



Rationalization of the Mining Fiscal Regime

Mining Philippines 2023 International Conference
As of 18 September 2023

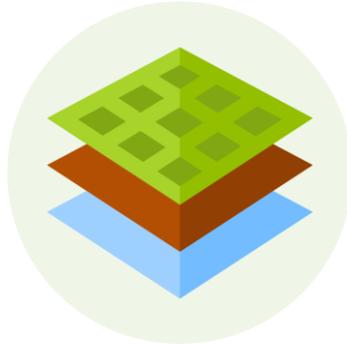
Why are we reforming the Philippine mining fiscal regime?



Overview of the mining industry



The Philippines is **geographically endowed** with abundant mineral resources such as **copper, gold, nickel and chromite.**



9 million hectares is identified as having **high mineral potential** but only **763,377.86 hectares** or **2.54 percent** is covered by mining tenements.



Estimated value produced in 2021
Gold: P72.21 billion
Nickel and nickel products: P89.95 billion
Copper: P17.29 billion

There are several fiscal regimes for the Philippine mining industry, **resulting in complex sharing of the tax burden.**

#	Current Philippine mining fiscal regimes
1	Mineral Production Sharing Agreement (MPSA)
2	MPSA in Ancestral Domain
3	MPSA in Ancestral Domain and in Mineral Reservation
4	Financial and Technical Assistance Agreement (FTAA) in Ancestral Domain
5	FTAA in Ancestral Domain with cost recovery (with accelerated depreciation)

Cross country comparison of mining fiscal regimes



The current mining fiscal regime is heavily geared towards taxation based on gross revenue and has no component to capture windfall profits. In contrast, taxes of other countries are skewed towards profitability.

Mining fiscal regimes of selected countries

Tax/Royalty	Philippines	HB	DOF	Indonesia	Australia	Chile	Peru
On income:							
Income tax	25%	25%	25%	25%	30%	27%	30%
Mining tax	n/a	0-10%	1-15%	n/a	n/a	5-14%	2-8%
Royalty	n/a	1-5%	n/a	n/a	n/a	n/a	1-12%
On revenue:							
Royalty OMR	n/a	n/a	3%	1-10% (sales)	2.5-5%(sales)	n/a	n/a
Excise	4%	4%	4%	n/a	n/a	n/a	n/a
Royalty – IP	1%	1%	1%	n/a	n/a	n/a	n/a
Royalty – MR	5%	3%	n/a	n/a	n/a	n/a	n/a
LBT	2%	2%	2%	n/a	n/a	n/a	n/a
AGS (50%):	FTAA	n/a	n/a	n/a	n/a	n/a	n/a

DOF-proposed mining fiscal regime



Key reforms of the proposed Mining Fiscal Regime

1. Simplification of the mining fiscal regime
2. Imposition of 3 percent royalty tax outside mineral reservation to address the constitutional issue
3. Introduction of a windfall profit tax mechanism to ensure government's fair share when mineral prices are high
4. Provisions on thin-capitalization, ring-fencing, transparency, and accountability

Key reforms of the proposed Mining Fiscal Regime

	Current regime	DOF proposal
Number of fiscal regimes	5	2
Royalty outside MR	0%	3%
Windfall profit tax	0%	0-15%
Thin capitalization, transfer pricing, ring-fencing, and transparency	Without	With

The proposed special mining tax will be based on “margin”, ranging from 0 percent to 15 percent.

Proposed windfall profit tax

Net income / Revenue (in %)	Tax rate (in %)
0-25	0
26-50	5
51-75	10
> 75	15

The windfall profit tax is proposed to be not deductible from corporate income tax.

The Average Effective Tax Rate (AETR) is used to compare the tax burden of the mines given different fiscal regimes. AETR is an internationally acceptable methodology to compare tax burdens.

