



## First Quantum Minerals Ltd., Barrick Gold Corp., and the Africa Investment Challenge

### Description

The recent one-day 12% drop in **First Quantum Minerals Limited** ([TSX:FM](#)) stock on March 20 after announcing a serious dispute with Zambian tax authorities has some stark resemblance to the predicament of **Barrick Gold Corp.'s** ([TSX:ABX](#))(NYSE:ABX) subsidiary, Acacia Mining Inc., in Tanzania last year, and investors may have something to learn from these isolated events.

First Quantum was slapped with a US\$8 billion tax bill by the Zambia Revenue Authority (ZRA) this March after the African tax man alleges that the copper mining giant underpaid import duties for mining consumables and spare parts. The company “unequivocally refutes” the claim “which does not appear to have any discernable basis of calculation,” and it said in a press release that it will continue working with the ZRA “as it normally does” to resolve the issue.

The operator of Africa’s largest copper mine is alleged to have mislabeled some mining consumables and spares imports as duty-free mining equipment. The most striking point in the First Quantum vs. ZRA issue is that the tax authority is reportedly set to conduct six-year audit reviews of all other mining firms aimed at recovering all unpaid taxes “on behalf of the Zambian people,” and it may extend the period of the audit should it find a pattern of premeditated tax evasion.

This case has some parallels with Acacia Mining’s [challenges in Tanzania](#) last year where the gold and copper miner was slapped with a US\$190 billion tax bill for allegedly severely under-reporting mineralization of gold and copper concentrates. A host of new mining laws were instituted, and Barrick Gold, the majority shareholder, had to engage in lengthy closed-door negotiations with Tanzania to rescue the situation.

To date, Acacia still strongly refutes Tanzania’s claims, labeling them as outrageous, but investors, including Barrick Gold, have suffered severe capital losses on the stock, which is down 64% since a gold and copper concentrate export ban was effected in March last year.

While Barrick Gold [negotiated for a US\\$300 million payment](#) to Tanzania by Acacia as a show of good faith, the matter is yet to be fully resolved, and Acacia lost its CFO and CEO at the same time in

December, further weakening the company's corporate governance and recovery plan-execution prospects.

### **Are the host governments becoming too aggressive and irrational?**

African governments are increasingly becoming watchful of corporate citizen activity. They are demanding more accountability and increased beneficial stakes in economic activities involving the extraction of natural resources, while strongly and aggressively implementing tax and mining regulations.

From the two cases highlighted above, it is intriguing whether the African authorities are becoming wantonly irrational and making outrageous demands on foreign controlled entities or abusing legal authority, but could there be so much smoke without a fire?

### **Investor takeaway**

Recent spates between African authorities and foreign-controlled mining firms may be a direct result of serious mistrust between host governments and multinational establishments, and the results are severely hurting for investors.

I applaud First Quantum for their promise to transparently deal with the Zambian tax authorities, and the current tax issues may be resolved amicably, unlike in the Acacia case, where some arrogance worsened the situation. I look forward to a favourable resolution to Acacia Mining's squabbles with Tanzania though, but one thing is becoming apparent: investors should seriously evaluate the qualitative corporate governance and compliance profiles when making equity investments, as these issues may significantly destroy equity values.

African governments are awakening to any appearances of tax evasion and are strongly enforcing tax and mining regulations more vigilantly than before, while demanding more on environmental and social responsibility, as recently shown in a soon-to-be-revised mining charter in South Africa, more tax audits in Zambia, and revisions of the mining codes in the Democratic Republic of Congo and Tanzania in 2017, although Zimbabwe has recently relaxed indigenization laws, as its new president is actively seeking new foreign direct investment.

About 19 African countries have changed their mining regulations since 2010.

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