

# Efforts to revitalize the mining industry hold great potential

Mining activities in Oman are set to increase considerably in the coming years, following the discovery of significant reserves of mineable minerals, including gold, copper and rare earths. The government has recently moved to create a sustainable growth path for the industry, introducing new legislation aimed at increasing value addition and reducing raw exports. While these measures may create short-term growing pains for the industry, the long-term results of efforts to build Oman's domestic minerals value chain will have a positive impact on GDP growth and non-oil diversification, while a grace period in new legislation should protect operators from serious short-term shocks.

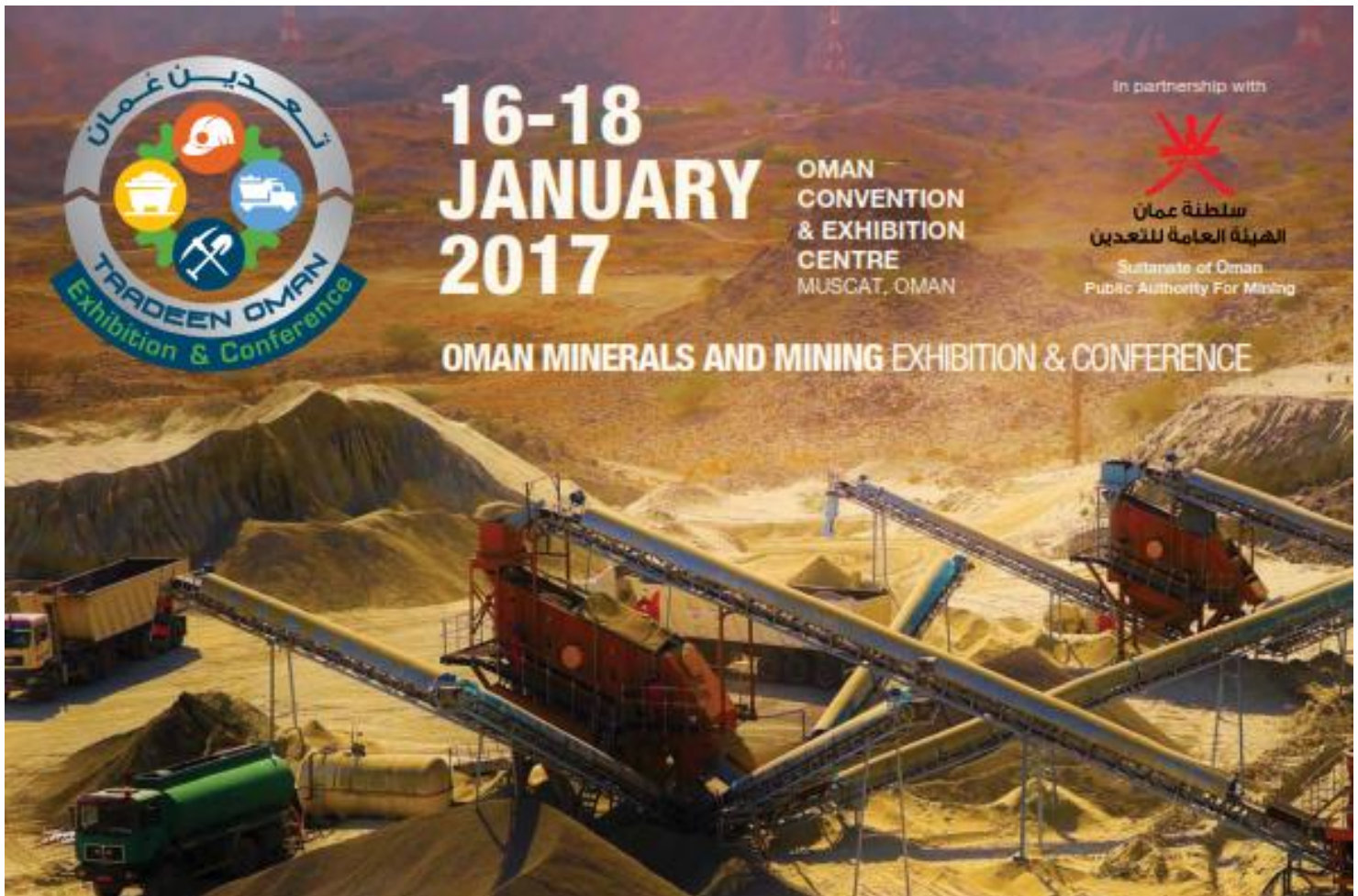
## Overview

Oman boasts a considerable mineral resource base, concentrated mainly in its 700-km by 150-km mountain range, which offers an exposed ophiolite geological outcrop containing minerals such as copper, gold, silver, chromite, lead, nickel, manganese and zinc, while other regions in the sultanate offer deposits of dolomite, limestone, gypsum, silica, cobalt, marble and iron. The Ministry of Commerce and Industry (MCI) is responsible for implementing legislation and overseeing the sector, which is primarily regulated by Royal Decree No. 27 of 2003, or the Mining Law.

Although there are no requirements that a government entity holds an interest or share in a mining investment, the Mining Law mandates mining utilisation agreements between the MCI and the permit holder, addressing issues such as royalties, environmental protection and dispute resolution. The law also stipulates an Omanisation obligation as a condition of both exploration licences and extraction concessions, while companies are also required to allocate 5% of net annual profits to community development programmes.

The MCI's Directorate General of Minerals (DGM) is responsible for overseeing mining operations, as well as handling permit and licensing applications. Law firm Curtis Muscat reported in 2013 that the MCI had taken a conservative approach towards licensing renewals in recent months, recommending existing companies submit proper work programmes to the ministry to safeguard the licensing process.

“This approach is in line with the government’s policy to revitalise the mining industry, and means that those licence holders who have not made significant investments and committed resources to explore the licence area might not be able to renew their licences, even though they may have been able to obtain such renewals without any difficulty in the past,” read the firm’s blog.



