

Exploration & Mining in China

The Industry Overview and Potential
for Foreign Participation

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Overview of the Exploration and Mining Industry in China

- The Gold Industry – China is the world's fourth largest gold producer
- The Copper Industry – China is a net importer of Copper
- The Coal Industry – Huge reserves but low quality coal, very high Sulphur
- Oil and Gas – China has huge oil and gas potential
- Other Metals

The Geological Setting and Distribution of Deposits

1. Gold
2. Copper
3. Coal
4. Oil and Gas
5. Others

Chinese Nonferrous Reserves

<u>Metal</u>	<u>% of World Reserves</u>	<u>Rank</u>
• Copper	0.4	7
• Bauxite	2.5	7
• Lead	8.9	5
• Zinc	9.6	4
• Nickel	3.2	9
• Tin	15.0	2
• Antimony	50.0	1
• Tungsten	40.0	1
• Molybdenum	8.3	3
• Titanium	44.0	1
• Rare Earths	4.0	1

Energy Industry

- China's coal production and consumption ranks third and second in the world but ranks very low per capital
- China has huge oil and gas untapped reserves.

Exploration & Mining Regulations and Laws

- Exploration & Mining Regulations 1958
- Amendments 1996 to allow Foreign participation
- Exploration & Mining & Transfer of Rights Regulations 1998

Classification of Minerals Available for Foreign Participation:

- Favored Commodities: Copper, Lead, Zinc, Clays, Titanium, Tin, Silver, Antimony
- Restricted: Gold, Platinum, Diamond, Tungsten, Molybdenum
- Forbidden: Uranium, Rare Earths

Historical Background

- Before liberation, all mining were done on behalf of the Imperial family esp.for gold and silver
- After liberation, all exploration was and is still is funded by the State
- Exploration has been carried out by different exploration teams under different Bureaus and Ministries
- Each Bureau or Ministry is assigned responsibilities for different commodities but then responsibilities eventually overlap. These now are now “Privatized”

- Each exploration team is given a budget and targets under each 5 year plan. Incentive rewards/bonuses are given for meeting targets
- In practice, teams will not report reserves found in excess of targets as no additional rewards are given. These will be reported in the next 5 year plan
- Exploration will sell exploration data to enterprises who will start mining
- The regulations written to define ownership of exploration/mining rights based on exploration data
- Exploration data compensation fee is incorporated in the regulations for the government to recover exploration funding

- This fee is calculated based on value of reserves developed
- The regulation forbids the selling of reserves until the seller owns the reserves (exploration data); essentially ownership to party that pays for exploration
- Therefore, all JV agreements must be drafted that the Chinese party's contribution will be exploration data for its equity and will be responsible for the exploration compensation fee

- The above explains the difficulty in getting proper exploration data
- The government is addressing this by forming a single agency, MOLAR to be responsible for exploration/mining but has gone too far. MOLAR is also responsible for Fisheries (water resources) and housing development (land resources)

Types of Sino-Foreign Joint Ventures

- Co-operative Joint Ventures
- Contractual Joint Ventures
- Equity Joint Ventures
- Foreign-owned Enterprise

Procedures for Approval

1. Demarcation from MOLAR
2. Approval from State Planning Committee
3. Approval from MOFTEC
4. Business License from SCIAC
5. Obtaining/transferring Exploration and/or Mining Rights from MOLAR
6. Registration with:
 1. Taxation Department
 2. Foreign Exchange Agency
 3. Customs Department
 4. Labor Department

