity and cessation of mining in the Awonsu pit of Newmont-Ahafo led to a 25 percent reduction in output, from 442,020 ounces in 2014 to 331,507 ounces in 2015.

Fig 9.0: Share of Member Company in Total Gold Output (2015)



Production at Golden Star Wassa and Golden Star Bogoso Prestea plummeted from 112,835 ounces in 2014 to 108,266 ounces in 2015 and 147,957 ounces to 114,150 ounces over the corresponding period respectively. Whereas the 23 percent decline in production of Golden Star Bogoso Prestea was attributable to low grade ore and the associated suspension of the refractory operation in the third quarter, Golden Star Wassa's 4 percent fall in output was explained by lower throughput.

The output of AngloGold Ashanti-Iduapriem in 2015 increased by 9 percent to 192,522 ounces in 2015 as compared to 176,930 ounces in 2014. Following a full year of limited mining operations, output from the Obuasi mine of AngloGold Ashanti shrank precipitously from 243,223 ounces in 2014 to 52,648 in 2015. The 78 percent downturn in Obuasi's output waned AngloGold Ashanti's aggregate output from 420,153 ounces in 2014 to 245,170 ounces in 2015. This represents a 42 percent reduction in output.

Lower grades from the Akwaaba underground deposit counteracted the improvement in the throughput of the processing plant of Chirano Gold Mine. As a result, total output in 2015 declined to 255,379 ounces relative to 285,848 ounces in 2014, a fall of 11 percent.

Output at the Nzema mine of Endeavour Mining, also known as Adamus, grew by 25 percent. Specifically, production increased from 88,476 ounces in 2014 to 110,401 ounces in 2015.

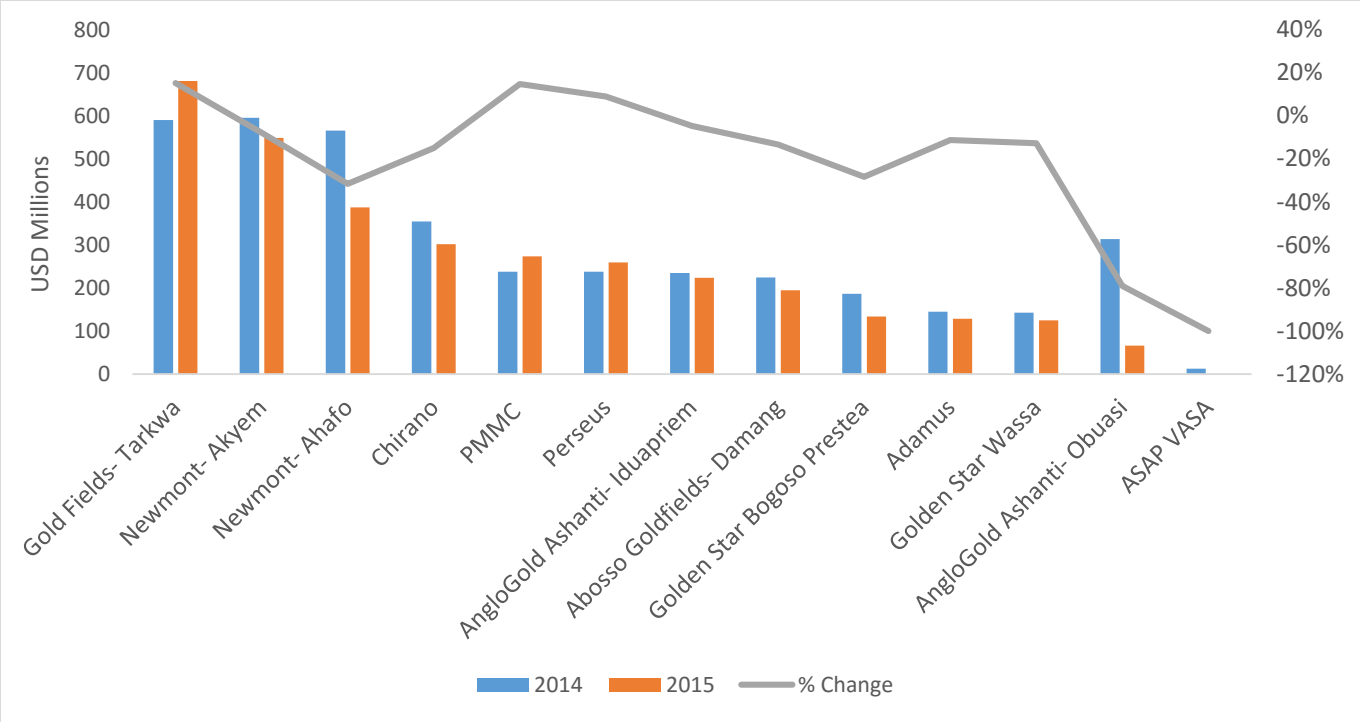
Perseus mine's output expanded by a percentage point, from 187,362 ounces in 2014 to 189,527 ounces in 2015. The slight upturn in production was ascribed to higher average head grade, increased recoveries and a strong trend of improvements in almost every aspect of the mine's operation.

