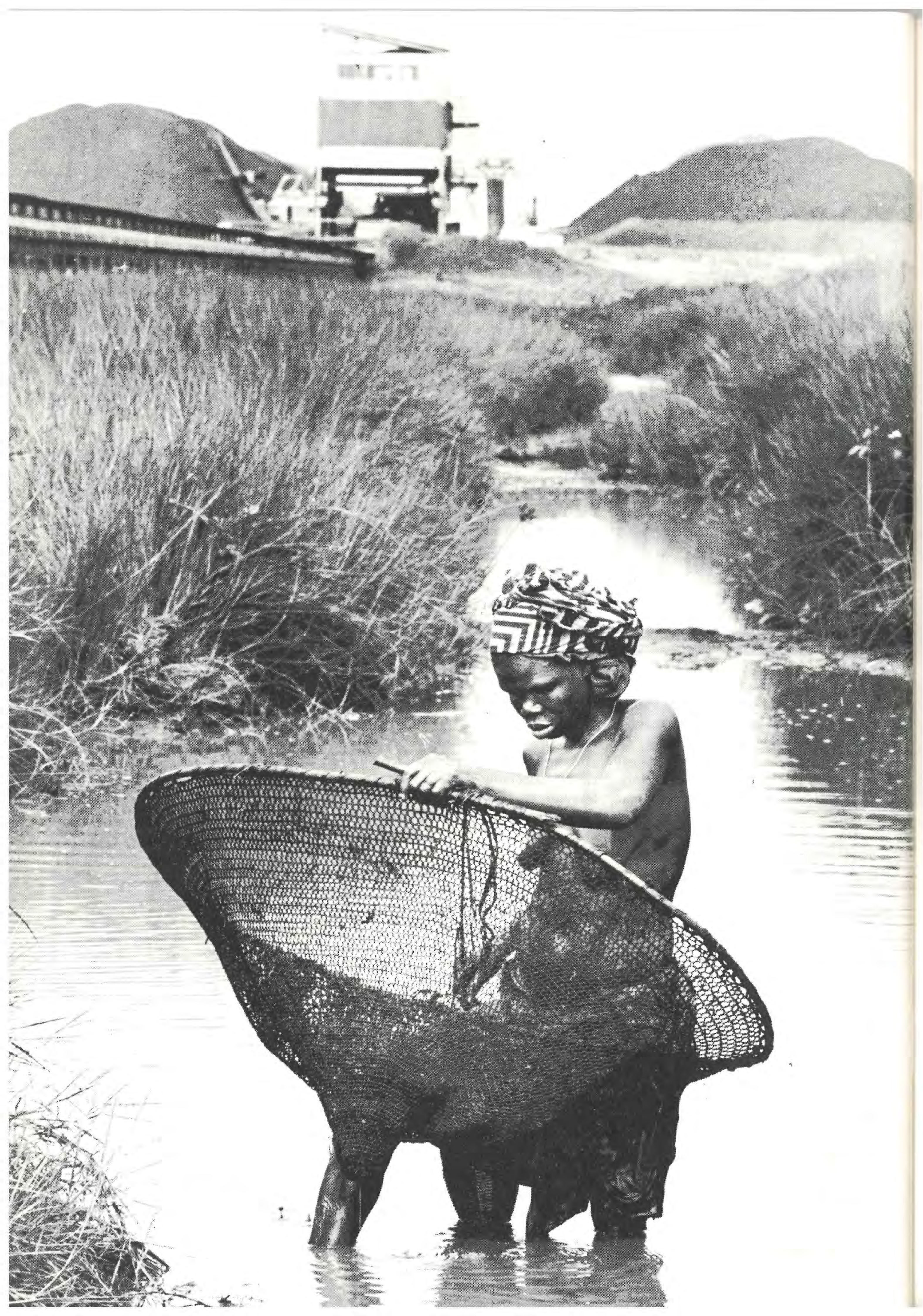

Mining in Liberia has remained an enclave in a predominatly agricultural economy.

Dealing with mining companies – the experience of Ghana and Liberia

By Jerker Carlsson

In most of todays export dependent, primary commodity producing countries in the "Third world" the economy is dominated by transnational companies. However, there are significant differences in their approach to foreign capital.
In this article Jerker Carlsson looks at the development objectives and mineral strategies developed by two West African countries, Ghana and Liberia, during the period 1950 to 1980.

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The natural resources of Africa have been subject to exploitation ever since the colonial penetration started more intensively in the middle of the 19th century. The mineral wealth found in some African countries came to form the backbone of their economies after independence had been achieved and national governments had taken over in the beginning of the 1960s.

It is a well-known fact that the mining industry in Africa is dominated, not to say controlled, by foreign capital, usually in the form of multinational corporations. Even where there is an increasing participation by state-owned mining companies, the reliance on foreign technology and management is great.

Given the strong position of international mining companies, one of the central issues in the relationship between the companies and the host governments has been the contribution of the companies to the overall socio-economic development of the economy.

It is the purpose of this article to attempt an analysis of two national mineral strategies with respect to their approach to foreign capital and the measures designed to achieve maximum return from these investments. Our case will be the mineral strategies developed in Liberia and Ghana during the period 1950 to 1980.

The colonial heritage

In both countries mineral extraction occupied an important position. The extent of the operations and their general importance with respect to government revenue, foreign exchange earnings and employment, was such that a national development strategy had to devote prime attention to the realization of their full potential.

The development objectives adopted by Liberia and Ghana, as well as by most other developing countries, can be summarized in the following points:

- to sustain high growth rates,
- to alleviate poverty,
- to increase employment opportunities and,
- to get away from the reliance of one or two commodities and develop a more diversified economy.

A developing economy based on non renewable resources probably has a much greater incentive to transform and diversify its economy than predominantly agricultural countries.

In the industrialized countries a development process based on export production of primary commodities has usually involved production and consumption linkages with other sectors of the economy. This has resulted in a diffusion of economic development throughout the economy. However, several studies have shown that this process has not been present in most of todays export dependent, primary commodity producing countries. Their main economic activity is very often dominated by foreign companies, with strong linkages to the industrialized world. Together with the specific features of a neo-colonial economic structure, this has precluded the establishment of linkage effects with respect to production and consumption. In other words, there has been a general lack of backward as well as forward integration with other sectors of the economy.

The limits of surplus sharing

Instead linkages in production and consumption *financial linkages* have assumed primary importance. The direct revenue generating effects of the mining industry have received great attention when the host governments have designed their mineral policies. But the strength of the financial linkages is dependent on the ability of host governments to share the surplus produced by the mining company. Furthermore, to fully realize the potential of the financial linkage, the government must be able to utilize its share of the surplus in a purposeful manner as outlined in an coherent development strategy.