## Growth

In 2012, 33 companies carried out mineral exploration in Oman, according to the US Geological Survey’s (USGS) 2012 Minerals Yearbook, while a January 2014 report by the Central Bank of Oman found that the mining sector had expanded on the back of integration with other industries, with the sector’s total contribution to GDP reaching OR104m (\$269.3m) in 2012, a 2.1% increase over 2011’s OR99.3m (\$257.13m.) Mineral products, which comprise the largest component of non-oil exports, jumped 51% to OR670m (\$1.73bn) in the first eight months of 2013, from OR444m (\$1.15bn) in 2012, according to the National Centre for Statistics and Information. By volume, Oman’s leading

mineral commodities in 2012 were sand and gravel, with 69.5m tonnes produced, followed by limestone at 6.5m tonnes and cement at 5.3m tonnes.

Production is also on the rise: the USGS reported a number of year-on-year increases in 2012, including a 58% increase in quartz output, a 53% increase in gypsum output, a 32% increase in direct-reduced iron, a 29% increase in limestone output, a 23% increase in silica sand, and a 21% increase in marble. At the same time, production of clay, chromite, and manganese declined by 41%, 10% and 9%, respectively.

Oman's 2014 Mining and Quarrying conference reported a bright outlook for future mineral production, projecting a sharp increase in demand and prices of limestone and gabbro in the wake of Dubai's Expo 2020 and Qatar's 2022 FIFA World Cup. In the shorter term, copper and rare earth extraction activities present the most promising growth channels for mining.

## Reforms

Industry reform began in 2011 when the government contracted German consultancy Brenk Systemplanung GmbH to evaluate the minerals sector. The company conducted a comprehensive review of the development, legislation and marketing of mineral resources, and found that 113 aggregate production companies were not adhering to the terms of their licences, and had been undercutting aggregate prices in the local market. The review also found that some businesses were operating without a permit or outside of their designated sites, prompting the MCI to take a proactive approach to regulation. In April 2013, for example, the MCI referred 169 mining companies to the public prosecutor after finding that they were not in compliance with their licences.

