



CENTRO DE INTEGRIDADE PÚBLICA  
Anticorrupção - Transparência - Integridade

## PRESS RELEASE

In its reaction to the publication by CIP of its mining activities in Mozambique

# MONTEPUEZ RUBY MINING PRESENTS FLAWED JUSTIFICATIONS AND QUESTIONABLE DATA

The Center for Public Integrity (*Centro de Integridade Pública*, CIP), in the context of its monitoring of governance regarding the extractive sector and exploitation of mineral resources, recently published an article entitled “Ruby Exploration by Montepuez Ruby Mining - A Huge Business with Hardly any Linkages to Mozambique’s Development”<sup>1</sup>, in which it concludes that the exploitation of rubies by Montepuez Ruby Mining makes only a weak contribution to Mozambique.

In a reaction to that note, Montepuez Ruby Mining (MRM) sent a letter to CIP dated May 3, 2018 where it says that “the report was not accurate regarding certain very relevant information that leads the reader to make ambiguous inferences”. In the same document MRM argues that, as a Gemfields Group company, it is guided by the core values of transparency, integrity and legitimacy.

In parallel to the publication of the gist of MRM’s Letter of Response, CIP is issuing this complementary note, which aims to respond to the points raised by MRM and to inform the public, since the company’s letter presents flawed justifications and questionable data. Let’s see:

**1. Transparency of revenue figures** - the note published by CIP explains that with the acquisition of Gemfields by the holding company Pallinghurst Resources Limited in September 2017, Gemfields was withdrawn from the London Stock Exchange (LSE) where it had been listed since 2012. **With this decision, one of the channels was lost through which it was possible to monitor the volume of**

<sup>1</sup> Text in Portuguese: <https://cipmoz.org/index.php/pt/industria-extractiva/869-montepuez-ruby-mining-um-negocio-milionario-com-escassas-ligacoes-no-desenvolvimento-do-pais>

stones that were to be auctioned and the respective sales values generated.

Although Pallinghurst is listed on the Johannesburg Stock Exchange (JSE), where it publishes its sales data, the operations of MRM, as presented in Pallinghurst's Annual Report for 2017<sup>2</sup>, are merely presented in aggregate form.

Pallinghurst owns Gemfields, which, in turn, is engaged in projects other than MRM. Information on MRM is simply integrated into Pallinghurst's overall transactions, thereby losing the details of the production volume and sales figures of MRM's resources that were included in previous Gemfields reports. The link indicated by MRM (<https://www.pallinghurst.com/news-and-announcements/>) does not provide the details on sales and production volumes supposedly shown there.

**2. Another aspect worth mentioning is the level of transparency of the LSE versus the JSE.** The fact that Gemfields has been withdrawn from the LSE implies that it is now exempt from complying with the UK Bribery Act of 2010<sup>3</sup> and the supervision of the Serious Fraud Office (SFO)<sup>4</sup>. These instruments are intended to ensure that companies listed on the LSE do not engage in activities that are not transparent at the international level, including with politically exposed persons (PEPs). In the case of the JSE, the legal instruments (laws and decrees) regarding corruption and bribery in South Africa are not as effective, as evidenced by the frequency of state capture observed in that country.

**3. Payment of the Tax on Production** - the note published by CIP points out that, according to Laws 11 and 13/2007 of June 27 (Mining Tax Legislation and the Tax Incentives Regime for Mining and Oil Areas, respectively, on the basis of which the tax scheme for the MRM project was established), MRM is subject to payment of a production tax at the rate of 10%.

MRM claims, in its letter mentioned, to have paid 1,035,092,056 Meticaís in taxes on production during 2014-2016. However, according to data published in the reports of the Extractive Industries Transparency Initiative<sup>5</sup>, from 2014 to 2016, the Government stated that it received only 777,062,221 Meticaís (see table below).

The amount declared by the Government (2014 to 2016) was thus 258,029,835 Meticaís below the amount contained in the letter of complaint sent by MRM.