AETR = NPV of tax collections/NPV of income before taxes

AETR for comparing mining fiscal regimes:

- 1 IMF 2012**
(Compare PH mining fiscal regimes with other countries)
- 2 IMF 2019**
(Compare PH and proposed mining fiscal regimes with other countries)
- 3 Chamber of Mines of the Philippines 2019**
(Position paper on several proposed mining regimes)
- 4 Deloitte (Otto) 2022**
(Compare PH fiscal regimes with other countries)

Features of the very large copper mine

Production data		Financial data	
Project Life (years)	20	Pre-Development Costs (\$M)	120
Total Ore Mined (t'000/year)	60,000	Development Costs (\$M)	6,000
Stripping Ratio	1.08	Environmental Closure (\$M)	108
Ore Grades:		Mining Cost (\$/t)	3.50
Copper (%)	0.65	Milling Cost (\$/t)	5
Gold (g/t)	0.25	Gen and Admin Cost (\$/t)	2
Recoveries:		Environmental Mgmt Cost (\$M)	276
Copper (%)	85	SDMP (% of total Opex)	1.5
Gold (g/t)	70	Treatment Charge (\$/t concs)	60
Concentrate Produced (t'000/year)	1,105	Refining Charge Cu (\$/lb.)	.06
Payable Copper Produced (t'000/year) ¹	320	Refining Charge Au (\$/oz.)	6
Payable Gold Produced (ozs. '000/year) ²	327	Sea Freight (\$/t concs)	25

¹ 96.5% smelter payable

² 97.0% smelter payable

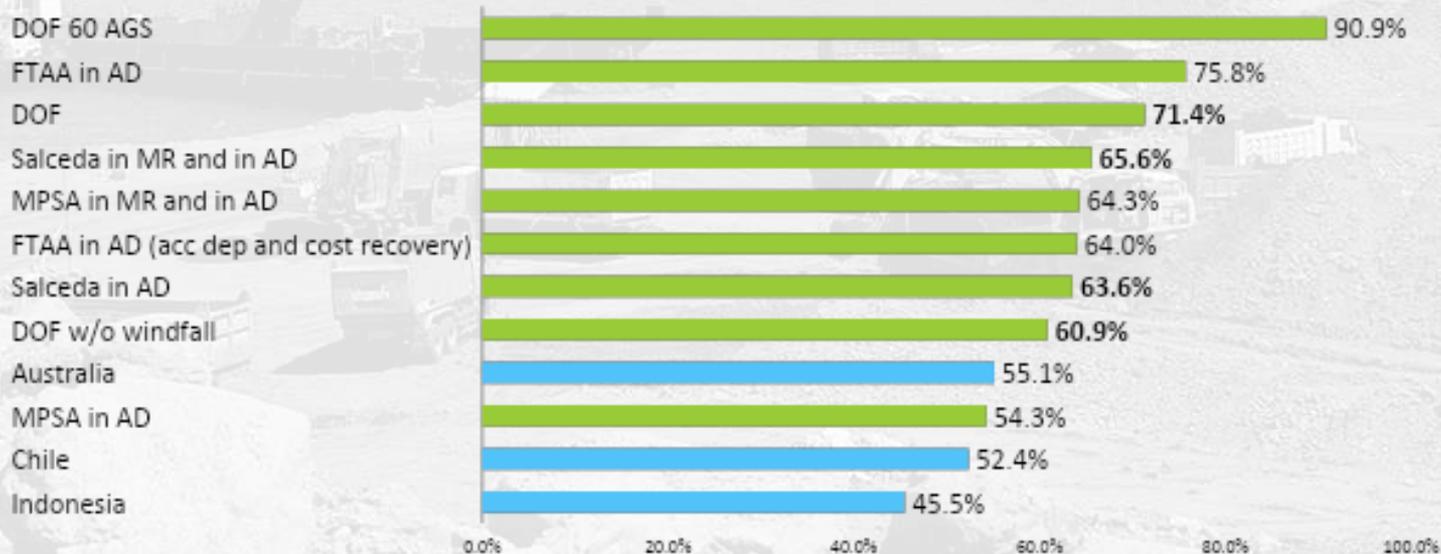
Scenarios: prices and operating cost

AETR scenarios

Scenarios	Specifics
1. Medium price (avg 5 years)	Copper = \$3.6 / lb; Gold = \$1600 / oz;
2. High price	Copper = \$4 / lb; Gold = \$1900 / oz Saprolite = \$11 / lb; Limonite = \$26 / wmt
3. Low price	Copper = \$3.2 / lb; Gold = \$1500 / oz; Saprolite = \$12 / lb; Limonite = \$29 / wmt
4. High cost	+20% operating cost
5. Low cost	-20% operating cost