Thus, for an economy dependent on the activities of mineral production for export, where the dominance of foreign capital is substantial, the maximization of the financial linkage becomes a most critical issue. Such a maximization requires not only a balance between the desire of the host government to obtain the highest possible income from the project, while at the same time allowing the investor to make a return that will induce him to stay in business. It is also a test of the ability of the state to allocate the resources thus gained for the future development of the economy. To this should be added that the mineral wealth of a country is a depletable asset and this must be borne in mind when designing the incentive package, which is an important part of the mineral strategy.

THE CONCESSION AGREEMENT – AN HISTORICAL OUTLINE

In developing countries the financial linkages are usually outlined in a concession agreement between the state and the foreign investor. This is in contrast to industrialized countries, where the activities of the companies are regulated by general law. The practice of concluding concession agreements can be explained by three specific circumstances:

- the very special nature of multinational corporations
- the usually weak host economy
- the underdeveloped legal tradition of the host country.

Most host countries do not have the resources to draft the comprehensive mining-, income tax- and company laws necessary to deal with multinational corporations. This is thus most effectively done if the host government can devise rules that are directly adopted to the requirements of each project. The concession agreement offers such a possibility. It plays the role of a regulation that elaborates and specifies the intention and the policy directives of the general law.

Concession agreements – the noble art of self defence

It can also be argued that it is most likely that the foreign investor prefers the ad hoc agreement system as it offers stability. In countries with political instability, general laws are subject to easy change. A concession agreement, where the parties negotiate the terms of operation is consequently preferable, particulary as the bargaining position of the foreign company must be considered as superior to the host country.

Experience shows that it has not been possible for a host developing country to match the investing company at the bargaining table. The mining industry usually guards very closely its knowledge of resources and reserves, technology and markets. A complex corporate structure adds further to the difficulties of the host country when it tries to obtain a bargaining position equal to the foreign company. In some cases the host country has even lacked knowledge about their own mineral resources and in general it has had problems to evaluate correctly the decisions affecting vital parts of its economy.

The development of Concession agreements in Ghana and Liberia

The nature and contents of the concession agreement have developed substantially over the years. In the early agreements, typified by the concessions granted to Ghanaian gold mines during the colonial period, the company was given extensive rights over a large land area. The duration of the agreement was long, 50–60 years. It contained limited financial obligations.

a. The principle of royalty

Usually the financial linkage was established by a royalty, either based on physical output or value of output (the former was the most common). The royalty was often supplemented by a nominal land tax.

For a host government with a limited administrative apparatus to its disposal these early agreements had their advantages. First of all, they were easy to administer. Secondly, they guaranteed the national treasury a stable revenue, at least in the short- and medium term, as the royalty was independent of profitability developments in the companies.

But royalty payment also had its disadvantages. It taxed the mining enterprise also in years when it suffered losses. As it did not take the economic position of the mine into account it worked as a disincentive to the owners to continue the operations. Also, such a tax does not encourage an enterprise to work less rich deposits, since each ton produced will be subject to the same tax rate, although it will provide less profit than the same quantity from richer ore bodies.

Bearing in mind these weaknesses it is obvious that the host government could not solely rely on the royalty when it wanted to increase the financial linkages. If the royalty would rise to a high level, it would create a disincentive to foreign companies to continue, or start up, operations. The rigidity of the royalty thus called for a more flexible tax system.

b. Taxation of profits

In the 1950s, primarily in response to the host governments need for increased income and foreign exchange, a new system based on taxation of company profits began to emerge.

Basically, one can distinguish two methods for taxing the profit. Either a *direct income tax*, or *sharing in the distributable profit* through dividends as shareholder. The latter is primarily a feature of the 1960s and we shall come back to it later on as it is closely connected to a switch in policy towards increased government participation in the mining industry.

An example of a shift in emphasis from royalty to income taxation is the case of the *Liberia Mining Company (LMC)* in Liberia, where the Government

of Liberia (GOL) in the first agreement of 1945 levied a basic royalty of 5 ¢/ton of ore and substituted it in 1952 for a tax on profits (starting at 25 per cent and later increased to 50 per cent).

The strength and weakness in different approaches

The switch to a proportional tax on profits had its merits. The prosperity of the company was taken into account and it provided better incentives for working lower grade qualities. On the other hand it had the disadvantage of not giving a yield when the company produced no profit. Furthermore, imposition of income taxes increased the pressure on the administrative capacity of the host government, as the whole spectra of problems relating to calculating the taxable profit of the companies now appeared.

To avoid these problems the government had to be able to establish sales prices of the particular mineral and it had to scrutinize the validity of company deductions for expenses that were charged against gross income. To do this efficiently, facing a multinational corporation where transfer pricing most probably is an established practice, is not an easy task and it requires a good institutional framework which, unfortunately, few developing countries possess.

Given these difficulties the royalty has remained an important supplement to the income tax, although its importance had declined by the 1970s. It could be used to provide the government with a minimum income. In the mineral markets where oligopolistic features began to appear, royalties could probably be tolerated by the companies. Price levels were more under their control than in more competitive branches, like copper mining, where the market fluctuated heavily.

In the late 1960s political pressures to break away from the traditional concession began to increase in the "Third World". Host governments began to demand participation in the ownership of the mines and increased control over the financial flows as well as the management of the operations.

An ultimate strategy for gaining maximum control over the entire mining operation was *nationalization* of the companies. However, governments soon found that there were high entry barriers in marketing and that the lack of know-how prevented them from running the mines efficiently. To solve these bottlenecks governments were forced to sub-contract the marketing and operative function to outside parties. However, this met with certain difficulties as the foreign expertise available was usually connected with international mining groups and these were not content with going into a management arrangement, unless they were given access to a significant share of the profit. The solution to this situation open to the host governments was to go into partnership arrangements with foreign mining companies, where the foreign company appeared as co-owner and thus had an immediate interest in the operations.

Concession agreements today

The modern concession agreement, as it developed out of response to this situation, provided for *joint ownership* and *joint ventures* between governments and foreign capital. Equity sharing had of course a clear political appeal. However, even if the host government had obtained formal control through owning 51 per cent of the share capital, it soon turned out that this system did not strengthen the financial linkages achieved through the income tax approach, which did not involve ownership.

The most common form of equity sharing was based on an exchange of equity sharing in return for the government forsaking its right to levy an income tax. Instead the government received its share as a dividend. However, a dividend based on 50 per cent of the equity was seldom equivalent to a 50 per cent tax on the profit.