Purchases of gold by PMMC from small-scale miners in 2015 inched upwards to 267,662 ounces relative to 265,350 ounces in 2014. This represents a 100 basis points rise in output. ASAP VASA, on the other hand, did not make any purchase of gold in 2015 as a result of cash flow challenges.

The sole buyer of diamond from small scale miners, PMMC, reported a 28 percent plunge in its purchases. Total purchases and export of diamond decreased from 241, 120 carats to 174,188 carats in 2015, with corresponding revenue of USD 10.7 million and USD 6.4 million respectively.

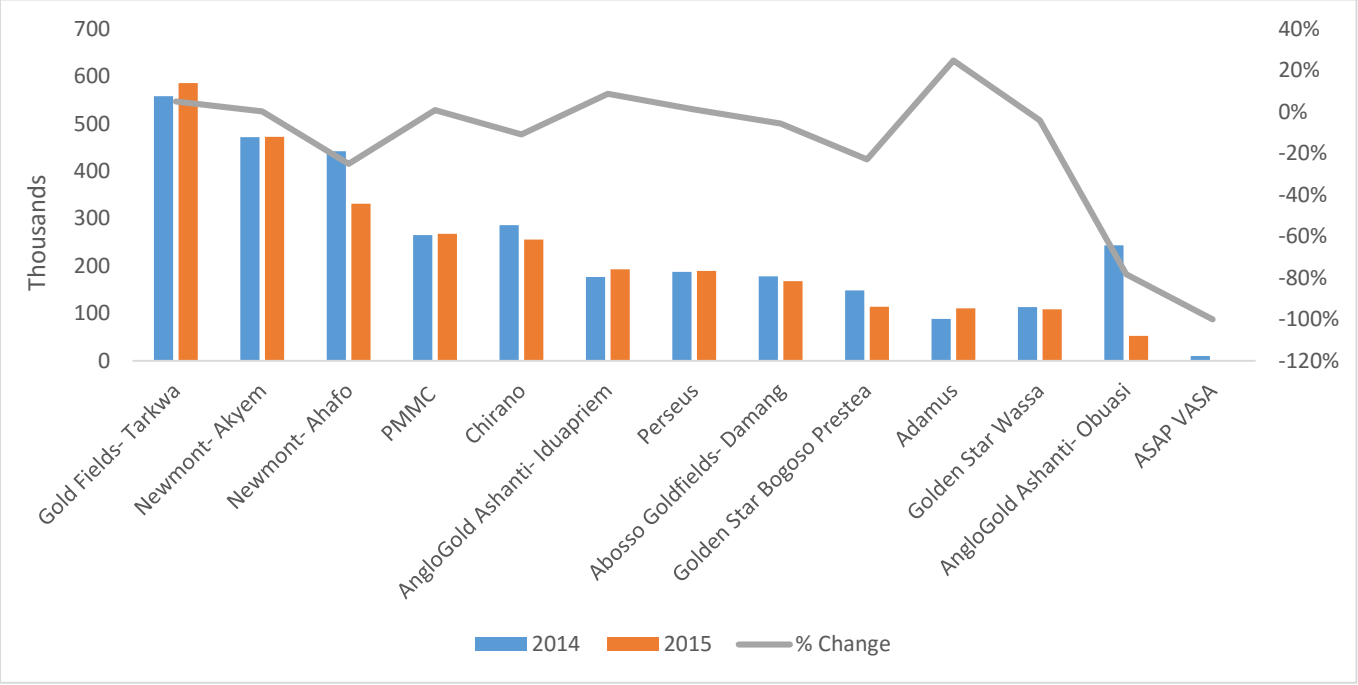
Shipments of manganese by Ghana Manganese Company (GMC) tapered by 5 percent compared to the outturn in 2014. The decline in exports from 1,353,486 tonnes to 1,288,624 tonnes in 2015 reflects the hang-over effects of the inability of the company's major client to lift manganese in 2014 and early part of 2015. Accordingly, GMC's revenue declined by 23 percent, from USD 91.1 million to USD 70.5 million, over the period.