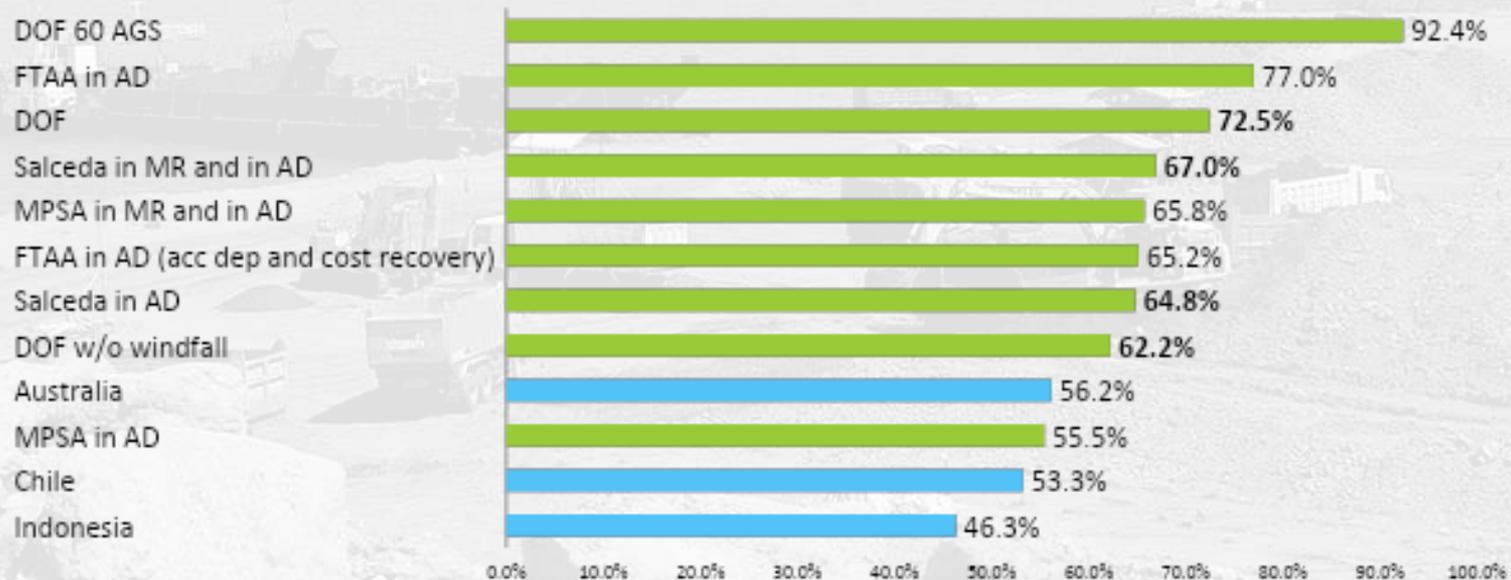
AETR results copper medium price: The AETR of the DOF proposal is higher than the HB proposal and the current MPSA in MR and AD regimes. However, without the windfall tax, the DOF proposal is lower than most of the current mining fiscal regimes. The previous DOF 60 AGS proposal generates the heaviest tax burden out of all the regimes including the current FTAA regime.