> "Dividends come out of the funds that remain after repayment of principal on debt and after the provision of funds out of profits for reinvestment in the operation. Under a normal equity-sharing arrangement, the Government shares in capital expenditures: under a tax arrangement the Government takes its funds before the deduction of such expenditures."
> (*Smith and Wells,* 1975:38)

To avoid this drawback, some equity-sharing arrangements have been made by granting the Government equity participation, while at the same time retaining its right to tax the company.

An important motive for host governments to acquire a share in the equity has been its desire to increase its control over operations, financially as well as operationally. The foreign company can easily circumvent this by assigning different classes of shares different voting power.

A good example of this practice is LAMCO where GOL owns the A-shares and nominates 5 of the directors at the board, the foreign participants owns the B-shares and consequently nominates 6 of the directors, thus obtaining a majority.

If this is the situation it does not help very much if the Government demands that a general plan of operations should be formulated each year where the major operative goals are spelled out. But if the Government has a majority at the board, this could be a good way of providing directions for the operations without being involved in the daily operations.

Our historical summary of the development of mining agreements has shown that foreign companies and host country governments today are deeply involved with each other in extracting the mineral resources. However, even if the modern, sophisticated agreements have created tools which have improved the position of the host country there is obviously still some distance to travel before we have a relationship between equal partners.

Midnight, March 6, 1957: Nkrumah proclaims Ghana's independence. The nationalization of most of the mining industry in the early 60s was caused by the need to avoid close-down of mines that foreign capital would not care to run when the gave no profit.

THE ECONOMIES OF LIBERIA AND GHANA

Before proceeding with our analysis of the financial linkages established by the mining companies in Liberia and Ghana, we shall briefly present the main macroeconomic characteristics of the countries and the development strategies formulated by their governments. Liberia and Ghana both share the same basic features of a neocolonial economy. Their economies have an outward-oriented character, where exports of raw materials constitute the backbone of the economy.

The productive base of *Liberia* in the 1950s had undergone few qualitative changes since the turn of the century. Liberia could be described as a plantation economy with the export of a few agricultural products as the main economic activity. The economic life of the country centred around the rubber production of the *Firestone Plantations Company.* The company dominated Liberia from the 1930s up to the middle of the 1960s when mining took over. In spite of Firestones extensive operations, its contributions to the economy were very small and Liberia passed through a series of economic crises during the whole period up to the start of the 1950s.

From this date Liberia began to develop into one of Africa's leading producers of iron ore. The major leap forward came in the mid-1960s when 4 mines had started their operations. In 1966 Liberia produced 2.7 per cent of world exports of iron and it increased its share to 4 per cent in 1976. Liberia is thus a typical mining economy, where mining accounts for about one third of the Gross Domestic Product and about 70 per cent of total exports.

Ghana exhibits all the characteristics of the classical colonial economy. Its export has for long been dominated by three products; cocoa, gold and timber. This production pattern was established already at the turn of the century. From the end of the 1950s the productive capacity has been seriously threatened by a stagnant cocoa- and mining production and from the mid-1960s the country has faced a continous economic crisis.

Liberia and Ghana, in spite of their basic structural similarities also exhibit some important structural differences. Unlike Liberia, Ghana is not a mineral economy. Cocoa production dominates the economy, followed by mining and forestry. Another significant feature of Ghana is that the cocoa economy is dominated by nationals. In the early 1960s the traditionally foreign controlled gold mining industry also became subject to increased national control, as the Government nationalized most of the mining companies. Furthermore, in Ghana a base of import-substituting manufacturing industries had been created, partly as a result of substantial engagement by the state. The state has also involved itself in ambitious infrastructural investment programmes.

The Liberian economy is, in contrast to this pattern, completely dominated by foreign capital. In Liberia economic development has largely meant an expansion of the export sector. Other sectors of the economy, like manufacturing industry, have grown very slowly. When the state has involved itself in promoting economic development in a more direct way, the involvment has been limited to the policy level. State investments have been rather insignificant in the productive sectors of the economy.

Development strategies in Liberia and Ghana

Even if both countries have had several different governments during the period under review, Liberia two and Ghana five, it is nevertheless possible to outline some main features in the development strategies followed by the respective Governments.

The principles behind Liberia's development strategy was outlined by the late President Tubman already in 1944. It has become known as the *Open Door Policy (ODP).* The ODP regards foreign capital as the motor in the development process. With proper assistance from the state on the policy level, a growth process can be started. For several reasons this process did not involve local capital to any greater degree.

In brief, the strategy followed by the Government of Tubman and by his successor Tolbert, made a division of duties where the government provided the necessary infrastructure and a climate favourable to foreign investors while the private sector was responsible for the direct economic activity. As local capital was insignificant, this meant that the government came to rely heavily on foreign capital.

The basic features of Ghana's development strategies were outlined between 1951 and 1966, when Kwame Nkrumah set his decisive mark on Ghana's economic policy. It is probably no exaggeration to say that the Ghanaian Governments succeeding the Convention Peoples Party (CPP) came to formulate strategies that owed a lot to the tradition created by Nkrumah. Under the influence of foreign advisors the Government had a very favourable attitude towards foreign capital during the 1950s.

The 1960s meant a change, albeit a mild one. These political changes in Ghana were exaggerated abroad. Although restrictions came to surround the activities of foreign companies, complete repudiations were never considered. What happened was primarily that the state began to take a more direct interest in the operations of industry for example the mining industry, without challenging the positions of foreign capital. This engagement was dictated by the need to continue economic activities where foreign capital would not operate. The nationalization of most of the mining industry in the early 1960s was *not* the result of a hostile attitude towards foreign capital. The intervention was caused by the need to avoid a close-down of mines that foreign capital would not care to run when they gave no profit. A closure would have resulted in serious socio-economic consequences.

Including the post-Nkrumah Governments it is possible to state that all the different economic policies formulated have shared a common basic belief in the dynamic role foreign capital could play in a developing economy. But in contrast to Liberia, the state came to play a much more active role and particulary under Nkrumah attempts were made to create a strong state power.

With respect to development planning, *neither country has regarded planning as a substitute for the market mechanism, but rather as a complement.* Government policy has to a large extent relied more on indirect methods than on direct control over for example production, prices and wages.

To conclude then, the development strategies in Liberia and Ghana can best be described as a series of policy goals. However, it must be noted that in this regard the Ghanaian strategies were much more ambitious and coherent. In neither case though did the strategies incorporate economic planning in the full sense of the word, i e that the state is given the means and authority by which it can assume the major responsibility for directing the activities in the economy.

