

# What is for the Vietnamese extractive policy: Maximizing budget gains or maximizing resources extraction?

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**BizLIVE - Through the processing circuits, ROM ores with low grade and value have been processed into finished products with higher quality and value, which may be directly used or as input materials for industries. Therefore, the efficient mining and metallurgy are constantly considered as the underlying factors promoting livelihood and prosperity of APEC economies.**



Năm APEC 2017 Núi Pháo của Việt Nam là mỏ duy nhất của các thành viên MTF đến khảo nghiệm.

## **Creating competitive advantage to grab more market share**

Masan Resources Corporate has emerged on the global market for just less than 10 years, but this emergence could be recognized in 3 aspects. Firstly, the project development based on Vietnam expertise; secondly, use capital and cash flow to acquire and develop quality assets and thirdly, significantly de-risking projects through the Masan platform

In fact, Masan Resources has developed a vacant land into the first global-standard mining plant with large scale in Vietnam, capable of producing 4 main minerals and metals from only an ore body.

“We bear in our mind that it is a must to use effectively the natural resources that we are the trustee; action plans are built with care to deliver current and permanent benefits for people, environment and common prosperity and this is the way that we can ensure a sustainable development”, Mr. Craig Bradshaw - General Director of Nui Phao Mining Company said.

In previous years, Vietnam had to learn how to exploit, process minerals from other countries in the world. But now, this viewpoint is changing. In the APEC 2017 program, Nui Phao mine of Vietnam is the unique mine to be chosen for MTF members to visit. Remarkably, some site tour attendees in the MTF delegation are Chinese mining experts.

Accounting 70% of global tungsten output, China has applied the strategy to the utmost to turn this advantage into power to exclusively control the global market. Before 1990, China exported crude tungsten with large volume, but then China tightened the supply source to the world to raise the price in 2003. Currently, although the tungsten price remains low, it has been approximately tripled since 2004.

Masan Resources can take the advantage of this trend to increase the market share up to 40% in 2017, becomes a big supplier of the key industrial minerals, consisting tungsten, fluorspar and bismuth. Even if Nui Phao mine’s proven and probable ore reserves of 66 million tonnes with estimated mine life of 20 years were assessed, the first thing Masan Resources must be aware that China has acted as the first on the scene when applying the policy of raw export ban, focusing on the end-user products.

However, their weakness is that life cycle of most the tungsten mines is high, up to 30 years. Its quality and production are being decreased, while there is a dramatic increase in mining and labor costs. It is not easy to increase output from those mines, because like other mining industries in APEC members, China is facing with 4 challenges during its operations, namely, exploration of the mineral resources with high quality; application for mining license; efficient mining and processing; and difficulty in capital source.

The execution of China’s new mining policy has not achieved as expected. Their export volume of intermediate tungsten products decreased 9% last year. This has significantly affected the production and business activities of China’s tungsten mines. Meanwhile, with a similar primary or intermediate product, Vietnam’s tungsten quality is higher than China as assessed by customers. Around 30-40% of tungsten order by some China’s customers have been shifted to Vietnam’s tungsten products. However, if only relying on these factors to compete and grab more market shares, leading the transformation of the global tungsten market is not enough because Nui Phao is a newly-operated mine against Chinese competitors.

On the other hand, China may loose at some small markets, but surely retain the US market, where imports up to 40% of their tungsten production. “We do not directly compete against China, but we strive to create a potential market to become a sustainable supplier, ensuring the long-term supply source for our partners”, Mr. Chetan Prakash Baxi, Chairman of Masan Resources, affirmed.

## **Tremendous challenges due to .... policy!**

Even if the underlying factors have been identified, the present challenges for Masan Resources is not merely the output matter. In the recent Annual General Meeting of Shareholders, many investors of Masan Resources expressed their concerns about the “precious” asset, but net profit only gained VND 115.3 billion, equivalent to the dividend per share is merely VND 153 dong.

In fact, the price to pay for Masan Resources’ products to be classified as finished products through intensive processing and entitled to export is not small. Masan Resources has invested big capital into plant, equipment and human resource while still covered other expenses such as operating expenses (Opex), environmental reclamation, principal and bank interests etc. in the context of tumbling down of global tungsten price.

As assessed by Roskill - Market Reports and Consultancy, United Kingdom, some newly-operated mines, including Nui Phao mine shall remain price reduction pressure till 2018, then recover its balanced state. Roskill forecasts, for the period of 2013-2018, tungsten demand growth increases 2.6%/year.

The failure to meet expectations in Masan Resources’ business plan is also attributed to the burden of royalty, fees and charges. A policy that Assoc. Prof. Dr. Nguyen Canh Nam, Vietnam Association of Mining Science and Technology, assessed “It’s better to maximize budget gains than maximize resources extraction”. Mr. Vu Hong, Deputy General Director of Nui Phao Mining Company said that the royalty has increased many times just for some years with high rate. The fee for granting the mineral mining right is doubled in royalty.

The development of royalty-liable price and the fee for granting the mineral mining right is not appropriate and its unclear guidelines making enterprises difficult in calculating royalty, fee for granting the mineral mining right as well as passive to fulfill their tax obligation.

The calculation method for this tax is inappropriate and unclear, for example, the Government’s Decree No. 152 allows industrial products to deduct costs, but not specify which costs are deducted. “The royalty-liable price for industrial products which is calculated by selling price minus costs but its production reported in the pre-processing stage has not encouraged enterprises to invest into intensive processing and is very difficult to apply for a polymetallic mine project as Nui Phao mine.” a leader of Masan Resources, previously worked for World Bank, said.

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