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Bolivian Official Calls for 600% Mining Tax Increase

By Jon A. Nones
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St. Louis -- As foreign miners anxiously await changes to mining legislation in Bolivia expected to be announced in the coming weeks, Mining Minister Guillermo shook the industry today with a possible prelude to the new taxing system.

Dalence was quoted in the daily *La Razon* saying Bolivia plans to raise the taxes paid by mining companies six-fold this year. He said the government received $45 million in tax revenue on mining exports of $1 billion in 2006, and that's a "ludicrous amount."

"If in 2007 we were to export $1 billion worth of minerals again, the state should receive at least $300 million," Dalence said.

The tax increase is part of a new mining policy to be announced before the end of January, originally scheduled for October 31. The plan aims to revitalize Comibol, Bolivia's state run mining company, and rejuvenate the country's dilapidated mining industry rich in zinc, silver, gold and tin.

A spokeswoman for the Mining Ministry later told sources that Bolivia will consult mining companies with operations in the country before going ahead with plans to raise taxes on the industry.

In May, President Evo Morales announced the nationalization of the country's oil and gas sector, giving majority control of the industry to state energy company Yacimientos Petroliferos Fiscales Bolivianos. Although this was suspended in September, Morales has hinted about nationalizing the mining sector on multiple occasions.

On October 15 of last year, President Morales said he would nationalize Bolivia's mines as part of an overhaul of the country's mining industry after a violent clash between rival miners' groups killed 16 people at the state-owned Huanuni tin mine.

In a dialogue conducted by Manchester Trade Ltd., Ivan Rebolledo, President of the Bolivian-American Chamber of Commerce, said the messages that come out of La Paz regarding the mining sector are indeed confusing.

He said, despite assertions from President Morales, "the government's main interlocutor with the international investment community, Vice President Alvaro Garcia Linera, has repeatedly ruled out expropriations and has assured private investors that juridical security is in tact."

But Hernando Otero, Senior Associate at Appleton & Associates, said reclaiming the country's resources for the state would be the easier part since the Bolivian Constitution (Article 136) and the mining code already provide for it.

“The harder part may be bringing administrative coherence to the current mix of exploitation regimes, particularly to that of politically sensitive cooperatives of former state miners,” he said.

However, Otero said that President Morales may be able to reorganize the administration of all actors and resources, and “bring an end to the endemic unrest,” by simply revamping state-owned Comibol.

“In doing so, he may even end up improving the overall attractiveness of the Bolivian mining sector and increase private investment. Only time will tell,” he said.

Leni Berliner, President of Mining & Metals 21, Inc., said Comibol - as it is now - lacks the financial and technical capacity to invest in the sector on its own.

“Comibol historically was a very poor manager of Bolivia's mineral resources, its miners and the revenues from mineral sales. Previous governments were mature enough to admit that this was the case, and the gradual sale and joint venturing of Comibol assets that began in the late 1980s continues,” said Leni.

Furthermore, he said that Bolivia's HIPC (debt-reduction) status is predicated on the foreign exchange earned from the development of privately held mineral property.

“I doubt there will be a change in control of producing or advanced development mineral property in Bolivia, but consensus in the industry is that undeveloped concessions could be vulnerable to expropriation as a political move with limited financial impact in the short-term,” Leni concluded.

Two U.S-based companies are expected to begin production this year in Bolivia, Apex Silver Mines and Coeur d'Alene Mines.

Apex Silver Mines is expected to begin production at its $650-million San Cristóbal silver-lead-zinc project this year.

The mine hosts Proven and Probable reserves of 470 million ounces of silver, 8 billion pounds of zinc and 3 billion pounds of lead, and is forecast to produce 17 million ounces of silver per year, 167,500 tonnes of zinc and 63,500 tonnes of lead.

Shares in Apex [AMEX:SIL] closed today down 70 cents, or 4.64%, at $14.37 on AMEX.

Coeur d'Alene Mines’ $135-million San Bartolomé project is also expected to begin by end-2007.

The deposit contains over 150 million ounces of silver in P&P reserves, and is forecast to produce 9 million ounces of silver in 2008 at a cash cost of $3.50 per ounce.