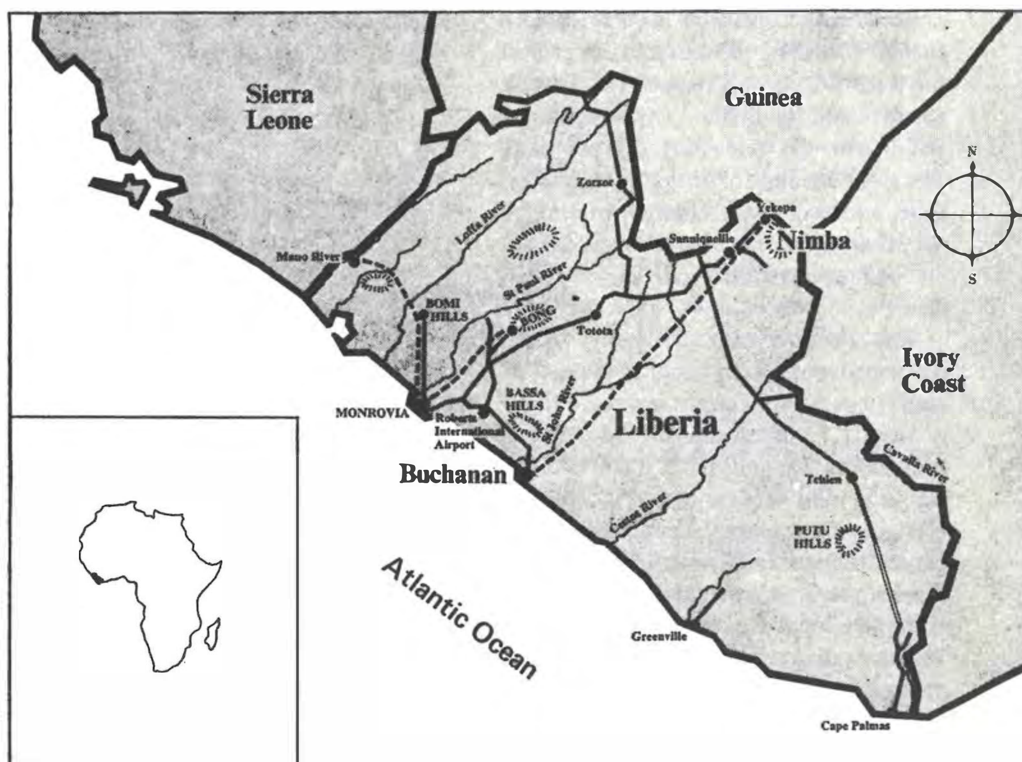
None of the strategies have been based on mass mobilization of the population. Instead a prime role has been assigned to foreign capital and the state in the development process. The traditions were also quite similar in that they never seriously challenged the role and position of the countries in the world economy. Strategies aiming at a total break with the world system, or challenging the terms of integration, were never formulated.

The mining industry in Liberia

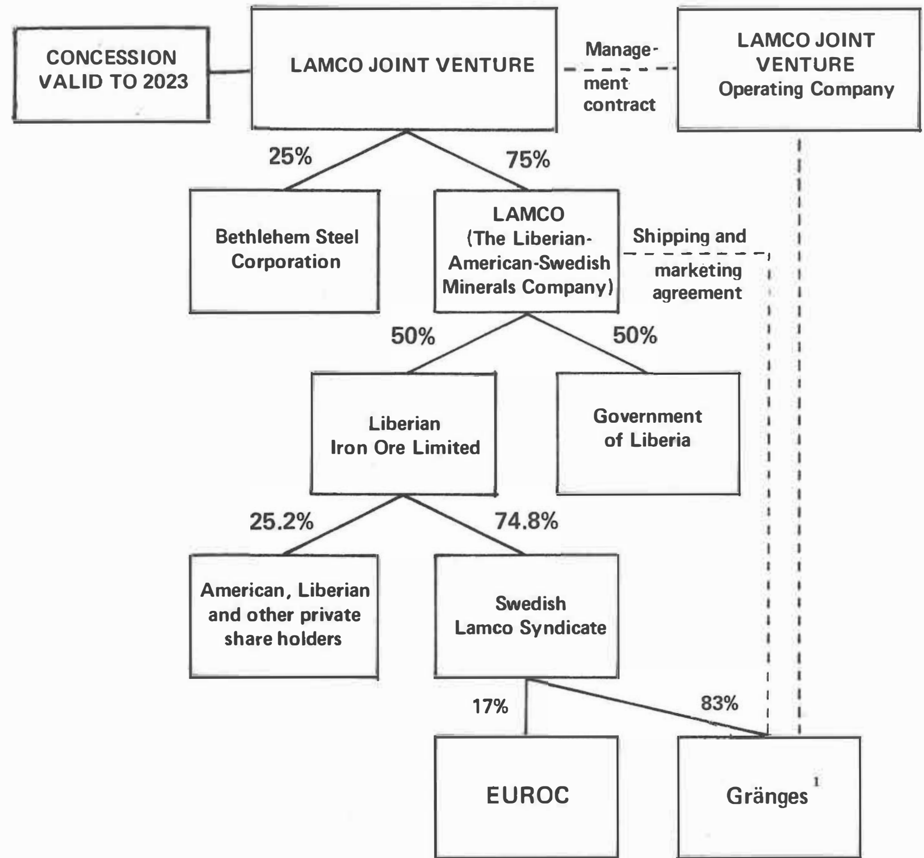
Liberia has rapidly developed into one of Africa's leading iron ore producers. In 1962 its total output was 3.6 million tons, increasing to 13.1 million tons in 1964. Output continued to grow up to 1974 when it reached 24.6 million tons. Worsening market conditions and falling prices led to a decline in production and by 1980 it had fallen to 19 million tons. The mining industry has been severely hit by the world wide recession since 1975. A falling demand for iron and steel products forced the mines to reduce production.

Liberia's mining industry is dominated by four companies, all controlled by foreign capital based in the USA, West Germany, Sweden and Italy. The first mining company, *Liberia Mining Company (LMC)*, started its production in 1951, when it began to develop the deposits at Bomi Hills. Production remained stable around 3 million tons a year up to 1977, when the mine suddenly was closed down. The major shareholder was the US-based company Republic Steel (59 per cent) and the remaining shares were divided between private interests.

In 1962 the second company started production. *The National Iron Ore Company (NIOC)* began exploiting the Mano River area. Production reached 4 million tons in 1970. Due to technical difficulties the production level was reduced to 3 million thereafter. Major shareholders were LMC (15 per cent), Liberian Enterprises Ltd. (35 per cent) and GOL (50 per cent).