Average copper AETR of selected countries given medium price scenarios



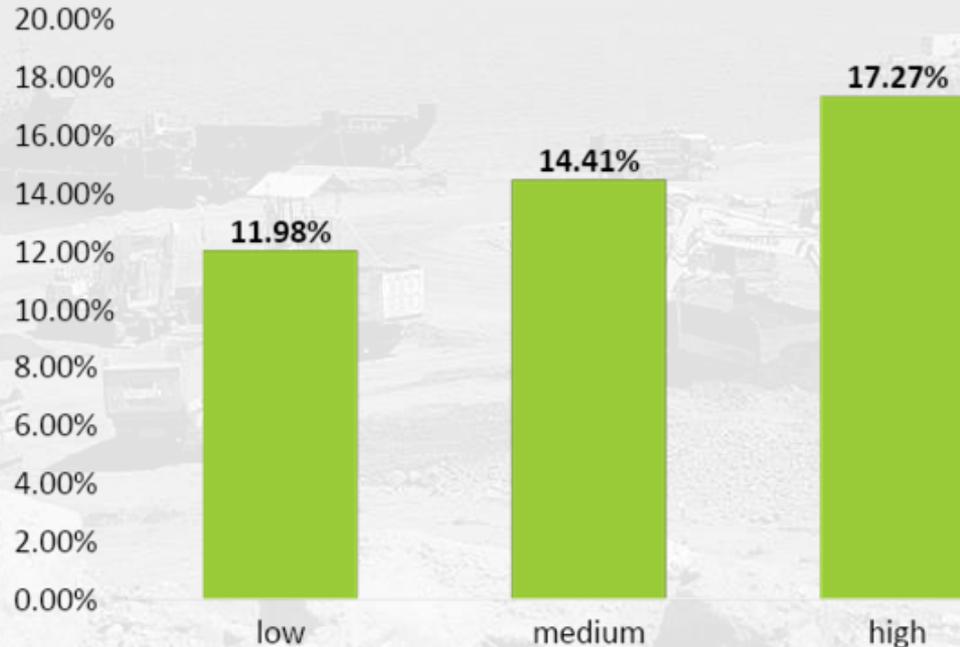
AETR results copper all price: Similarly, the AETR of the DOF proposal given different price scenarios is **slightly higher** than HB proposals. However, without the windfall tax, the AETR of the DOF proposal is lower than most of the current mining fiscal regimes.

Average copper AETR of selected countries given different price scenarios



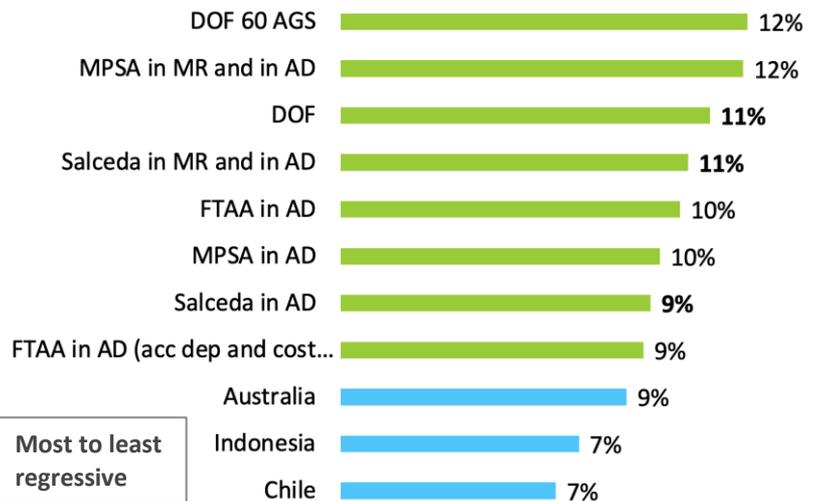
IRR copper: Even with the reform, companies can still expect a fair return on investment as measured by the IRR.

IRR of the DOF proposal given different price scenarios



AETR results price regressivity: In terms of price regressivity, the DOF proposal is close to the HB proposed regimes. However, the current and proposed PH fiscal regimes are **significantly more regressive** given low prices compared to Indonesia and Chile regimes.

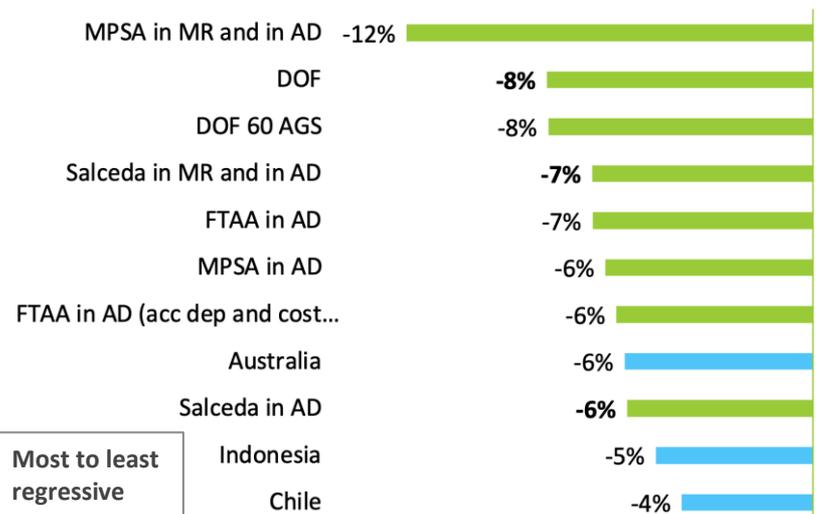
Regime test for regressivity: medium vs low price copper (difference)