Fig 10: Gold Revenue of Member Companies (2014 and 2015)



Source: Ghana Chamber of Mines

Fig 11: Gold Production of Member Companies (2014 and 2015)



Source: Ghana Chamber of Mines

Challenges

New Income Tax Act, 2015 (Act 896)

In 2015, without due consultation with the mining industry, the government passed the New Income Tax Act, (Act 896), with the overriding objective of expanding its tax base and enhancing tax payments as well as revenue collection. Following the passage of the Act, the Chamber identified a number of concerns and raised them directly with the Minister of Finance. Some of the specific concerns of the Chamber with Act 896 are as follows:

I. Ring Fencing

Ring fencing is one of the major and fundamental concepts underlying the entire Act 896. In addition to the general provisions on ring fencing in the Act, there are specific provisions pertaining to the mining industry. Section 78 (1) provides that subject to this section, the following shall constitute a separate mineral operation:

- ✓ a mineral operation pertaining to each mine; and
- ✓ a mineral operation with a shared processing facility.

Key to the provisions on ring fencing is the concept of "Shared Processing Facility". In 2013, the Chamber, the Ghana Revenue Authority and the Minerals Commission had a workshop to discuss the implementation of the ring fencing provisions contained in the Internal Revenue (Amendment) Act, 2012 (Act 839). The Chamber outlined key operational reasons why the concept of ring fencing as contained in Act 592 was not practicable. The concept of "Shared Processing Facility" was introduced and it was defined to mean "a cluster of processing plants in close proximity". This was the consensus reached at the workshop subject to holding subsequent discussions to fine-tune its implementation.

Based on the current wording of Act 896, however, it appears that if a single mine has two processing facilities, each processing facility shall be ring fenced separately. This is not consistent with the consensus reached at the afore-mentioned workshop and will be extremely difficult to implement in practice. Further, the current wording of the law artificially creates separate mineral operations and makes it difficult for mining companies to comply with it from a cost allocation

perspective. The law suggests that the mining firm should separately account for income and expenses for its surgically segregated business.