It is important to mention that the Extractive Industry Transparency Initiative in Mozambique (EITI) is a tripartite initiative involving the Government, extractive sector companies and civil society. EITI has been publishing periodic reports since 2012 with a view to contributing to transparency in the mining and hydrocarbon sector, thus representing a key monitoring tool for civil society and other stakeholders.

**Table 1: Tax on Ruby Production by MRM (in MZN)**

Year	Amounts Declared by MRM <sup>1</sup>	Amounts Declared by the Government <sup>2</sup>
2014	239,783,029	129,018,871
2015	296,651,422	151,882,647
2016	498,657,605	496,160,703
<b>Total</b>	<b>1,035,092,056</b>	<b>777,062,221</b>

<sup>2</sup> <https://www.pallinghurst.com/annual-report-2017/> (accessed on May 15, 2018)

<sup>3</sup> The Bribery Act is a law passed by the Parliament of the United Kingdom that covers penalties relating to bribery.

<sup>4</sup> The Serious Fraud Office is a non-ministerial government department of the UK Government Ministry that investigates and prosecutes serious or intricate fraud and corruption.

<sup>5</sup> <https://eiti.org/mozambique#eiti-reports-and-other-key-documents> (accessed on May 5, 2018)

**1. Leftovers from sales** - the CIP note draws attention to the fact that not all rubies presented at auctions are actually sold. However, there is no information on the treatment of these post-auction ruby leftovers. Data contained in the note show that from all ruby auctions together there was a remainder that averaged 102,000 carats per auction, which corresponds to 21,028,320 dollars<sup>6</sup>.

MRM, in its letter, states that unsold items are transparently tracked and publicly declared at the close of each auction. However, it does not explain what treatment is given to these items, whether they are included in the next batch of production or sold on other occasions.

**2. Legitimacy of the contract** - according to the information to which CIP had access, MRM's activities are carried out under a mining concession (No. 4703C) and not a mining contract. The 4703C concession was awarded by the Ministry of Mineral Resources and Energy (MIREME) and National Institute of Mines (INAMI) in 2015 as a result of the amalgamation of the two previous concessions (4702C and 4703C), assigned to MRM in 2011 by the then Ministry of Resources Minerals (see figure below).

Figure 1: Mining Concession for Ruby Exploitation by MRM



<sup>6</sup> Calculated based on the average price of the auctions held.

Although MRM fully complies with the mining laws of Mozambique (as mentioned in its letter), the fact of exploiting ores under a mining concession reduces its obligation regarding aspects that could constitute a greater contribution to the country, and these aspects could be better addressed through a mining agreement (as properly argued in the original CIP note)<sup>7</sup>.

**3. Partnerships between the Government and MRM** - MRM, in its letter to CIP, states that it has entered into partnerships with local and provincial governments as a means of sustaining communities. However, the company does not mention the scope under which such partnerships were signed, whether under the scope of Corporate Social Responsibility or within the framework of community development plans. The latter must result from consultations with the communities, being beneficiaries, take place with government sponsorship or be part of a resettlement plan, which should stipulate how the communities' means of support are guaranteed. The company does not even mention amounts, let alone specify the duration or date of signature of the agreements. The bottom line is that MRM is not transparent since it omits these important details.

Therefore, the content of these agreements is not in the public domain, which makes it impossible to analyze the activities carried out under these agreements by either civil society or other interested groups.

Thus, as we have shown in the previous paragraphs, MRM was unable to provide data that would fully inform the public regarding its lucrative ruby business. Also, the MRM data contradict the information from the Government regarding the revenue it collects from this activity.

Maputo, 22 de Maio de 2018



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(Footnotes)

1 Letter addressed to CIP, May 3, 2018.

2 Reports of the EITI (2014 to 2016)

<sup>7</sup> <https://cipmoz.org/index.php/pt/industria-extractiva/869-montepuez-ruby-mining-um-negocio-milionario-com-escassas-ligacoes-no-desenvolvimento-do-pais>