

The Global and Ghana's Economic Performance in 2014

Recovery of the global economy from the hangover of the financial crisis has been mixed and slower than anticipated. While economic activities in the United States and United Kingdom continue to gather pace, growth outturns in the Euro Area and Japan remain below the pre-crisis level. Also, growth in the middle and low income countries continues to be robust, even though it is subdued relative to the immediate periods following the financial meltdown. On the back of the divergent economic performance, the global economy expanded marginally from 2.5 percent in 2013 to 2.6 percent in 2014.

Measured economic activity in Ghana mirrored the global economy's growth momentum. Growth in real Gross Domestic Product (GDP) increased from GH¢ 32,237 million in 2013 to GH¢ 33,540 million in 2014. The growth outturn of 4.0 percent was lower than the projected and previous year's growth rate of 7.1 percent and 7.3 percent respectively. The deceleration in economic activity was largely attributable to the crowding out effects of the fiscal slippage in 2012, softening of export commodity prices and the three-year old electricity generation challenges.

Given the acute shortfall in the supply of electricity, it is not surprising that the non-energy intensive sectors of the economy, namely, agriculture and services, recorded relatively high growth rates. The Agricultural and Services sectors recorded a growth rate of 4.6 percent and 5.7 percent respectively as compared to the Industrial sector's outturn of 0.9 percent in 2014. More significantly, the Ghana Statistical Service's data on the Industrial sector indicated that growth in the mining and quarrying sub-sector slowed down considerably, from 11.6 percent in 2013 to 3.2 percent in 2014.

The sectoral distribution of the growth outcome in 2014 was fairly unchanged relative to 2013. The Services sector continued to be the leading contributor to GDP, although its share declined marginally from 49.8 percent in 2013 to 49.6 percent in 2014. This was trailed by the Industrial and Agricultural sectors, whose respective contribution to GDP increased from 27.8 percent to 28.4 percent and declined from 22.4 percent to 22 percent over the corresponding period.

On the strength of the measures to realign government expenditure to fiscal revenue, shore up macroeconomic stability and resolve the generation challenges associated with the supply-side of the electricity market, the economy is projected to grow by 3.5 percent in 2015. Significant downside risks, emanating from indigenous and external sources, could cause the country to deviate from its targeted growth path. The steep drop in oil price could impact negatively on fiscal inflows. Similarly, the bearish outlook for the prices of gold and cocoa are also expected to be a major drawback on the efforts to enhance domestic revenue. Internally, the knock-on effect of the depreciation of the local currency and protracted energy crisis could upset growth projections in 2015.

Overview of the Global Gold Industry in 2014

Modest recovery in the US economy and perceived low systemic risk in the mainstream financial market, to a large extent, tilted investor sentiments away from the bullion market. As a result, the bearish run of the yellow metal persisted in 2014. On the London Mercantile Stock Exchange, gold opened the year at a price of US\$ 1,225 and trended upwards until it peaked at US\$ 1,385 in the middle of March. Coincidentally, this was also the highest traded price of gold in 2014. Subsequently, the price of gold steeply swung southwards to US\$ 1,242 in early June, momentarily returned to the trajectory of growth and nosedived again until it reached an all-year low price of US\$ 1,142 in November. Then, the price of gold recovered and rallied to close the year at US \$1,206.

The mood swings on the bullion market paralleled the fundamentals of the global economy, whereby signs of growth reduced the appetite for holding gold and triggered an outflow of liquidity from the gold market. The reverse is also true. On the whole, the average outturn for the traded price of gold declined by 10.2 percent, from US\$ 1,411.23 in 2013 to US\$ 1,266.4 in 2014.