Another key challenge in respect of the ring fencing provisions under Act 839 is the lack of clarity on the operational meaning of "mining area". The Minerals & Mining Act, 2006 (Act 703) defines a "mining area" to mean the area designated from time to time by the holder of a mining lease with the approval of the Minerals Commission. This definition envisages the routine practice of progressively developing a mine area within the mining lease of a firm. In essence, it implies that a mining area could change over time. Consequently, the provision in section 78 (3) that each mining area should be declared within a mining lease and any residual area in the mining lease should be taxed as a separate mineral operations is not practically and economically feasible. For instance, how will ground rent be determined for the various mining areas within the mining lease? Assuming the determination of the rent is based on area of operation, then a deduction will only be available for the small proportion of the fees relating to the declared active mining area. The firm will not be able to offset the ex-mining area costs since there is no income attributable to those areas. More so, tax deductions could be lost in some declared mining areas if those areas are unprofitable.

II. Waste Stripping Cost

The treatment of waste stripping cost in the Act is another concern for the Chamber and its members. Sections 79 (7) and 81 (9) provide that expenditure incurred in respect of the mineral operation on waste removal, overburden stripping, and shaft sinking shall be capitalized in accordance with the Generally Accepted Accounting Principles (GAAP) and capital allowances granted over a five (5) year period upon the commencement of commercial production.

Expenditure on waste stripping is necessary to clear the ground and enable access to the underlying ore body. Therefore, mining cannot take place without waste stripping. Some member firms of the Chamber remove very large tonnage of waste in order to have access to the ore. For instance, the average waste stripping ratio of the producing member companies was 4: 1 and 5:1 in 2013 and 2014 respectively.

The ability to expense the stripping cost which is revenue in nature eases the burden of undertaking such stripping exercises. For some member firms, this is critical to sustaining and continuing their operations. For such companies, it is impossible to justify any additional capital investment in the business and by extension, the economy of Ghana if the treatment of waste stripping is capitalized. The knock-on effect of halting any additional investment will be substantial, with potential job losses.

III. Non-Recovery of VAT

The inability of our member companies to recover VAT refunds in good time continues to be a major drag on their cash flow, especially in the context of high inflation and depreciation. Statistics from our producing member companies show that they are owed over GH₵ 250,730,821.31 in VAT refunds as at the end of 2015. The un-refunded VAT effectively becomes another debt, compounding the challenges of our members, who also suffer from the effects of depreciation on the amounts due. Even though the government has attempted to address this challenge by allocating additional funds into the Refund Account, it persists.

Moreover, the situation has been worsened by the government's decision to stop the issuance of Treasury Credit Notes (TCN) which could be used to offset other liabilities. The practice of not allowing a refund for VAT credits until an audit is completed is also a source of concern to our member companies. Typically, it takes about nine (9) months before a VAT credit is audited and accepted by the GRA. It may take several months or years for the audited claim to be paid by the GRA. The inordinate delays in the refund process takes a negative toll on the cash flow of member companies.

While there are provisions in the Revenue Administration Bill (RAB) to curtail the ever-rising refunds, the current wording of the bill poses a number of practical challenges. Section 68 of the RAB provides that where the Commissioner-General is satisfied that a person has paid excess tax, the Commissioner-General shall:

a) Apply the excess in reduction of any outstanding tax liability of the person; and
b) Refund the remainder to the person within ninety days of making the decision

The RAB is silent on the instances that would enable the Commissioner-General to be satisfied so we rely on the current practice which requires an audit to have taken place and to be concluded and agreed by the Commissioner-General. After this point, the Commissioner-General is deemed satisfied.

In the experience of our member companies, direct income tax audits currently occur every two – three years whilst indirect tax audits currently occur at least once a year. In the intervening periods, tax liabilities continue to accrue and payments made. As currently worded (and assuming the current practice continues to be the case), tax offsets would only occur every few years, whilst payments would have continued to be made in intervening periods, continuing to place significant cash flow burdens on our member companies.

We are aware that in line with the RAA, the GRA is transitioning to an electronic system whereby taxpayers would have access to their tax accounts which would show their positions on all tax types and would have a record of any transactions on the account. This would enable both the taxpayer and the GRA to know the tax position at a glance, including any historical offsets made. Pre-audit setoffs should therefore be traceable with minimal effort.

