



REPUBLIC OF NAMIBIA

MINISTERIAL STATEMENT BY

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NATIONAL ASSEMBLY

WINDHOEK

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Hon. Speaker
Hon. Members

I rise to make a Ministerial Statement with regards to important current developments in our mining and petroleum sectors. The two sectors are among the most important sectors of our economy, and it is therefore not by coincidence that they attract public attention.

Recently and in both sectors, promising things have happened. For example, in the petroleum sector, oil has been discovered in sufficient quantities that justify commercial production. In the mining sector, because of the energy transition brought about by the global undertaking to address the effects of climate change, there is now a global demand for critical raw materials and metals. Some of these minerals, such as lithium, are available in our country.

We therefore have a clear window of opportunity to transform our economy. Depending on how we decide to deal with these opportunities, we have the real potential to effectively address the triple social ills of unemployment, poverty, and inequality.

When it comes to the mining sector and with regards to the critical raw materials, these are minerals that are highly sought after globally. For that reason alone, we cannot mine these minerals where they are exported in their basic raw form or where minimal value has been added. We must insist that critical raw materials are not exported without value being added

locally. And where possible, we need to insist that processed minerals are used as inputs into locally manufactured goods, such as batteries, allowing us to export manufactured goods.

With regards to the petroleum sector, as I said the recent discovery of oil and gas has been proven to be of commercial quantity. In addition to the revenue that will accrue to the State through various taxes such as income tax and royalties, the local economy stands to gain more from local content. Local content is the value that the extraction of oil brings to the local economy beyond the resource revenues.

This value will be obtained from the provision of ancillary services to the oil sector. Among these are the provision of services such as engineering, logistics, accommodation, and catering. Some of the services can readily be provided by local businesses, while others might take a while before our local businesses are able to provide such services.

It shall be a requirement for the International Oil Companies to ensure that all services that can immediately be provided by our local entrepreneurs, are acquired from local entrepreneurs. In cases where local entrepreneurs are not able to provide certain services, we will need to have a clear program as to how to capacitate local entrepreneurs. This can be done, for example, through joint ventures with experienced international service providers.

We currently have a draft local content policy that is available for public comments on the Ministry's website. It is our intention to hold a workshop during the first half of this year, where we will invite all relevant stakeholders for a discussion with a view to finalize the local content policy. We also know that it is one thing to have a policy and another to have the policy implemented. For the policy to be implementable and to have teeth, it will have to be translated into law.

There is, however, one specific issue that requires our unvarnished discourse. It is such an important issue, and it requires us to discuss it candidly and with pragmatism. I am here referring to the issue of local ownership. There is a growing public voice criticizing the fact that the companies exploiting our petroleum and minerals resources are mainly owned by foreign investors. I wholeheartedly agree with this view - and I may add that it is untenable, it is indefensible. We therefore need to figure out how to change the status quo, while still ensuring that the two sectors continue to be economically beneficial to the Namibian people.

What has contributed to the status where both the mining and petroleum sectors are dominated by foreign investors, is the fact that operating in these sectors requires complex technologies and is capital intensive. These are two things that we unfortunately do not have. It is only those who have access to risk capital that have ventured to invest in these sectors. I am not mentioning this to justify the status quo. However, I am mentioning it so that we have a better appreciation of what we might have to do to change the status quo.

For us to economically benefit from our minerals and petroleum resources, there are two main phases that must take place. The first phase relates to finding the resources, generally referred to as the exploration phase. The second phase is the actual recovering of the resources from the ground once discovered through exploration. It is only during the second phase when we derive economic benefits from our minerals and petroleum resources; it is only during this phase when the State receives resource revenue and employment opportunities are created.

It is thus clear that phase one is the most important step in the process of making our natural resources to work for us. It therefore goes without saying that during this phase and to have a chance of making a discovery, you need to have the necessary capability. You need to have the right technology. You need to have the requisite risk capital where money is spent with no promise of finding any resources.

I am making this point because there are some amongst us who are of the view that, to encourage local ownership, exploration rights for both minerals and petroleum should be awarded without due regards to the capability to do exploration. They point out and argue that it is the only way local businesspeople can participate in these important sectors of our economy.

We have two alternative viewpoints to offer in this respect. First, awarding exploration rights to someone who has no capability whatsoever to do exploration, in our view, is tantamount to denying citizens the potential economic benefits to be derived from our natural resources. If we award exploration rights to someone who is not able to do exploration, no exploration will take place and without a discovery, the minerals will remain in the ground and will have no economic value to the country. This is surely not what we desire. I believe that what we want is to find the resources as quick as possible and move to phase two during which we will derive economic benefits.

The second alternative viewpoint is that awarding exploration rights to those without the necessary capability, has real potential to lead to unethical behavior from not only the officials responsible for licensing, but also from those who are being licensed. When exploration licenses can be awarded to anyone who applies for them, you would create a situation where there are more applicants than there are opportunities. The dilemma you will have is how to decide whom to give the exploration rights to and using what criteria. What you would have done, albeit unintentionally so, is created a moral hazard for both licensing officials and those seeking licenses to conduct themselves unethically.

We have empirical evidence where those awarded exploration rights without the requisite capability to do exploration have created a trading market for such rights, selling the rights to the highest bidder. This is tantamount to auctioning exploration rights, except that the revenue so derived does not accrue to the State, but to the few individuals who were lucky enough to acquire such rights.

However, If we believe that auctioning the exploration rights will be the best system, then we might as well change the law to that effect. You may also recall that the High-Level Panel on the Namibian Economy that was appointed by His Excellency, President Hage G. Geingob, in 2019, made a recommendation to auction minerals exploration rights. We are busy with the review of the Mining Act and auctioning of exploration rights will be made an option, where auctioning is deemed to be the better option.

Hon. Speaker; Hon. Members

If we agree that local ownership is so important - and we do agree - and we also argue that perhaps awarding exploration rights to those without the ability to carry out exploration is not the right way to incentivize local ownership, how then do we resolve this conundrum? What must we do to ensure that in the long run, we have local ownership in the exploitation of our minerals and petroleum resources?

Let us recall that Article 100 of our Constitution states that “*natural resources below and above the surface of the land and in the continental shelf shall belong to the State, if they are not otherwise lawfully owned*”. For this reason, we are making a case that local ownership must start with the State, in whose ownership of our natural resources is vested. The proposed State ownership should take the form where the State owns a minimum equity percentage in all mining companies and petroleum production for which it does not have to pay. This is generally referred to as free carry. Should it be desirable for the State to have ownership above the minimum ownership percentage, the State should also be allowed to acquire more equity at a cost. We believe that this is the most practical way to resolve the issue of local ownership.

Another important issue in relation to State ownership is to establish the level of ownership that is agreeable to both the State and the investors. What is the appropriate percentage of the free carry State ownership? Is it 10%; 20%; or perhaps 50%? Whatever percentage is deemed appropriate, the most important thing is that we deal with this issue with sober mindedness. We need to be mindful of the fact that there is a level above which no investor will invest – a situation we clearly do not want to find ourselves in. It is said that a bird in hand is worth two in the bush.

Another idea we have how to incentivize local ownership, is to establish a State-funded minerals exploration Fund, which could be funded by a portion of the royalties that mining companies pay to the State. The Fund will then be used to assist eligible local entrepreneurs who wish to invest in the mining sector.

I would like to conclude my Statement by saying that we will continue to use our best endeavors to ensure that our minerals and petroleum resources are exploited in the best interest of the country and its people. It is our resolve to be good stewards of our resources, and in this role, we will continue to value your informed contribution how to do better.

I thank you.