Fig 1.0: Trend of Gold Price in 2014

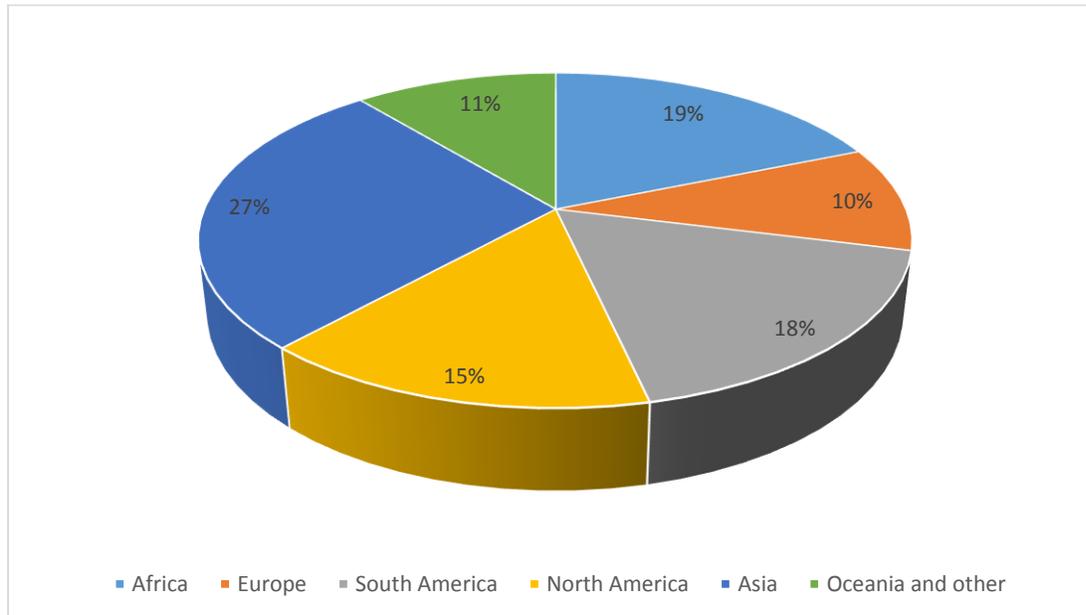


Source: www.kitco.com

In line with the movements in the price of gold, mine producers of the precious metal adjusted their output to level out the market. For the sixth consecutive year, although at a slower pace, global gold output increased from 3,061.5 tonnes in 2013 to 3,133.1 tonnes in 2014. A significant share of the 2.3 percent lift in output originated from the ramp up of new projects in Canada, Democratic Republic of Congo and Mongolia as well as expansion of existing mines in China and Russia. Asia and Europe recorded the largest growth in output of 7 percent and 4 percent respectively while output declined by 7 percent in North America and was flat in Oceania. Production in the other continents grew by a modest 1 percent.

Against this background, the GFMS Gold Survey reported that the league of top ten gold producing countries in 2014 was identical to that of 2013. China remained the leading producer of gold with an output of 450 tonnes, amounting to a market share of 14.7 percent, while Ghana completed the list as the tenth largest gold producer with an output 108.2 tonnes, representing 3.4 percent of global mine production. Notable growth in output was recorded in Burkina Faso and Cote D'Ivoire, where output increased by 10 percent to 38.5 tonnes and 32.3 percent to 18 tonnes respectively. This was chiefly on account of ramp up in green field projects.

