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State Ownership/Resource Nationalism- A Challenge for the Global Mining Industry?

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State intervention in the resources sector – Some history

- Prior to 1960s – mostly in centrally planned economies and in some Scandinavian countries;
- In the 1960/70s – significant growth of State ownership in mining- appr. 80 foreign companies were expropriated. Continued growth to early 1980s (46% of the metal production value in 1984);
- From late 1980s and onwards – decrease to 22% of global metals production (USSR collapse, transition to the «free markets» paradigm, falling metals prices, concerns over SOE efficiency);
- From 2000s – back to the growth trend (growth of Chinese companies, both domestically and internationally). In 2008, SOE - 28% of global metals production.



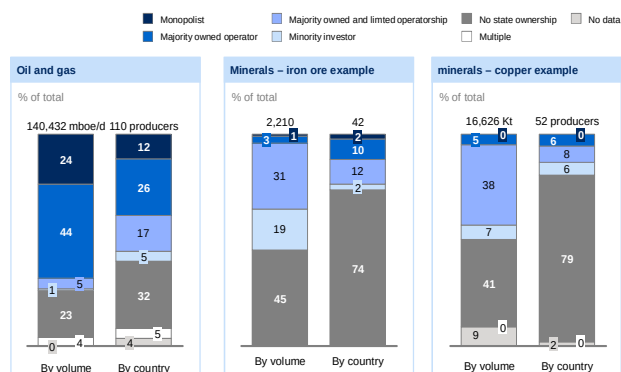
State intervention in the resources sector – Five archetypes.

- **No state ownership** (Australia, Canada)
- **Minority investor** (Brazil/Vale, Thailand/PTTEP)
- **Majority owned with limited operationship**
(Nigeria/NNPC, Angola/Sonangol, India/Hindustan Copper)
- **Majority-owned operator** (Brazil/Petrobras, Norway/Statoil, Botswana/Debswana)
- **Government monopolist** (Over 80% of total country production - Mexico/PEMEX, Saudi Arabia /Saudi Aramco)



State intervention in the resources sector- Five archetypes.

Fewer than one-third of oil and gas producers are non-operators, compared with three-quarters of mineral producers



Note: Some state owned resource companies operate internationally. For these countries, their domestic participation model has been shown
SOURCE: Raw Materials Group; Rystad Energy; McKinsey Global Institute analysis



State intervention in the resources sector- **Models' assessments.**

- **Different objectives of states** (maximizing the development of national resources, capturing a greater value from the resource sector, more equitable distribution of resource benefits, political or ideological reasons);
- **Many uncontrollable factors** (quality of resources, global demand trends, country's economic and institutional context).



State intervention in the resources sector- **3 misconceptions about models**

- **Myth 1: Less state participation – better resource production.**
- **All models** can potentially lead to successful development. It is not the model but how it is executed.
- **But – no model guarantees success** (examples are copper state ownership in Mexico and Indonesia).
- **Various degree of success for state-owned companies** (oil – growth in Saudi Arabia, decline in Mexico).
- **No model of state participation has clearly outperformed others in achieving growth in resource production + crosscountry comparisons are difficult.**



State intervention in the resources sector-

3 misconceptions about models

- **Myth 2: State equity delivers greater local benefits.**
- No clear link between state equity and the share of value captured locally (example of South Africa).
- State capital for resource sector could be diverted from other important areas.
- More important for local benefits - adequate regulatory framework. Potential advantages for state-owned companies.



State intervention in the resources sector-

3 misconceptions about models

- **Myth 3: Regardless of institutional context, the industry regulator should be independent.**
- Yes, but...
- In some countries with low skills it might be better to have the balance between the «regulator» and the national resource company (State-owned company may have stronger expertise and skills than Government administrative bodies).



State intervention in the resources sector- 3 guiding principles of implementation

- Important to focus on improved implementation of the chosen model.
- **Principle 1: Regulatory stability** — Minimizing regulatory uncertainty is critical to attracting private-sector investment.
- **Principle 2: Competition factor** — A link between competitive pressure on state-owned companies and performance of the resource sector (Chile, Brazil, India).
- **Principle 3: Human resources/talents attraction for regulatory authorities** — key for building strong regulatory capability. Requires a set of specific skills. Study opportunities/scholarships. Maintaining control of hiring and promotion decisions.



State intervention in the resources sector- Conditions of success for the SOEs.