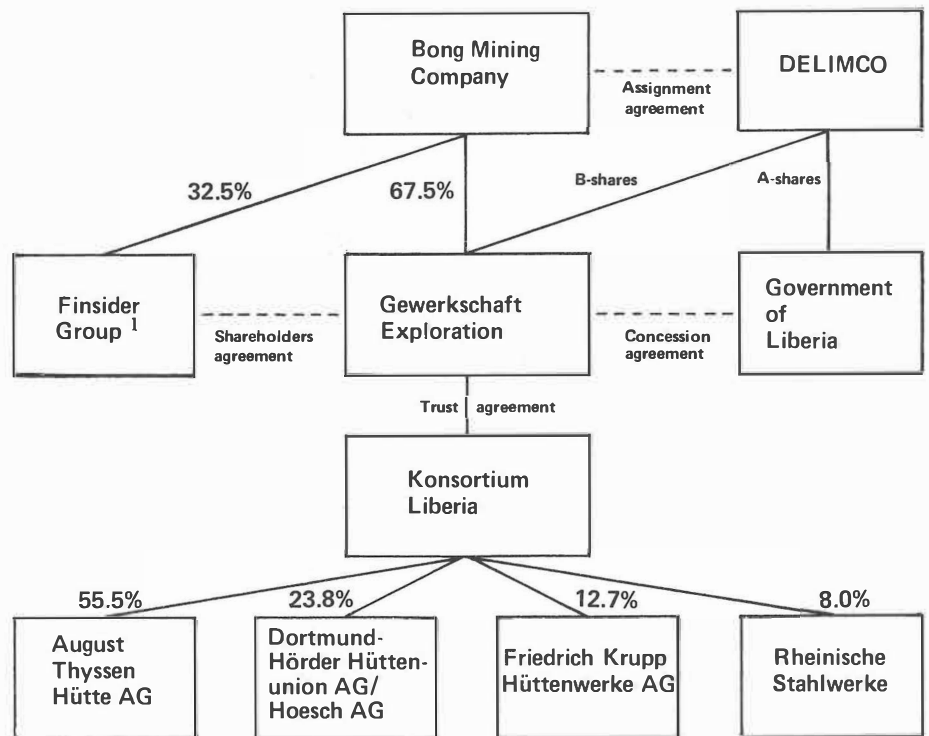
Structure of ownership in LAMCO and Bong Mining Co (BMC), as of July 1982. Charts by RMR after J. Carlsson and Annual Reports.



[1] Gränges is a wholly owned subsidiary of the Swedish conglomerate Electrolux.

The largest mine was located in the north on the Guinea border where it worked the Nimba mountains. *The Liberian American-Swedish Minerals Company (LAMCO)* originally planned for an output of 6 million tons annually. But continous expansion programmes, involving investment in a pelletizing plant, increased production to 12,9 million tons in 1974. Since then, however, production has tailed off and it was down to 8.7 million tons in 1977. This company has a very complicated organizational structure. It is a joint venture between GOL and foreign capital, organized in the Liberian Iron Ore Ltd. (LIO). Both parties own 50 per cent each of the share capital of LAMCO, but as has been said before GOL nominate only 5 of the boards 11 directors. Consequently control rests with LIO. To enable Bethlehem Steel to join the project the LAMCO Joint Venture was formed, where LAMCO holds 75 per cent and Bethlehem the remaining 25 per cent. The ultimate control of the whole project rests, however, with Gränges International Mining (GIM), which through subsidiary companies controls the entire operation.

The *Bong Mining Company (BMC)* developed quickly to become the second largest operation. Output increased rapidly from 1.7 million tons in 1965 to over 6.5 million tons in 1975. Like LAMCO this is a joint venture between GOL and foreign capital, mainly German steel companies. August Thyssen Hutte A.G., Hoesch A.G. Huttenwerke, Rheinstahl Huttenwerke A.G. and Friedrich Krupp Huttenwerke A.G., control the whole operation as they, like LIO in the case of LAMCO, nominates the majority of the directors of the board.



[1] The Finsider Group – Societa Finanziara Siderurgia Finsider, Rome, and Finsider International, Luxemburg, holds 7.5 respectively 25 per cent of the group's shares.

The mining industry in Ghana

Gold mining has a long tradition and history in Ghana. Before the colonial conquest this was an activity undertaken by the Ghanaians themselves. But when the area today called Ghana was incorporated to the British colonial empire in 1874, the door was opened for an inflow of foreign capital into the gold mining districts. The first attempts were made in 1877 when a French company obtained a concession in the Tarkwa district. The gold mining industry developed slowly up to the end of the 19th century. In 1898 the colonial Government started to build a railway connecting the interior with the harbour in Sekondi, and Tarkwa was reached in 1901.

The railway, the conquest of Ashanti and the slump in South African gold production because of the Boer War, created a boom for the Gold Coast gold production. Over 400 companies were floated in a short while, but when the boom ended most of them were liquidated. The surviving companies came to constitute the nucleus of modern gold mining industry in Ghana.

The value of gold exports increased very fast, from 22.000 GBP in 1901 to 1.8 million GBP in 1914. Gold became Ghana's second major export commodity and a very important provider of employment. In the 1920s production declined somewhat, but the 1930s saw a dramatic recovery as many countries left the gold standard and the price of gold rose. Up to the Second World War most of the companies were very profitable. During the war some of the least profitable mines, mostly those working low-grade ores, were placed on a care-and-maintenance basis. The purpose of this strategy of the British Government was to reserve strategic equipment and materials for the high-grade mines. The strategy created problems for the companies that had been inoperative during the war, when they were to resume operations. Investments had to be made in new production facilities, which turned out to be a major problem as it was doubtful whether the low-grade ores justified new investments of such magnitude. In fact, of the 35 gold mines operating in 1938, only 11 resumed operations after the war.

During the whole post-war period Ghana's gold mining industry was concentrated around Tarkwa, Prestea, Obuasi and smaller deposits were also worked at Bibiani, Konongo and Dunkwa. It is not the place here to relate in detail the numerous companies that were established, closed down and reappeared in new shapes. Suffice it to say that they were all based on British capital, they were comparatively small and organisationally they retained all the characteristics of the limited liability company. They had little in common with the sophisticated organizational structures that characterized the Liberian iron ore companies. Up to 1961 the most important companies were Amalgamated Banket Areas Ltd. (ABA), Ariston (1929) Gold Mines Ltd, Ashanti Goldfields Corporation Ltd. (AGC), Bibiani (1927) Ltd. and Bremang Gold Dredging Company.

Ashanti Gold Fields was by far the most profitable and also largest operation. Its history started in 1895 when E.A. Cade obtained a concession from the chiefs of Adansi and Bekwai for 100 square miles of land. The mine was opened in 1898 at Obuasi and when it was linked to the coast by the railway in 1903, production and profitability grew fast.