Fig 2.0: Distribution of Global Mine Production of Gold



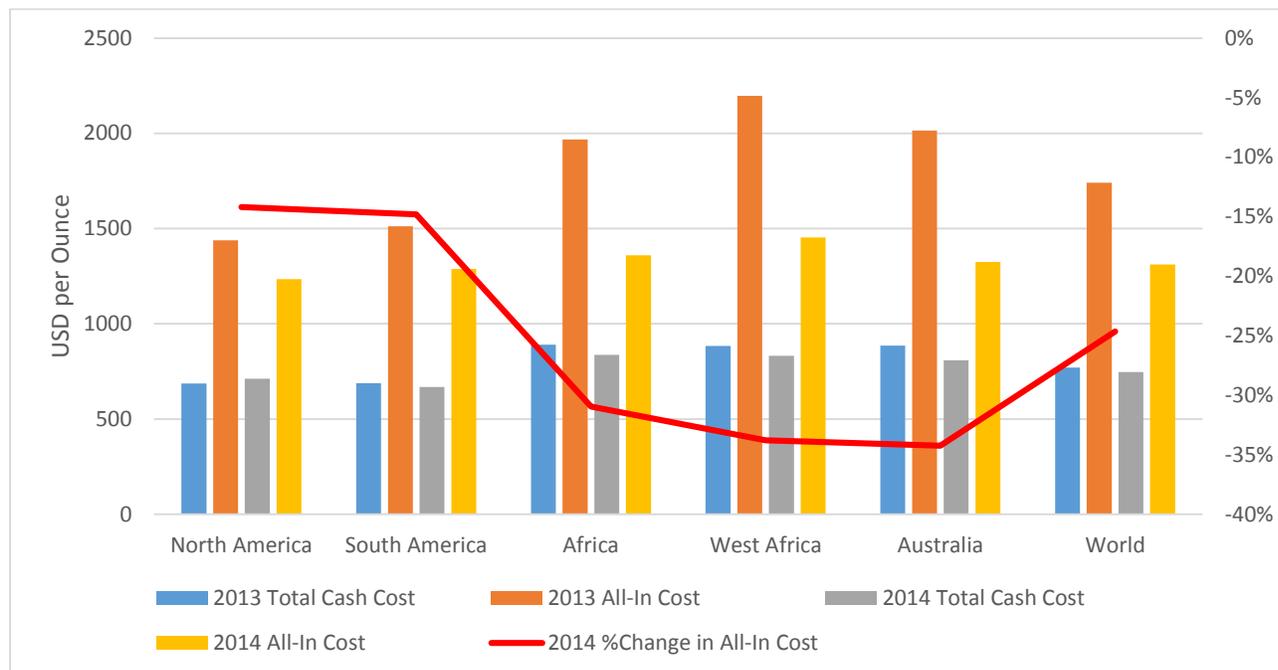
Source: GFMS Gold Survey 2015

Global production cost dropped sharply in 2014. According to the GFMS Gold Survey, the average year-on-year total cash cost, total production cost and all-in cost declined by 3 percent to US\$ 749 per ounce, 1 percent to US\$ 983 per ounce and 25 percent to \$1,314 per ounce respectively. The report attributed the downward pressure to the gains from the rationalization of business processes and inputs implemented by most gold mining companies in the previous year as well as the windfall created by the surge in the dollar. In the case of the latter, particularly, the report explained that the appreciation of the dollar relative to the local currency of most gold mining countries markedly diluted the upward pressure from other cost drivers, especially, labour and power costs. However, this may not be necessarily valid in mining jurisdictions such as Ghana, where labour and power costs are indexed to the dollar.

In terms of the major mining regions, South America continues to be the lowest-cost production destination for gold mining. In 2014, the average all-in cost of production in the region dropped by 15 percent to US\$ 1,288. This outturn was largely a function of the 20 percent decline in the cost of the continent’s largest producer, Pueblo Viejo, which was more than sufficient to offset the rise in production costs in other mines such as Yanacocha and Lagunas Norte. Also, the slowest

reduction in costs was recorded in North America where higher production costs in the United States and Mexico doused the fall in cost in Canada. On the average, the all-in cost of production in North America dropped from US\$ 1,438 to US\$ 1,234, representing a reduction of 14 percent. In West Africa, the all-in cost of producing an ounce of gold was the highest compared to the other regions, although it receded by 34% to US\$ 1,454. This situation has been blamed on the uncompetitive fiscal framework and frail macroeconomy of the region.

Fig 3.0: Regional Production Costs (2013-2014)



Source: GFMS Gold Survey 2015

The Performance of the Ghanaian Mining Industry in 2014

The outturn of the country's minerals sector was relatively subdued in 2014. According to the GFMS Gold Survey, the output of the preponderant mineral, Gold, expanded from 107.4 tonnes in 2013 to 108.2 tonnes in 2014, a marginal lift of 0.7 percent. Notwithstanding the slow growth, the mining industry contributed significantly to the overall economic progress of the country in 2014.