Delays in Issuance of Statutory Permits and Outsourcing of Statutory Duties

As part of the statutory requirements, mining companies are expected to obtain a number of permits from regulatory agencies prior to the commencement of their activities. While explicit lead-times are provided in the various statues that govern the permitting regime, the routine experience by mining companies diverges from the envisaged period, particularly in obtaining environmental permits. Typically, the drawn-out permitting period impacts negatively on the operations of the companies by hiking the cost of the project and reducing its financial viability, especially in the context of volatile commodity prices. A recent study by SNL Metals and Mining in the United States, for instance, found that unanticipated delays in the permitting process alone reduced a mining project's value by more than one-third and cut the expected value of a mine in half before production even began.

It is worth noting that the Environmental Protection Agency (EPA) and Inspectorate Division of Minerals Commission, in particular, continue to collaborate with the Chamber to improve the turnaround time for issuance of permits. Specifically, the Chamber is liaising with the EPA to procure a software for tracking applications for environmental permits. This technological innovation is expected to facilitate the EPA's capacity to monitor the lead time in approving permit applications and subsequently, initiate reforms to reduce the waiting period. Currently, the joint EPA and Chamber Committee is in the process of selecting a supplier from the pool of applications received so far. It is expected that this process will be concluded by the first-half of 2016.

The Chamber has also observed that some parastatals are gravitating towards the contracting of private firms in enhancing the performance of their statutory duties. For instance, the EPA and Inspectorate Division of Minerals Commission have separately communicated their decision to use sole sourced private firms to treat waste water from the mine and review applications for mine operating permits. Although the partnership between the state and private sector in regulating the mining industry has efficiency benefits for the latter and country, the approach adopted in selecting the respective private sector participants remains a source of concern for the Chamber.

In most cases, the parastatals appear to impose a service provider on the mining firm without due consultation. This tends to culminate in a situation where a particular responsibility is reassigned to another service provider, irrespective of whether the mine has a running contractual relationship with an existing service provider or not. Obviously, this has legal and cost implications for the mines. Further, since the operations of the mines are not generic, the use of one-size-fits-all interventions may create systemic and legacy issues for our member companies.

It is a well proven economic theory that competition yields better market outcomes, such as higher efficiency and lower price, than monopoly. Accordingly, the mining firms, in the interest of fairness and transparency, use a bidding process to select the most competent service provider from a pool of potential suppliers. The contestable nature of the bidding system usually provides equal opportunity to all firms that are willing to have a foot print in the mining industry. Similarly, it assures the mine that it can procure a given service from the most competent provider at the most

competitive price. Such desired market outcomes translates into lower production costs, which has enormous positive contagion effects for all stakeholders-firms, government and host communities.

Cost Pressure

Following the implementation of cost containment measures in the last two years, the cost associated with gold production trended downwards. The all-in-sustaining cost, which is the summation of exploration, development, depreciation, depletion, amortization and cash costs, declined from USD 1,001 per ounce in 2014 to USD 921 per ounce in 2015, a dip of 8 percent. Likewise, the all-in cost of producing an ounce of gold receded by 6 percent, from USD 1,058 in 2014 to USD 985 in 2015.

Even though the average cost of production declined for the second successive year, Ghana's cost metrics remains very high. This mirrors the uncompetitive mining business environment, which is largely due to the padded taxes on big ticket inputs such as electricity and fuel. In addition, the mining companies were compelled to co-generate electricity from diesel fueled plants to supplement their power requirements as a result of the year-long load management program in 2014.

Upsurge in Illegal Mining

In the past decade, the country has witnessed an explosion in the activities of illegal miners on the concessions of large scale mines as well as other non-designated mining areas. These have resulted in the massive destruction of arable lands, pollution to water bodies and immediate surroundings, loss of lives and disruption in the social life of the host communities. Government responded to this backward and security threating development by setting up a National Security Committee on Lands and Natural Resources as well as amending some portions of the Minerals and Mining Act, 2006 (Act 703). In addition to other initiatives by the minerals sector agencies, these policies have been instrumental in moderating the scale of illegal mining.