Source: Author's computation

0% 2% 4% 6% 8% 10% 12% 14%

Regime test for regressivity: medium vs high price copper (difference)

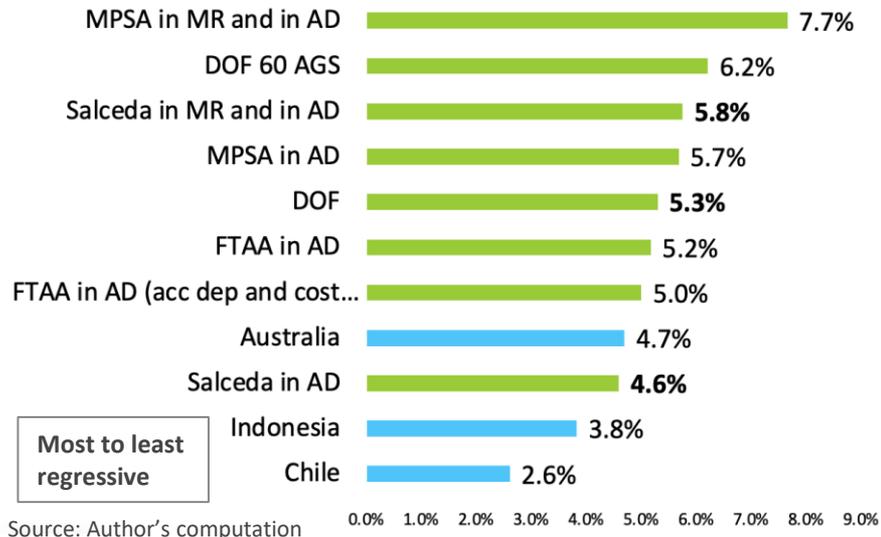


Source: Author's computation

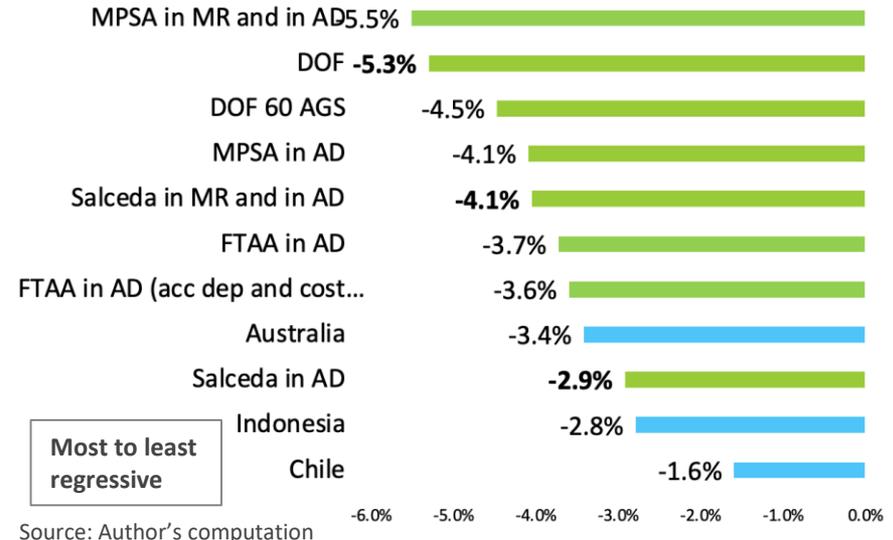
-14% -12% -10% -8% -6% -4% -2% 0%

AETR results cost regressivity: In terms of cost regressivity, DOF proposal is relatively progressive for high cost copper but regressive for low cost copper.

Regime test for regressivity: medium vs high cost copper (difference)



Regime test for regressivity: medium vs low cost copper (difference)





Thank you!