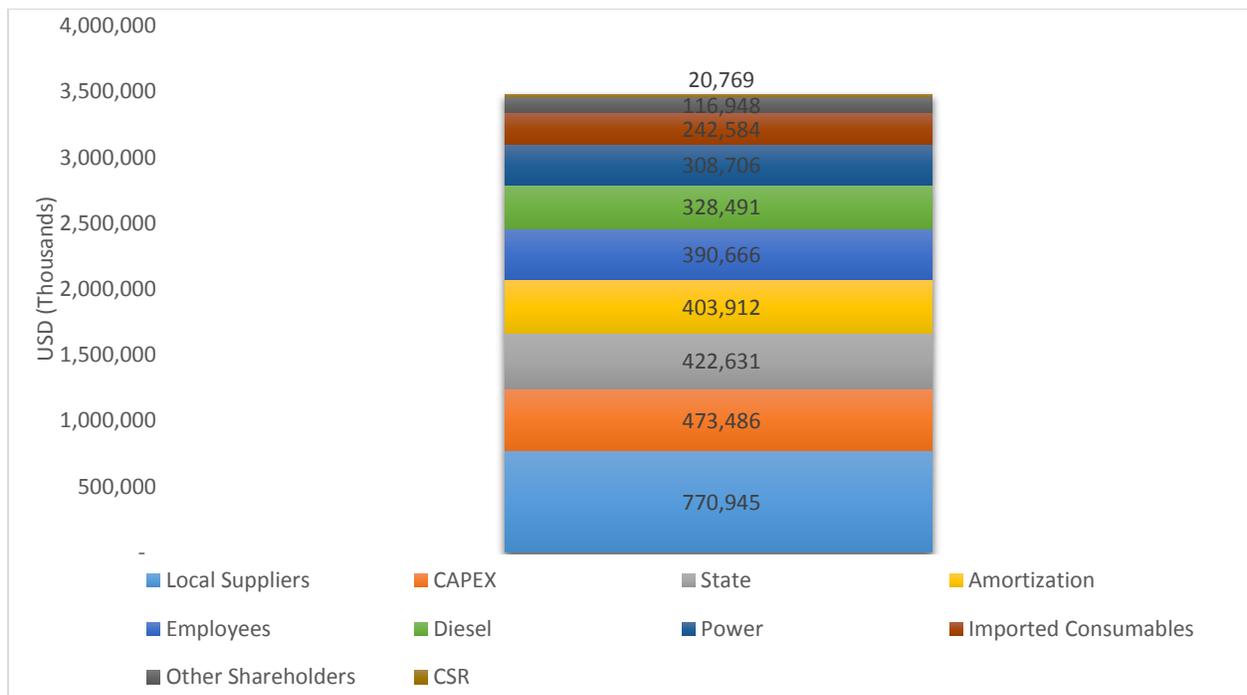
Local Impact across the Value Chain

The minerals and mining sector continued to be a leading source of fiscal revenue to the state. In 2014, the sector contributed GH¢ 1.24 billion to the national kitty through the Ghana Revenue Authority. This represents 16.2 percent of total direct tax in 2014 relative to a share of 18.7 percent in 2013. The fiscal proceeds mobilized by the GRA from the mining sector comprised GH¢ 441.2 million, GH¢ 416.5 million and GH¢ 259.4 million in corporate taxes, royalties, and PAYE respectively. As expected, the subdued revenue inflow from the sector impacted negatively on the government's capacity to finance the country's recurrent and capital expenditure programmes. This sentiment was underscored by the Hon. Minister of Finance, Hon. Seth Terkper, in the 2015 Budget and Economic Statement when he stated that "Ghana has had to endure the harsh economic impact of the recent declines in commodity prices".