DECISION MAKING



SITUATION IN DEVELOPED COUNTRIES

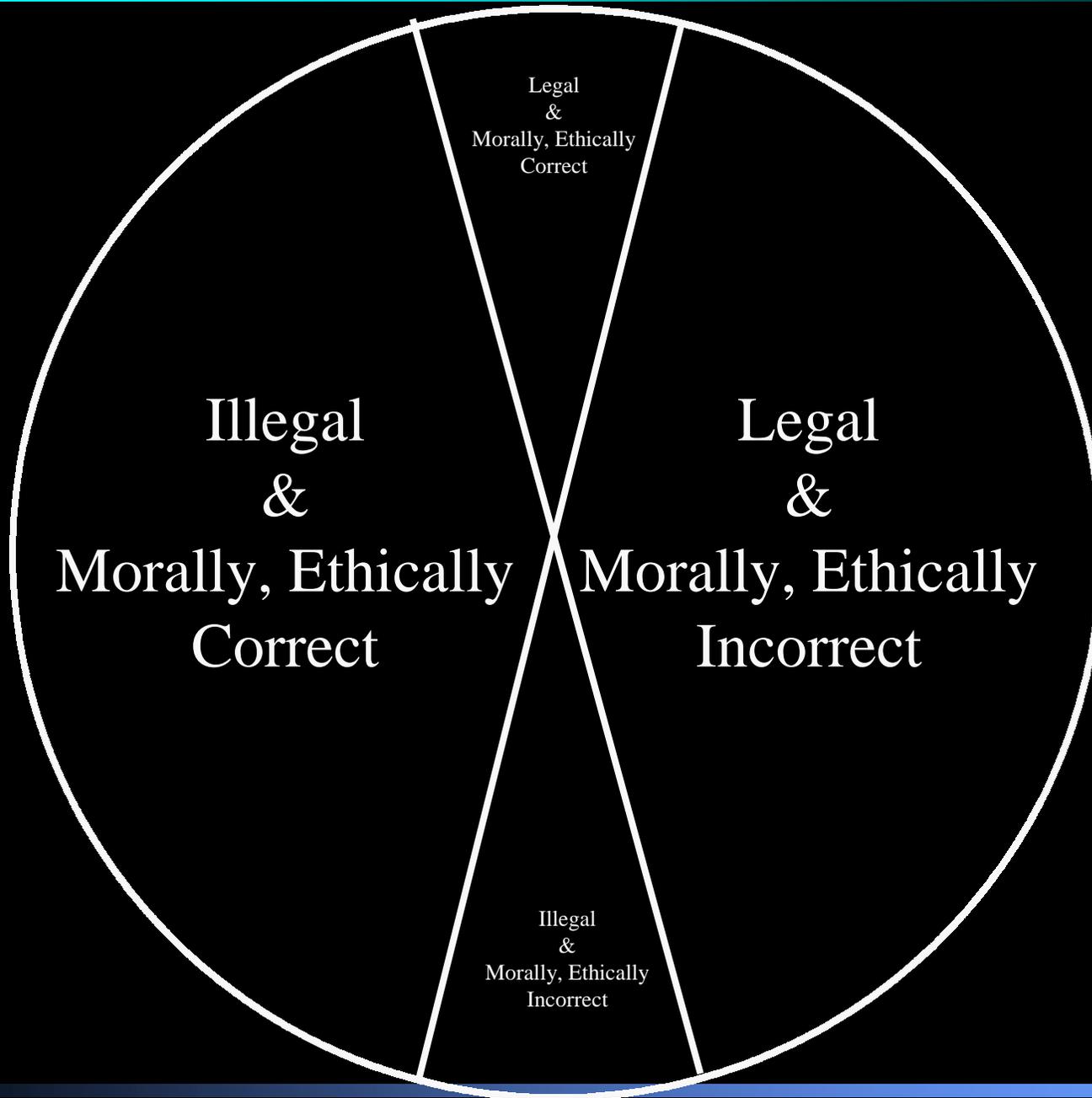
Legal
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Morally, Ethically
Correct

Illegal
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Morally, Ethically
Correct

Legal
&
Morally, Ethically
Incorrect

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SITUATION IN CHINA



Political System

- Communist System and Planned Economy
- Tiers of Government:
 1. Local / Village Level
 2. City / Municipality Level
 3. County Level
 4. Provincial Level or Autonomous Region
 5. State Level – State Council (Cabinet) appointed by State Congress

- State Laws approved by State Congress and declared by State Council
- State Congress nominated from Provinces / Counties / Municipalities / Local governments. "Elections" within the communist party at different levels. Elections held at local government level recently. Representatives nominated from different industries or unions. Other political parties exist (tolerated) but ineffective with no elections.
- Procedures and implementation responsibility of Ministries (Government Departments). Bureaucratic parallel system of technocrats with party representatives but this is being scaled down by having same person appointed for both roles.

Taxation

- Very high tax regime currently for mining due to royalties, VAT type taxes based on gross revenues
- China's revenue is based mainly on company taxes. Personal income taxes only introduced recently but nobody pays
- Collection of taxes highly ineffective. Royalty type taxes set at high levels because expectation to collect any taxes very low

Taxes for Mining

- Royalty 2% of gross revenue
- Resource compensation tax 3% of gross revenue for gold, none for other commodities
- Royalties to local governments 0.5 to 1% of gross revenue
- VAT 18% of sales but after deductions effectively 7 to 9%; Gold waived
- Company Tax 33%; 2 yrs tax holiday and 3 yrs half tax rate (extendable further 5 yrs); accelerated depreciation for capex over 5 yrs

How Business is Done in China

- Qianhi – combination of:
 1. Personal relationships
 2. Corruption / Patronization
 3. Lobbying and lots of “Kan pei”s
 4. Patience and Perseverance

Dangers of Doing Business in China

- Inadequate legal System
- Ripped-off by Chinese partners as Foreigners viewed as "fair-game"
- Chinese Consultants – uncommercial, self-interests, dishonest or very nationalistic
- Confusion due to different interpretations
- Bureaucratic and indecisive officials and conflicting opinions
- Market reforms are creating employment, financial and administrative chaos

Attractions of China

- World class deposits with known reserves available
- Great geological Potential to find or develop world class deposits
- Great opportunities occur because of immature mining industry
- The Government and the people is determined and committed to market reforms and to joining WTO

Who would be successful in China

- Companies with a vision and commitment to be successful in China
- These companies require patience and deep pockets
- Current market conditions make it difficult for entrepreneurs and promoters to be successful in China
- Companies must base in China senior technical personnel with authority to make decisions, strong commercial and entrepreneur skills and P.R. excellence and must be firm but fair in dealings with Chinese. Never involve with corruption

Future for Foreign Participation for Exploration/Mining in China

- China has opened its doors wider and wider and is committed to do so
- China will be attractive sufficiently for foreign participation, but WHEN????
- Manufacturing opened up in 1970s; successful in late 1980s
- Oil & Gas opened up in the 1980s; successful in late 1990s
- Minerals opened up in late 1990s
- Hi-tech & Communications opened up in late 1990s and progressing very fast

**Decision Making will be
Easier when Situation in
China becomes this**

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