However, the inaction of security agencies and tacit endorsement of illegal mining by regional and local government representatives as well as traditional authorities are a setback to the efforts to curtail illegal mining. Local government authorities' apparent supervision of illegal mining has

encouraged the operatives to forcefully encroach the concessions of large scale mines. The encroachment of the concessions of Perseus Mine and AngloGold Ashanti-Obuasi mine by illegal miners underscore this observation. In the ensuing confrontation at Perseus in August, 2015, for instance, the illegal miners took over the heap leach, burnt buildings and expensive equipment, attempted to harm employees and invoked a climate of insecurity which compelled the mine to temporarily suspend production. Fortuitously, the intervention of the national security, albeit belatedly, restored normalcy to the mine.

The Chamber's concern with the menace of illegal mining transcends the impact on the operations of its member companies. Illegal miners have been documented to displace cocoa farmers without compensating them, introduce pollutants into waterbodies and thereby increase the cost of treating water as well as abuse the rights of persons who attempt to legally stop them from perpetrating their nefarious activities. Increasingly, the modus operandi of illegal miners is assuming the form of organized crime and poses existential threat to the larger society.

Accordingly, the Chamber urges the hierarchy of the relevant state security agencies to take decisive and immediate measures to evict, arrest and prosecute illegal miners as stipulated in the Amended Minerals and Mining Act, 2015 (Act 900). This will serve as a deterrent to other prospective illegal miners. Further, the Chamber implores regional and local government authorities to refrain from accommodating illegal miners in their jurisdiction. Indeed, it is their statutory responsibility to prevent the conduct of any illegal business, including illicit mining. The Chamber affirms its support to the state security and other agencies in addressing the menace of illegal mining.

Development of Mining Communities

Generally, mining communities tend to be in remote locations and lag behind in terms of social and economic infrastructure. This has not been helped by the mechanism for distributing mineral revenue, which tends to channel a large share of the revenue to the Consolidated Fund. On account of the crowded fiscal space, the spending pattern of the government does not necessarily inure to the benefit of the mining communities. As a result, the standard of living in such areas are relatively

lower than non-mining areas. This reflects negatively on the image of the mining industry and usually fuels social tension between the residents and the companies.

While recognizing and applauding the Sector Ministry and Minerals Commission for attempting to address the poor developmental outcome through the Minerals Development Fund Act, the Chamber maintains that the share of royalty ploughed to the community should be increased from the current rate of 9 percent to 30 percent. Likewise, we urge government to promulgate a Mineral Revenue Management Act, a law that will be similar to the Petroleum Revenue Management Act, (Act 815), to guide the management and expenditure of mineral revenue. This will promote the sustainable use of mineral revenue as well as transparency and accountability in the management and expenditure of fiscal flows from the mining sector.

Deplorable State of Railway Infrastructure

The Western railway line, which was the primary mode of hauling bulk minerals to the port, has deteriorated over the years as a result of obsolescence and limited investments. Consequently, the bulk mining companies, like the other producers of bulk export commodities, have had to make use of the more expensive road system. It is estimated that the cost of road haulage is 50% more expensive than the alternative of using the railway lines. This attenuates the bottom line of the bulk mineral producers and could compel them to fold up prematurely if a solution is not found sooner. It also causes the roads used for the haulage to deteriorate at a faster rate.

Successive Budget and Economic Statements consistently point out the intention of government to rehabilitate the Western Rail network. Unfortunately, this is yet to happen. As an industry association, we believe that the benefits of a well-functioning railway system will not be a preserve of our members but the entire economy. It could also serve as an alternative means of transporting life, foodstuff and other commodities across the country. Therefore, we appeal to the government to prioritize the rehabilitation of the Western Railway lines and investment in the entire rail transportation system.

