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Network Movement for Justice and Development (NMJD)

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Sierra Leone's Parliament ratifies illegal mining agreement that is bad for the country's development

Sierra Leone's Parliament has ratified a mining lease agreement with the UK-based company, London Mining Company, which contravenes the recently enacted 2009 Minerals Act and is not in the best economic interests of the country. UK-based campaign group Global Witness and Sierra Leonean partner Network Movement for Justice and Development (NMJD) warn that substantial changes to the contract are needed if it is to benefit Sierra Leone's people.

The terms of the agreement, which was ratified last month but has not been made public, are heavily weighted against the war-torn and impoverished country, and contain clauses that are contrary to the new mining law. Elements of the contract that go against the new law include the way in which the royalty rate has been calculated, and the inclusion of a clause which would allow the contract to override the law if they conflicted. The President has reportedly asked the Ministry of Mineral Resources to make unspecified amendments to the contract, but there are no guarantees the necessary changes will be made.

"The London Mining agreement is a bad deal for Sierra Leone and its people. It sends a worrying signal that the Government is willing to break a law as soon as it has been enacted, and is not serious about the reform of the minerals sector," said Natalie Ashworth, Campaigner at Global Witness. "What was the point of spending vast sums of donor aid, and a huge amount of time and effort developing laws to reform the minerals sector, if the government won't enforce them?"

After a brutal civil war that was fuelled by conflict diamonds, reform of the country's natural resources sector is vital for its post conflict reconstruction. As a part of wider reforms of the mineral sector, the Government of Sierra Leone has been working with the international donor community, including the British and American governments and the World Bank, to renegotiate key mining contracts to bring them in line with international standards and ensure that they are good for the country in the long term. The deal with London Mining Company, negotiated independently by the Ministry of Mineral Resources, goes against these reforms. The negotiation was shrouded in secrecy and sets a poor precedent for the renegotiation of other contracts.

Another clause in the London Mining agreement that is not in the best interest of the country is a ten year tax break for the company, reducing its tax rate from 37.5% to 6%. Furthermore, the contract is initially for 25 years but is renewable for a further 15 years on the same terms and conditions as the current agreement, unless the company suggests amendments. This places the Government at a significant disadvantage should the global demand for iron ore change.

"Sierra Leone's parliament should not have enacted a contract with such serious flaws. It is essential that the deal is amended to bring it in line with the law and ensure that it actually benefits Sierra Leone's people", says Abu Brima, Director, NMJD. "This has set a dangerous precedent for other companies renegotiating mining contracts."

For press enquires: Natalie Ashworth- + 44 (0)207 492 5820 or +44 (0)7968160377 in London or Abu Brima on +232 766 453 14 in Sierra Leone

Notes for the Editor:

(1) Global Witness investigates and campaigns to prevent natural resource- related conflict and corruption and associated environmental and human rights abuses.

(2) The Network Movement for Justice and Development (NMJD) is a national civil society development and human rights organization. Established in 1988 it aims at working towards building a just and self–reliant Sierra Leone, where there is economic justice, accountable governance and sustainable peace for especially the marginalized and exploited citizens and communities in Sierra Leone.

(3) In the contract, the royalty rate is calculated after sales tax, value added tax, export duty and other taxes have been deducted, which conflicts with the 2009 Minerals Act. Furthermore, the “arms length price” would not be taken into account when calculating the royalty rate, which again conflicts with the new law. The “arms length price” is based on the market price of the ore and its inclusion is vital to avoid transfer pricing (which is where a company sells ore to another part of the same company at a rate lower than the market price). Failure to take this into account could result in a significant loss of revenue for the Government of Sierra Leone.

(4) A “stabilization” clause in the contract effectively means that the terms of the contract would override the provisions in the new law in the event that they conflicted. An “indemnification” clause makes the government liable for any costs incurred by the company as a result of further legislative change (e.g. if the government passed new legislation increasing the obligations of the company to their employees the government would have to cover the related costs.)

(5) London Mining Plc is a UK-based company that is developing mines for the steel industry. It has iron ore mines in Sierra Leone and Greenland, a 50% stake in a joint venture in Saudi Arabia, a 50% stake in the China Global Mining Resources joint venture, and minority interests in two coal developers in South Africa and Colombia. The Company listed on the Oslo Stock Exchange on 9th October 2007.