All of the companies mentioned above, except AGC, were bought by the Government of Ghana in 1961 and the State Mining Corporation was established. The reasons behind this move from the Government was that the former owners refused to continue operations unless their costs, primarily wages and different taxes, would be substantially lowered. The companies had suffered from the institutionalized price of gold, which had been virtually frozen for many years.

The economic problems facing the industry originated from the very special structure of the world market for gold. There are principally two demand sources, Governments and private buyers.

As long as currencies were valued in gold it meant that the current exchange rates influenced the market price. The Federal Reserve system in the USA was according to law obliged to buy gold at the official price of 35 USD fine ounce. A minimum price was thereby created. Stable exchange rates and IMF agreements between member states whereby they committed themselves not to buy at a price 1 per cent over the official exchange rates produced a rather fixed price level.

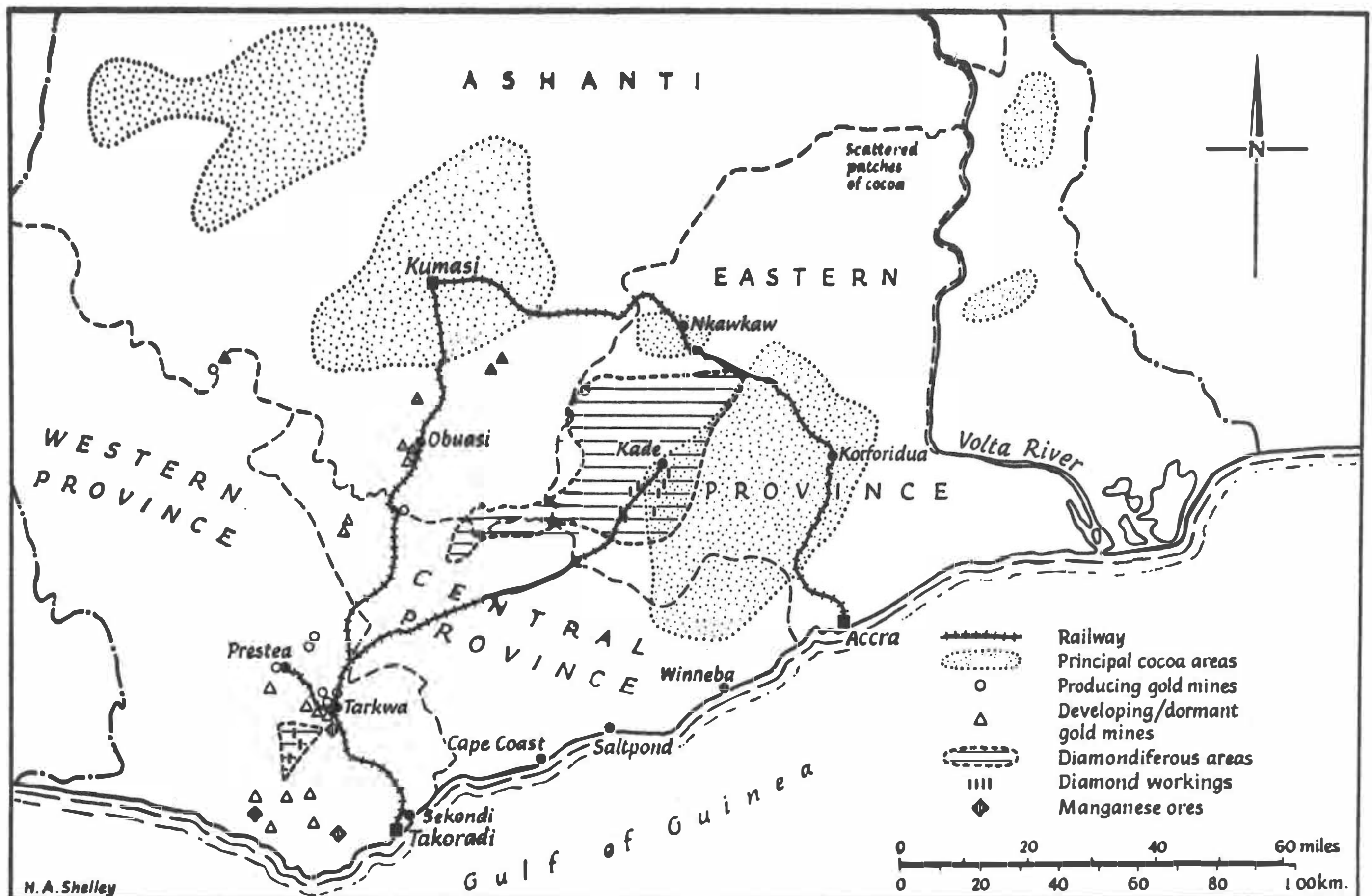
Consequently, a high degree of institutionalization characterized the price of gold. Producers had a very stable market with a fixed price and price increases were very rare. Since 1950 the price had been very stable. This made the mines very cost conscious. After the Second World War the costs in general had risen and particulary so wages. Up to 1959 wage increases had been more or less related to productivity increases. Thereafter the gap began to widen and profitability was affected.

This pressing situation persisted up to 1970, when the US Government announced that it would no longer buy gold at a fixed price of 35 USD/fine ounce. As the currency system of the capitalist world weakened, this simultaneously resulted in a rising demand for gold. The immediate effect was a rapid rise in the gold price. In 1972/73 it was up to 90.3 USD/fine ounce and reached a peak at 195 USD in december 1974. Thereafter it began to decline.

The necessity of government intervention

Beginning in the 1950s was a more aggressive Government policy with respect to taxation. As profits were dependent on a high level of output and low production costs, and as long as the gold price was pegged at 35 USD, many of the companies found themselves squeezed.

To avoid a situation of mass unemploy-



ment in important parts of the country, the Government decided to intervene and paid a very generous compensation to the British owners. To this picture should also be added, that in some cases the mines were practically emptied, only low-grade deposits remained and new prospecting and development work would have required large investments. The foreign investors were reluctant to undertake these investments as long as the Government showed no intention to reduce the tax burden.

The mounting crisis had its impact on production. In 1949 total gold production was 679 173 fine ounces, it reached a peak in 1959/60 at 915 317 fine ounces. Thereafter it began to decline and had fallen to 693 770 fine ounces in 1970/71. The decline continued into the 70s at an accelerating pace. In 1975/76 the industry produced 531 788 fine ounces and in 1979/80 only 357 693 fine ounces.