Absence of Incentives for Exploration Companies

The relevance of exploration in ensuring a pipeline of future viable projects cannot be over-emphasized. Naturally, this would ensure that the country continues to benefit from its mineral endowment at all times. It would therefore be appropriate to put in place an incentive scheme that will attract the required investments. As a first step, the government could consider exempting Exploration Companies from the payment of VAT on big ticket expenditure such as Drilling and Laboratory Services. Such a measure would not only reduce the pecuniary cost borne by these companies but also enhance the country's image as a competitive destination for exploration investments.

Outlook of the Minerals Sector in 2016

The price of gold is expected to remain bearish for most part of 2016 as the US Federal Reserve Bank eases its quantitative monetary programme. Since this is likely to trigger a rise in interest rate of near money assets, investors are likely to redirect their portfolio away from the yellow metal. On the contrary, the general decline in global gold output, which is also expected to trend in 2016, could moderate the impact of the "lift off" in the US.

In the Ghanaian context, fresh output from Asanko mine and Golden Star Wassa's underground mine is expected to increase the gold industry's output to more than 2.7 million ounces in 2016, all things being equal. While Asanko is expected to commence pre-commercial production in the first quarter of 2016, the underground mine of Golden Star Wassa is expected to be commissioned in the second quarter of 2016. In the same vein, the normalization of purchases by the prime client of Ghana Manganese Company is expected to spur the company's shipments to 1.5 million tonnes in 2016.

STATISTICAL APPENDIX

Table 1.0: Production and Revenue of Member Companies (2014 and 2015)

	PRODUCTION		REVENUE	
COMPANY	**2014**	**2015**	**2014**	**2015**
AngloGold Ashanti-Obuasi	243,223	52,648	313,666,710	65,698,815
AngloGold Ashanti-Iduapriem	176,930	192,522	234,604,046	223,433,033
Gold Fields- Tarkwa	558,222	586,051	590,393,835	680,689,902
Abosso Goldfields-Damang	177,741	167,831	224,652,540	194,810,509
Golden Star Bogoso Prestea	147,957	114,150	186,181,634	133,303,230
Golden Star Wassa	112,835	108,266	142,734,191	124,569,806
Chirano	286,326	255,377	354,691,899	301,539,585
Newmont- Ahafo	442,020	331,507	565,732,824	386,930,281
Newmont- Akyem	471,658	472,632	595,474,578	548,633,233
Adamus Resources	88,476	110,401	144,592,629	128,341,506
Perseus	187,363.87	189,527.14	238,110,562	259,536,265
PMMC- Gold	265,350	267,662	238,110,562	273,149,043
ASAP VASA	9,652	0	12,633,028	-
Total (Gold)	***3,167,754***	***2,848,574***	***3,841,579,038***	***3,320,635,208***
PMMC - DIAMOND	241,120	174,188	10,700,962	6,424,889
Ghana Manganese Company	1,353,486	1,288,624	91,147,458	70,581,339
Total Revenue			**3,943,427,458**	**3,397,641,436**

Table 2.0: Member Companies' Contribution to Total Gold Output (2014 and 2015)

COMPANY	2014	2015
Gold Fields- Tarkwa	17.6%	20.6%
Newmont- Akyem	14.9%	16.6%
Newmont- Ahafo	14.0%	11.6%
PMMC	8.4%	9.4%
Chirano	9.0%	9.0%
AngloGold Ashanti- Iduapriem	5.6%	6.8%
Perseus	5.9%	6.7%
Abosso Goldfields- Damang	5.6%	5.9%
Golden Star Bogoso Prestea	4.7%	4.0%
Adamus Resources	2.8%	3.9%
Golden Star Wassa	3.6%	3.8%
AngloGold Ashanti- Obuasi	7.7%	1.8%
ASAP VASA	0.3%	0.0%