Data from the Bank of Ghana indicated that the share of mineral export in total merchandise exports reduced to 34 percent as compared to 37 percent in the previous year. This outcome stemmed mainly from the bearish price of gold on the world market. As well, the producing member companies of the Chamber reported that 77.5 percent of their total revenue, amounting to US\$ 2.8 billion, was returned to the country through the commercial banks and the Bank of Ghana. This amount, which was far in excess of the statutory minimum requirement of 25 percent was instrumental in shoring up the Balance of Payments position of the country. Certainly, it provided the Bank of Ghana and other economic actors with a ready source of forex to finance their external obligations.

The repatriated funds of the mining companies were used in settling the companies' in-country liabilities such as employee remuneration, fiscal payments to the state as well as in procuring inputs to sustain or expand production and for host community development projects. In 2014, the producing members of the Chamber spent 20 percent of their total mineral revenue to procure inputs locally. Also, capital expenditure, interest amortization as well as salaries and wages accounted for 12 percent, 11 percent and 10 percent of total mineral revenue respectively. ***Notably, the state's share in mineral revenue was 11 percent while the other shareholders received only 3 percent.*** Furthermore, expenditure as a share of mineral revenue on electricity, diesel and imported consumables were 8 percent, 9 percent and 6.4 percent respectively.

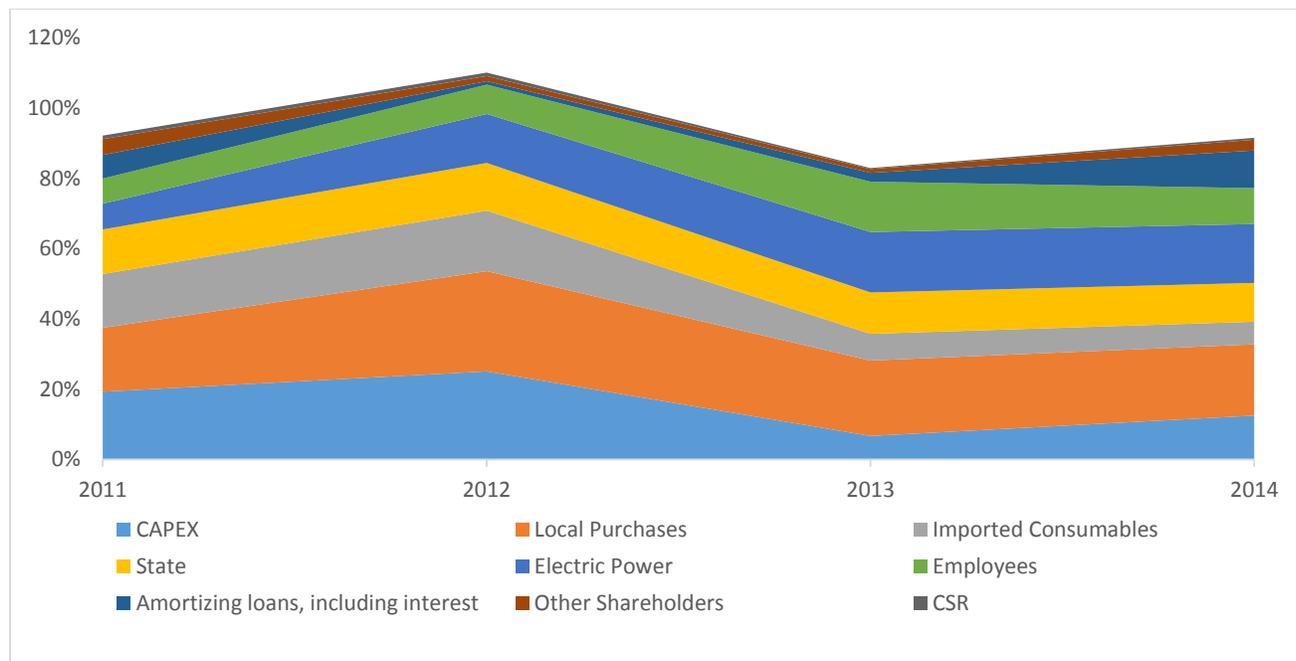
Fig 4.0: Distribution of Mineral Revenue to Big Ticket Items and Beneficiaries in 2014



In line with the objective to enhance the well-being of their host communities, the producing members of the Chamber invested nearly US\$ 21 million in financing a variety of livelihood enhancing projects primarily in the education, health and roads sectors. A significant proportion of the Corporate Social Investment fund was also spent in alternative livelihood programmes.