Recent reforms have emphasised increasing value addition and Omanisation under the sultanate's in-country value programme. The Mining Law was amended in February 2013 under Ministerial Decision No. 39 to give licensing priority to Omani companies, and restrict foreign investment in the mining sector by stipulating mining licences would only be granted to companies with no more than 30% of their capital held by foreign investors. Most significantly, under the new laws the export of raw, unprocessed materials will be phased out as the government intensifies focus on value addition and the export of processed materials.

"The law dramatically changed the approach of mineral demand; however, there is a small grace period between now and when the law is fully enforced. If a company shows plans to add value in the short to midterm, they can, to some extent, export a certain amount of raw materials," Jean Jacques Moyson, general manager at the Port of Duqm Company (PDC), told OBG.

These reforms have sparked new growth in the industry; in April 2014 officials at the PDC announced that the company was negotiating with four mineral processing and refining companies, which plan to establish facilities in Duqm's industrial zone mining cluster. Three foreign firms from the Middle East and Europe, and one Omani firm were reportedly investigating the feasibility of projects in Duqm.

"Everyone prefers to export refined minerals because they're worth more, so the incentive is there. When you export 5m tonnes of raw product it is a little different than processing 20m tonnes of raw product and exporting 5m tonnes of processed materials. This is where the industry is headed, and it will be highly beneficial for all stakeholders," Moyson told OBG.

## Copper

Copper mining in Oman dates back thousands of years, and the sultanate's copper industry is at the forefront of new mining projects following the discovery of sizeable reserves in the Sohar area. Copper mining is dominated by Mawarid Mining, which owns three mining blocks containing eight deposit sites near Sohar. In June 2014 Mawarid announced it was developing a technologically advanced underground mine, the Ghuzayn Underground Mine Development Project, which could see up to 10m tonnes of sulphide ore extraction over the next 12 years.

Mawarid will also work in partnership with the Oman Oil Company (OOC) to develop the Yanqul Copper Project in Al Dhahirah, 50 km north of Ibri. The two companies announced the venture in March 2014 when OOC signed a memorandum of understanding with Mawarid, with the OOC expected to hold a 41% stake in the project and Mawarid 49%, while the state-owned Oman Mining Company will hold the remaining 10%.

The market's newest copper entrant, Australia-based Alara Resources, has invested in two mining operations at the Samail ophiolite belt: the Washihi-Mullaq-Al Ajal Copper-Gold Project and the Daris Copper-Gold Project. Studies undertaken in 2014 returned positive economic outcomes for both planned projects, based on assumed copper prices of \$7000 per tonne, and gold prices of \$1300 per ounce, with the company reporting in June that it plans to advance the project to the next phase, a pre-feasibility study.

## Rare Earths

Rare earths extraction provides another high-potential growth channel for mining investment in Oman. Rare earths are used in the majority of mobile and computing devices, as well as lasers, magnets, wind turbines and plasma TVs. Only 10 countries in the world have significant reserves of

monazite, a reddish-brown mineral containing rare earth crystals, according to a 2013 article in the Oman Observer.

Though Oman is not yet included on this list, monazite minerals are a by-product of the heavy mineral sands mining activities undertaken in the sultanate. A new joint venture between Takamul Investment Company, an OOC subsidiary, and Canadian firm Medallion Resources is expected to profit from this untapped resource.

Following a memorandum of understanding signed for a rare earths project in June 2013, Takamul was named Medallion's sole Omani partner in the project in April 2014. Medallion is expected to pursue partnership opportunities with other GCC companies located outside of Oman to finance a \$50m rare earths extraction plant, which will be constructed at the Port of Duqm's special economic zone. The facility will produce an estimated 10,000 tpa of rare earth oxides.