- **Clear and consistent mandate and stable governance** (independent and experienced Boards, objective management appointment, independent audits, public disclosure of financial reports).
- **Power to make important decisions** (e.g. on access to capital to fund investment).
- **Incentive mechanisms** (extensive monitoring, encouraging SOEs to compete abroad, and to raise money on international debt markets).



State intervention in the resources sector- Drivers of success for each archetype

- **State with no ownership** (strong regulatory capabilities including a robust tax regime and contracting skills).
- **State minority investors** (equity stake large enough to align incentives between government and industry, well organized investment instruments).
- **Majority SOEs with limited operationship** (+ acquisition of technology and expertise from operational partners).
- **Majority state-owned operators- clear focus on daily operations:** (i) efficient and profitable operations, (ii) adequate funding to meet investment requirements, (iii) aspire to best practice in corporate governance.
- **Government monopolists**(+ environment that promotes competitive pressures).



Resource Nationalism. Introduction.

- **Definition:** *Resource nationalism is the tendency of people and governments to assert control over natural resources located on their territory.* The approach of peak oil has led many governments to take ownership and/or control of fossil fuels reservoirs for strategic and economic reasons, although resource nationalism applies to other resources, such as metals. (From Wikipedia, the free encyclopedia).
- **Going beyond taxation – list of new requirements** (mandated beneficiation, export levies, limits on foreign ownership).
- **The return of Resource Nationalism - early 2000s. In 2007 –** Venezuela, Russia, Bolivia, Ecuador, Zimbabwe.
- **A signal of sovereignty. Though not a return to a state control of the past, but still...**
- **Raises concerns –** «less attractive markets for foreign investment», (but still foreign companies could be competitive and profitable).



Resource Nationalism. Venezuela-a mini case-study

- Abundant mineral wealth but stagnated behind major regional mining economies;
- In last 14 years, nearly 1 th. foreign and domestic private enterprises were appropriated – a loss of \$23.3 billion to the national private sector. From 2007 the trend increased 924% ;
- Venezuelan mining - 1% of GDP, 4.3 mln tons p.a.;
- “A squandered economic potential”. The WB/IFC 2013 Doing Business Report ranked Venezuela 180 out of 185. Skills, capital and investment are leaving the country;
- Avoidance to compensate foreign investors. Withdrawal from the World Bank ICSID «to decide on the strategic orientation of the social and economic life of the nation»;
- Example of politicized, non-sustainable, as opposed to an economically strategic program.



Resource Nationalism.

Risks

- Business risk **No.1** facing minerals and metals in 2012-2013 E&Y). " With the massive increase in resource nationalism, comes an increased need for tax directors to be more involved in strategic risk decisions." Andy Miller, Global Mining & Metals Tax Leader, EY.

3 Key Trends in Resource Nationalism:

- Imposition/increasing of royalties or mining taxes;
- Mandated beneficiation/export levies;
- Retaining state or national ownership of resources/impact on miners.



Resource Nationalism.

How to respond to the risks?

- **Invest in transparent relationships with host governments;**
- **Align with the host government's long-term economic and political incentives;**
- **Focus on generating direct and sustainable benefits for the host community.**



Resource Nationalism.

How to respond to the risks? (Cntd)

- **Partner with state owned enterprises that have strong Government-to-Government relationships;**
- **Encourage direct government participation;**
- **Align with multi-lateral agencies.**



THANK YOU FOR YOUR ATTENTION!

- References:** *Overview of State Ownership in the Global Minerals Industry*, World Bank and Raw Materials Group, 2011; *Oil and Governance: State-owned enterprises and the world energy supply*, David G. Victor, David R. Hults and Mark Thurber (ed.), Cambridge University Press, 2012; Christian Wolf, "Does ownership matter? The performance and efficiency of state oil vs. private oil (1987-2006)," *Energy Policy*, volume 37, number 7, July 2009; *Putting South Africa first – mining's contribution to South Africa*, Chamber of Mines of South Africa, November 2012; Charles McPherson, *State participation in the natural resource sector: evolution, issues and outlook*, paper prepared for the International Monetary Fund conference on "Taxing natural resources: New challenges, new perspectives," September 25-27, 2008; *Oil and Governance: State-owned Enterprises and the World Energy Supply*, 2012; Glada Lahn et al., *Good governance of the National Petroleum Sector*, Chatham House, April 2007; Patrick R.P. Heller and Valérie Marcel, *Institutional design in low-capacity oil hotspots*, Revenue Watch Institute, August 2012; Mark C. Thurber, David R. Hults, and Patrick R.P. Heller, "Exporting the "Norwegian Model": the effect of administrative design on oil sector performance," *Energy Policy*, 2011.



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