At the end of 1968 it was announced that the AGC was to be taken over by the London based conglomerate *Lonrho*. At the same time negotiations began over the terms of a new concession. Up to 1968 AGC had paid the Adansi traditional council 132 GBP a year for the lease of the land. This was now raised to 100.000 GBP per year. The former amount had been fixed since 1895 and it was obviously high time to change it. Lonrho and Ghana's Government agreed on state participation of 20 per cent in AGC, with an option on a further 20 per cent. In return the lease of the Obuasi concession was extended for 50 years dating from 1969. Lonrho also promised to double production capacity of the mill.

Already during Busia's Government there had been talk of the Government taking majority control of AGC. However, it was not until the National Redemption Council (NRC) issued its "White Paper on State Participation in the Mining Industry" in 1972, that full national control was officially proposed. In contrast to the earlier take-overs in 1961 the state now proposed to take a 55 per cent state share, plus a majority on the board of directors. The Government purchased its equity at the book value of the assets. It was suggested that it should be paid for by future income tax and dividends from the joint venture. The technical management and operation of the mine was to remain with the foreign investor. The enormous difficulties experienced by the State Mining Corporation in running its mines without outside technical expertise, had probably forced the Government to this change from its earlier policy.

MINING IN GHANA AND LIBERIA – A COMPARISON

The mining industries of Ghana and Liberia thus represented two entirely different corporate structures. The gold mining companies had a traditional organization, where a large number of small shareholders dominated the ownership structure in the true sense of the traditional limited liability company. Furthermore, from the 1960s onwards the state began to take direct control over the majority of the gold mines through nationalization. Foreign capital was, after 1961, represented in only one company, the AGC, which also was the biggest and most profitable venture.

The iron ore mines in Liberia took on all the characteristics of the modern multinational corporation. Their sophisticated organization meant that foreign control was exercised through a system of subsidiary companies, usually integrated with international steel complexes to varying degrees. The companies were often joint ventures where the Government participated as co-owner. Outright nationalization was never a serious alternative in Liberia.

These differing corporate structures were of great importance for determining

During the whole post-war period Ghana's gold mining industry was concentrated around Tarkwa, Prestea, Obuasi and smaller deposits were also worked at Bibiani, Konongo and Dunkwa. Map a government survey from 1945, reproduced in G. B. Kay, The Political Economy of Colonialism in Ghana, Cambridge 1972.

the strength of the financial linkages, as we will try to show below. Before examining the linkage effects, we shall present the mineral taxation policies used in the two countries.

Mineral Taxation Policies

The mineral taxation policies pursued in the two countries were based on two different principles. In Liberia the Government established partnerships with the foreign participants in accordance with a joint venture concept, where the two parties were considered to be equal.

a. Ghana

In Ghana the Government for a long time avoided any participation and instead chose to remain outside the mining industry and develop its fiscal system. When the Government later got involved in gold mining it chose the path of nationalization, both in 1961 when the State Mining Corporation was created, and later in 1972 when AGC (Ghana) Ltd. was established. However, in the first case there was no foreign participation as it was in the second case where Lonrho had a minority interest in AGC. But partnerships in the Liberian sense, a 50:50 relationship, were never considered.

The principles guiding Government taxation of the gold mining companies were instituted during the colonial period. The main tool was a simple royalty on the value of minerals won. This 5 per cent royalty was augmented in 1934 with an export duty of 15 per cent on the gold premium. In 1939 a war-time surtax was imposed amounting to 50 per cent of the price of gold in excess of 150s. per ounce. After the war the surtax was abolished, but to make up for the loss the gold export duty was increased to 20 per cent. In 1948 the Gold Duty Ordinance was passed. This duty established a relation between net profit and gross value of production. The calculated value ratio formed the basis for the applied duty rate. This was an attempt to ease the tough burden the export duty had been on the low-profit mines.

A further attempt to ease the pressure on the less profitable mines was made in 1952 when the Minerals Duty was introduced. With the Minerals Duty a new concept – *yield* – was introduced. This established a relation between the quantity of produced minerals and the value of these minerals less operational costs. Taxation was gradual and based on the companies respective yield ratios. The 1952 schedule was in force up to 1969 when new rates were imposed which increased the levy on mines with a low yield ratio. In addition to the Minerals Duty there were a number of other taxes. The most important ones were the Income Tax (a tax rate of 7–11s. was levied on each GBP of taxable income), the Excess Profits Tax (a tax was levied on that part of the taxable income exceeding the "standard deduction"), the Withholding Tax (a special tax levied on each GBP of profit remitted out of the country). The Excess Profits Tax was, however, abandoned in 1972 and the Withholding Tax was abolished in 1970. These moves were caused by increased state participation in the remaining private mining company, AGC, when a new fiscal regime was introduced.

In addition to its 55 per cent share holding in AGC the Government received revenue from the following other sources: a royalty of 6.5 per cent of the value of minerals won, a mineral duty ranging from 5–10 per cent, a company tax varying between 50–55 per cent, a turnover tax of 2.5 per cent, an import duty of 35 per cent, an import levy (or import license tax) of 10 per cent, a foreign exchange tax ranging from 33–75 per cent, a gold export levy of 3 cents per ounce of gold above 100.000 ounces.

b. Liberia

The main taxation principle guiding the GOL was based on the joint venture concept. GOL was to participate on equal terms as a co-owner of the mines. As a share holder in the companies GOL was to receive dividends in proportion to the number of shares held. The basic idea was that the GOL contributed the ore resources, while the foreign participants contributed the necessary capital and technological know-how.

To be able to design incentive measures to suit the specific conditions of each project, concession agreements were drawn up. On the basis of negotiations between the GOL and the foreign companies the financial and economic conditions for the project was agreed upon. This meant that *fiscal laws of general application in Liberia did not apply to the mining companies.* The concession agreements provided the legal framework for their activities and this framework was established through negotiations between the involved parties.

In the cases of LAMCO, BMC and NIOC the GOL participated as joint owner. In return for its 50 per cent control of the equity it received dividends. In some cases a royalty was also applied to ensure the GOL of a reasonably stable income in case their profits would fall too much. In the case of LMC the original concession agreement had been revised and the GOL began to tax its profit, before dividends and appropriations. However, it never considered to involve itself as co-owner of the company. Originally LMC had paid a royalty of 5 cents/ton of ore produced, plus an exploration tax and a surface tax. From 1952 the GOL began to levy a tax on profits. The rate started at 25 per cent and later reached a maximum at 50 per cent after 1965. The very modest taxation of this company contributed a lot to make it the by far most profitable mining enterprise in Liberia.

NIOC was also a special case. In the cases of LAMCO and BMC GOL had contributed the ore resources in return for 50 per cent of the equity. In the case of NIOC, the GOL took 50 per cent of the equity after providing the ore resources plus 50 per cent of the paid-up capital stock of 10 million USD. In addition to

these major income sources there were other taxes and duties, but also generous tax benefits like exemption from export and import duties. To summarize then, the GOL established the financial linkage through 3 methods:

- the equal partnership and 50:50 profit sharing agreement with LAMCO and BMC.
- the 50 per cent equity participation with NIOC.
- the straight income tax arrangement with LMC.

