

MINING & METALS | OCTOBER 2016

Mining in the Kingdom of Saudi Arabia — An Overview

Sector Profile

Covering two million square km, the Kingdom of Saudi Arabia is the largest country by landmass in the Middle East and the 13th largest in the world. The Kingdom's geology gives it an abundance of natural resources and raw materials. To date, over 48 minerals have been identified in the Kingdom, including feldspar and nepheline syenite; garnet; gold; zinc; granite; graphite; gypsum; tantalum; high-grade silica sand; kaolinitic clays; limestone; magnesium; marble; olivine; pozzolan; rock wool; silver; and zeolites. Extraction of these metals is taking place at a rapid pace, especially in high-demand areas such as aluminium and steel. The Kingdom has identified 1,273 sites of precious metals and 1,171 sites of non-precious metals.

In 2004, the Government of the Kingdom adopted a new mining code aimed at simplifying private sector investment in the mining industry and enhancing its profitability, through measures like:

- no requirement to pay mineral royalties;
- reduction of corporate tax liability to 20%; and
- in accordance with the Saudi Foreign Investment Act, mining companies may be entitled to tax-free importation of equipment and machinery.

The infrastructure needs of the Kingdom's growing population and the Kingdom's push to further industrialise (refer to the next section) means that there is a strong downstream market for the Kingdom's minerals. Steel and cement would be the obvious products but there are other opportunities in areas like ceramics, phosphate, aluminium, zinc and copper.

Ma'aden: Corporate Profile

Saudi Arabian Mining Company ("Ma'aden") is a diversified mining company, active in gold base metals mining and the infrastructure industry. Ma'aden was formed as a Saudi joint stock company on 23 March 1997 for the purpose of facilitating the development of the Kingdom's mineral resources. Ma'aden is the largest mining company in the Kingdom. The Government owns 50% of Ma'aden's shares (through PIF) while the remaining 50% are listed on the Tadawul.

Ma'aden currently has four key business areas:

- Gold and Base Metals;
- Phosphate - including Ma'aden Phosphate Company with joint venture partner SABIC;
- Aluminium - consisting of its joint venture with Alcoa currently under construction; and
- Industrial Minerals - including magnesite, kaolin and low-grade bauxite.

Ma'aden: Operations and Projects

A selection of Ma'aden's operations and projects includes the following:

- gold and base metals mining operations at Mahd ad Dahab, Sukhaybarat, Bulghah, Al Hajar and Al Amar;

- phosphate mining operations at Al Jalamid (operated by the US\$5.5 billion joint venture between Ma'aden and SABIC, which formed Ma'aden Phosphate Company (“**MPC**”)) and Wa'ad Al-Shamal (operated by Ma'aden Wa'ad Al-Shamal Phosphate Company (“**MWSPC**”)), with downstream processing facilities at Ras Al Khair;
- minerals industry complex with phosphate and aluminium processing facilities at Ras Al Khair, which includes facilities owned by MWSPC, MPC and the joint venture between Ma'aden and Alcoa (forming Ma'aden Aluminium), which involves the construction of a US\$10.8 billion integrated aluminium facility that will be the largest and most efficient integrated aluminium complex in the world, comprising an alumina refinery, aluminium smelter, can sheet rolling mill and automotive mill;¹
- kaolin and low-grade bauxite mining operations at Az Zabirah;
- bauxite mining operations at Al Ba'itha, with the bauxite transported by rail to the aluminium processing facilities operated by Ma'aden Aluminium at Ras Al Khair;
- magnesite mining operations at Zarghat;
- copper mining operations at Jabal Sayid, which are being undertaken by Ma'aden Barrick Copper Co (a joint venture between Ma'aden and Barrick Gold) and are expected to produce about 45,000 tonnes of copper annually, with an estimated 635,000 tonnes of reserves expected to take 16 years to mine; and
- exploration programs in the Central Arabian Gold Region (CAGR) and Northern Arabian Shield Prospects.

Other Active Mining and Metals Projects in the Kingdom

Khnaiguiyah Mining Company, a joint venture company between Alara Resources Limited and United Arabian Mining Company LLC, operates a zinc-copper mine in Khnaiguiyah. The mine is estimated to be able to produce 1.4 million tonnes of zinc concentrate and 210,000 tonnes of copper concentrate over its 13 year mine life.

KEFI Minerals plc and Abdul Rahman Saad Al-Rashid & Sons Company Limited formed G&M to explore for gold and associated metals in the Arabian-Nubian Shield. Their flagship project in the Kingdom is the Jibal Qutman project, which is estimated to hold some 733,045 ounces of gold.

There has also been significant investment in the Kingdom's crude steel sector, which includes United Gulf Steel's rolling mill at Jubail Industrial City and Rajhi Steel's US\$4 billion stainless steel complex at King Abdullah Economic City (due to open in 2016).

National Industrial Clusters Development Program

To further exploit the natural mineral resources of the Kingdom, the Government's National Industrial Clusters Development Program (“**NICDP**”) has identified the following opportunities²:

- a flat-rolled aluminium mill to produce automotive, construction and other sheet panels;

¹ Shearman & Sterling advised Alcoa on the development and financing aspects of this project, including the negotiation of a highly complex and detailed financing term sheet for Alcoa, to implement a multi-source financing comprising commercial banks and export credit agencies, as well as PIF and SIDF.

² Refer to NICDP's website at <http://www.ic.gov.sa> for further details.

- a multi-purpose aluminium rolling mill for products such as wire, rod, foil and packaging;
- an aluminium foundry to produce power train, wheel and other castings;
- mini mills capable of producing high-quality steel sheets for the automotive, marine, household appliance and other sectors;
- plants to produce speciality steels, for example for tools, rod, wire and bearings;
- an iron/steel foundry to produce pumps, valves and other castings;
- copper processing facilities to produce copper and alloy rod, cable, tubing, plate, pipe and sheet;
- metal processing facilities for forging, machining, stamping, heat treating and plating;
- brass alloy production; and
- magnesium and zinc powder production.

These projects may also benefit from foreign investment and numerous support opportunities available from the Government, including tax and customs exemptions. Moreover, the products of these projects could be used for further industrial development in the Kingdom, for instance in the “Automotive Cluster” that NICDP has established.

Impact of Saudi Vision 2030

The Kingdom’s “Saudi Vision 2030” focuses on economic diversification, import substitution (through the creation of new local industries, including in manufacturing) and increasing exports and stresses the need for further development of the Kingdom’s mining sector, which the Government believes should be contributing more significantly to the Kingdom’s GDP.

As a consequence of Saudi Vision 2030, structural reforms are planned in the mining sector, including private sector investments, building a database of the Kingdom’s resources, reviewing licensing procedures, investing in infrastructure, developing funding methods and forming international partnerships to ensure that the sector’s annual contribution to GDP reaches SAR97 billion by 2020, creating 90,000 job opportunities in the process.

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