



Case Study - Mining in Zambia

In February 2012, the Government of Zambia announced an audit of mining companies operating in that country, believing it was owed up to a \$1 billion in unpaid taxes. According to Christian Aid more than half of the copper exported from Zambia in 2008 was supposedly sent to the tax haven of Switzerland, but Swiss import data shows no Zambian copper passed through that country. Copper producers operating in Zambia include Glencore International AG, Canada's First Quantum Minerals and London-listed Vedanta Resources.

The Zambian economy is highly dependent on mining for export revenues. As a result, foreign mining companies operating in Zambia have been able to negotiate royalty rates of 0.6 per cent, down from three per cent set under legislation. If the higher rate had been paid, over the period 2002 – 2004 the Zambian government would have received \$63 million more than was actually collected. This is one-third of the amount needed to achieve universal basic education in Zambia by 2015. A range of other tax concessions mean that mining companies contribute around 12% of the countries' corporate tax revenues, despite accounting for nearly 70% of export revenues.

There is something deeply wrong with this picture.

How Might Mining Companies Be Ripping Zambia Off?

In April 2012 a group of non-government organisations filed a complaint against mining giant Glencore International AG and First Quantum Minerals with Swiss and Canadian authorities for alleged tax evasion in Zambia, through their subsidiary Mopani Copper Mines Plc. Mopani Copper Mines Plc is the largest mining corporation operating in Zambia. Nearly three-quarters of Mopani Copper Mines Plc is owned by companies located in the tax havens of the British Virgin Islands and Bermuda, although the ultimate owners are the Swiss company Glencore International AG and Canadian company First Quantum.

In 2009 the Zambian authorities, with support from the Norwegian Government, commissioned an audit by international accountants Grant Thornton and Econ Pöyry. Among the anomalies revealed in the audit were:

- an unexplained increase (\$380 million) in claimed operating costs in 2007 – which immediately reduced the company's tax liabilities for that year,
- stunningly low reported volumes of extracted cobalt when compared to similar mining companies operating in the region,
- and alleged manipulations of copper selling prices in favour of Glencore.

The result of these anomalies was to reduce the taxable income of Mopani Copper Mines Plc by several hundred million dollars in the period 2003-2008.



In the 1980s Zambia had suffered from a loss of revenue as a result of falling copper prices on the international market. As a result austerity measures were imposed on Zambia by the IMF and World Bank, and Zambia privatised its mining industry. Zambian authorities adopted a series of legal, political and financial measures to attract foreign investment. For example, the Investment Law and the Mines and Minerals Law of 1995 created a 3% tax on royalty fees when the average for other developing countries was between 5% and 10%.

Zambia, already a low-tax environment for mining companies should not have to suffer loss because of corporate tax evasion on top.

The importance of Country by Country Reporting in Zambia

Because of the lack of transparency in corporate reporting, and secrecy in international banking, it is very difficult to determine exactly how much tax revenue Zambia has lost over the years. The legal action currently underway aims to shed light on this and help recover some of the money that should have been paid. However, it shouldn't have to depend on complex, costly and time-consuming legal action.

All multinational mining companies should be required to report on all income and profits earned and royalties, taxes and other monies paid in every single country in which they operate. This kind of country by country reporting would ensure that the Zambian Government could determine exactly how much tax should be paid by each company and would help Zambian civil society hold their Government accountable for utilising these tax revenues to reduce poverty and contribute to the common good.

(Details from Sherpa media release, 'Tax evasion in Zambia. Five NGOs file an OECD complaint against Glencore International AG and First Quantum Minerals for violation of OECD guidelines', 12 April 2011)