After this introduction to the taxation methods in force in the respective countries, the time has now come to examine the financial linkages these taxation systems have created.

FINANCIAL LINKAGES IN THE MINING INDUSTRY

This examination draws upon material presented in a larger study by the author, where the financial linkages of the mining companies in Liberia and Ghana were studied over the period 1950 to 1971. The primary purpose of this study was to analyse government policies towards private, foreign mining capital. We are therefore not in a position to make a detailed assessment of the linkages provided by the nationalized companies in Ghana. However, one can reasonably assume that these linkages probably were negative since the State Mining Corporation ever since its inception recorded magnificent losses and needed state subsidies to be able to survive.

To be able to measure the strength of the financial linkage and the "effectiveness" of the applied taxation methods, we will relate the companies payments of dividends and different taxes to the economic surplus produced by them. (For a definition of the economic surplus see table on page 75).

The concept of economic surplus has been used because of the biased capital structure of the Liberian mines. Their very high debt/equity ratio resulted in sizeable interest payments, quite often to affiliated parties. As these payments were deductible before arriving at the distributable profit, it was impossible to get a true picture of the companies operating results as long as the impact of these financial structures remained. Furthermore, as the Ghanaian gold mines operated with a more normal capital structure, a comparison would have been difficult unless the financial aspects of the company were separated from the operating.

The table (p 75) gives the payment of taxes and dividends by 6 mining companies to their respective Governments. Their relative contribution has been measured as the ratio between these payments and the economic surplus of the companies.

Looking at the Liberian companies contribution, wide differences appear. During its period of operation LMC paid and average of 32 per cent of its economic surplus to the GOL. This rate corresponds fairly well to the tax rate applied each year. NIOC paid 8 per cent, LAMCO paid 20 per cent and finally BMC paid 17 per cent of its economic surplus to the GOL.

The much higher contribution from LMC can be explained by the financial and administrative organization of the company, which did not permit the same deductions before arriving at the distributable profit as the corporate structure of the other three companies.

The large deductions made by these companies were derived from several factors. However, there are two that can be singled out as most important: firstly, large interest payments due to a heavy dependence on external capital, and, secondly, management fees, selling commissions and similar payments to subsidiary companies. It was these subsidiary companies that also were responsible for the operation of the mines. Thus it seems that the straight income tax arrangement with LMC resulted in much stronger financial linkages than the equity sharing arrangements with the other three companies.

The major part of the payments of the gold mining companies came in via the Minerals Duty and the Income Tax. The direct payments by AGC and Bremang are shown in the table. The hard economic reality of the mines is reflected in the absolute size of their payments. However, with respect to the relative size of their payments, both AGC and Bremang paid considerably more than the Liberian mining companies. During their respective periods AGC and Bremang paid an average of 61 per cent and 32 per cent respectively of their economic surplus to the Government.

It has not been possible to calculate a meaningful ratio for ABA as it did not make any payments at all up to 1960 and thereafter recorded losses. However, a ratio can be constructed for Bibiani if we exclude the years when it either did not make any payments or recorded losses. The average ratio will then be 43 per cent.

It is apparent that AGC accounted for the larger part of the mining industry's payments to the Government. AGC's dominant position became even more pronounced after 1965 as the state-owned mines continued the downward trend of the former British owned companies.

Concluding Remarks

Notwithstanding the considerable difficulties encountered when comparing mining companies of different types, working in different branches, it is obvious that the Ghanaian fiscal system has extracted, in relative terms, a larger share of the surplus generated by the mining companies, than has been the case in Liberia. The different methods for sharing in the produced surplus have played a decisive role for this result.

In Ghana taxation has been based on an ad valorem tax, frequently complemented by other taxes and duties. This system is basically an adaption of the British fiscal system. Given the corporate structure of the gold mines, the adaptation of this fiscal regime has made the Government of Ghana quite well-equipped to extract its share of the surplus.

The Liberian taxation method has been based on profit sharing according to the joint venture concept. The GOL had a 50 per cent stake in the companies and received its revenue in the form of dividends. This has made the GOL very sensitive to different methods for arriving at the distributable profit. Furthermore, the fiscal relationship between the GOL and the foreign partners has been regulated in concession agreements, whereby any changes in tax rates or taxation methods was subject to negotiations. The general fiscal system of the country was thus made useless as a policy instrument. Concession agreements and the joint venture principle has given the GOL limited possibilities to increase and control its extraction rate.

By making the companies subject to general fiscal laws, thus exercising its rights as a sovereign state, together with more appropriate tax measures, Ghana has been much better equipped to control the financial flows of the companies. New tax rates could be imposed on the companies without involving any kind of negotiations with the companies as was the case in Liberia. However, Ghana's success in extracting a high return from the mining companies has not only been due to an efficient fiscal regime. The organizational and administrative structure of the gold mines was another determining factor. This structure has made it comparatively easy to control their operations without any direct involvement. Furthermore, many of the financial aspects that have played such a decisive role in the Liberian case have been absent in Ghana. New investments in the gold mining industry have usually been financed out of retained earnings. This has eliminated the negative influence large interest payments could have had on the taxable profit. As the gold market had a stable institutional nature, the opportunity for price arrangements were limited.

The Liberian mines are all connected to steel companies in the USA or Europe and it has consequently been difficult for the GOL to control the extent to which different transfer pricing arrangements have taken place.

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Payments of Taxes and Dividends by Mining Companies in Liberia and Ghana, 1950–1971. (million USD and million GBP)

		Extraction rate a)			Total payments	Total economic surplus b)
		1950–59	1960–65	1966–71		
LMC	(1952–71)	22	37	49	69.646	214.432
NIOC	(1964–71)	–	6	11	2.223	28.416
LAMCO	(1963–71)	–	20	21	34.018	167.584
BMC	(1965–71)	–	15	18	6.825	40.148
AGC	(1950–70)	59	61	64	26.604	43.411
Bramang	(1952–65)	20	51		0.512	1.604

Comments:

a) Total payments in per cent of total economic surplus.

b) The conomic surplus is equal to the difference between the current production and the costs of production. The accounting concept best fitted to this definition is the net operating income. Under this income concept interest charges, taxes and dividends are regarded as distributions of the net income. Net opertating income = (sales income other income) – (operating costs selling expenses administrative expenses amortization depreciation).

Source: J. Carlsson, 1981:122, table 4:7 and 137, table 4:8.