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# Major Changes in Mining Policy

by R. G. Holloway, London

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**G**rowing economic nationalism, combined with a persistent threat to internal security, has induced the Sierra Leone Government to announce its intention to acquire the majority ownership and control of all mining companies operating in the country. These companies, at present wholly foreign-owned, dominate the export economy.

## **Illicit Diamond Mining**

The difficulty of policing Sierra Leone's own citizens on behalf of a foreign company engaged in diamond mining is undoubtedly the major political factor prompting the Government's decision. Illicit diamond digging started in 1952 as the result of crop failures. The considerable success attained by some of the diggers acted as a magnet which drew many Africans into the diamond area from many other parts of Sierra Leone and from neighbouring countries. This was the origin of a problem of exceptional difficulty since, firstly, it jeopardised the agreement under which the Government had granted exclusive diamond prospecting and mining rights to the British-owned Sierra Leone Selection Trust; secondly, it generated a smuggling trade which proved impossible to control; and, thirdly, it threw up a number of social and political problems as the result of the herding together of large groups of people in mining settlements which were devoid of the most rudimentary amenities.

As a consequence, the Government undertook measures to suppress illicit mining and trading. The quid pro quo from the mining company was a larger contribution to Government revenue, the total amount payable not to exceed 60 p.c. of profits. These first efforts to control illicit mining were not successful, however. This was partly due to the administrative difficulties involved and partly to the popular belief that the local people should not be prevented from selling diamonds found on what they had thought to be their own land.

## **Efforts to Control Smuggling**

New arrangements between the Government and the Trust were negotiated in 1956 under which the Trust relinquished its exclusive prospecting

and mining rights outside the area of about 500 square miles where it had already proved or developed reserves. This meant that the rest of the country was thrown open to individual diggers and by 1957 they were producing more than the Trust. The Diamond Corporation was then invited to establish a subsidiary in Sierra Leone to market diamonds produced from alluvial deposits but, as this failed to solve the problem of smuggling, the Government established its own buying office in 1959. The value of diamonds offered for legitimate export then doubled, rising to £11.6 mn in 1964 and then falling as the more easily worked deposits were exhausted.

The Government took action to increase the efficiency of these digging efforts. Improved methods of working the alluvial fields, such as the introduction of parallel trenches instead of haphazardly placed pits, and the washing and concentration of gravel with wire mesh and foot rockers instead of nail-holed pans, as well as improved dam building, prospecting methods and pump maintenance, were encouraged by the Mines Department and aided by an American-financed Revolving Loans Fund. These improvements met with strong resistance from labour hired by licence holders, however, since they permitted increased supervision with stricter discipline and diminished opportunities for theft.

## **Reasons for Nationalisation**

Falling authorised alluvial production and rising unemployment caused by drastic deflationary policies, necessary to restore the balance of payments, have been major factors inducing intensified illicit operations. These have caused great concern not only for the Trust but also for the Government since inaction on its part in dealing with the breakdown of law and order could easily lead to renewed military dictatorship while stronger action against its own citizens in order to protect the commercial interests of foreigners would court unpopularity amongst the electorate. The Government had long discouraged any extension of foreign enterprise in retailing and merchandising, fishing and road transport; and this discouragement had escalated to a total ban. A further factor inducing the Government

to change its mining policy was the need to protect its own tax revenue from company profits from depletions due to illicit digging and subsequent smuggling across the country's extensive borders.

Provided the Government's terms are fair, its proposals may be welcomed by the Trust since they will undoubtedly be followed by stronger measures to combat illicit operations. As a result, future dividends combined with compensation payments may exceed the present dividend flow.

The change in Government policy is not likely to be welcomed by the other mining companies, however, since these British, American and Swiss owned enterprises mine iron ore, bauxite, rutile and (intermittently) chrome ore, and these minerals are beyond the scope of illicit operators.

#### No Confiscation

The Prime Minister has stressed that the Government wishes to avoid both foreign domination and domestic confiscation by achieving mutual agreement on fair participation. He has promised a "full, just and freely negotiated partnership agreement" though there is room for doubt regarding, at least, the freedom of negotiation—particularly since he is insisting on 51 p.c. ownership, together with majority representation on the boards of the mining companies, and he has threatened to increase existing tax rates for those companies making "great profits".

"Fair value" compensation has been promised for the shares acquired by the Government, ap-

proximating to book value in the light of profits, capital investment in Sierra Leone and depreciation. The Government shares will be held by a new State-owned corporation and compensation will be paid out of future dividends.

More ominously, the Prime Minister has added that the Government will by means of taxation and dividends share in all profits directly or indirectly generated to the fullest extent after evaluating profitability, „fair return“, past and future investment decisions and foreign tax credits.

Day to day managerial operations will be subject to negotiation but a hopeful sign is given in the Prime Minister's statement that the new joint ventures between the Government and the existing owners of the mining companies will succeed only if they act in concert for the long run interest of all.

#### Surprise Moves

The Government's decision to change its mining policy has come with unexpected suddenness, perhaps prompted by similar moves in Zambia. But even the minimal guarantee of fair compensation does not create the appropriate climate for encouraging foreign investment. The Government may win votes by presenting foreign management of local concerns as a contract for specialised know-how with the implicit hint that such contracts may be of limited duration. But the same hint taken by foreign companies is all too likely to divert their capital, technology and management skills to more favourable political environments elsewhere.



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