At the end of 2014, the total workforce employed by the producing members of the Chamber comprised 12,148 Ghanaians and 234 expatriates. The latter represented only 1.8 percent of the labour force of the Chamber’s flagship members. Relative to the labour population of 21,103 in 2013, the declined outturn of 12,382 in 2014 was mainly on account of the phased employee rationalization implemented by most of the producing members, especially at the Obuasi mine of AngloGold Ashanti.

Fig 5.0: Trends in Distribution of Mineral Revenue (2011-2014)



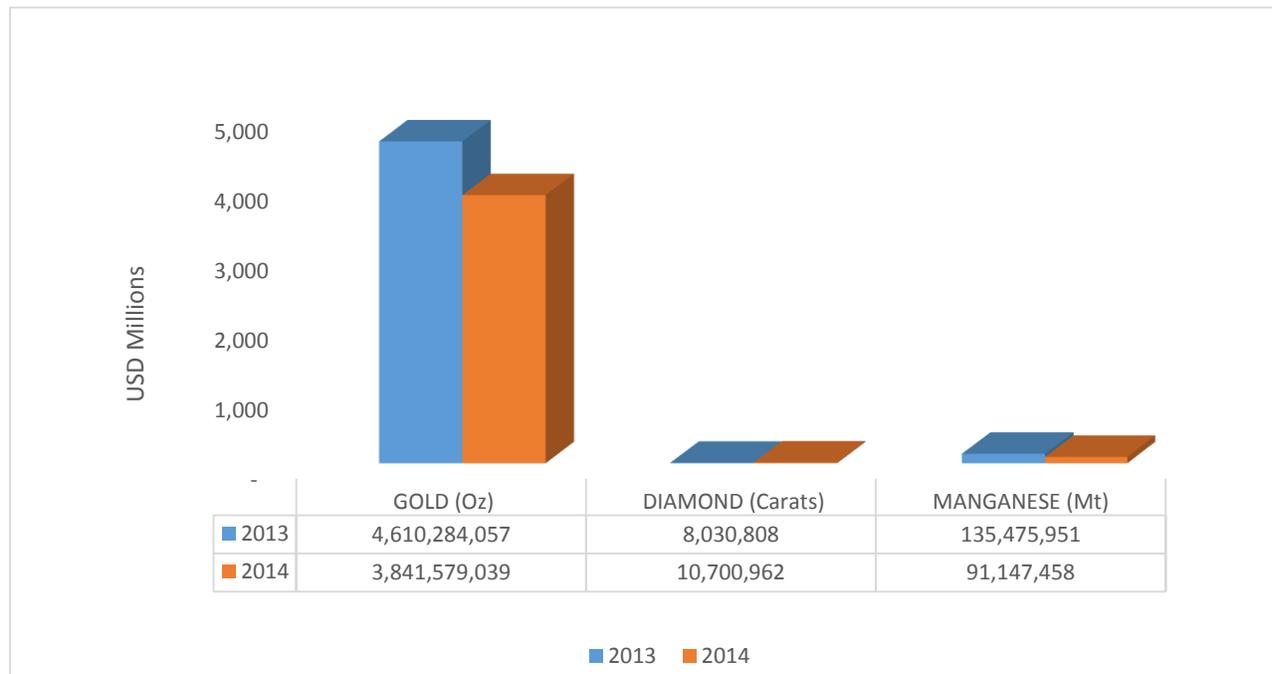
Output and Revenue of the Producing Members of the Chamber

For the second successive year, the aggregate mineral revenue of the members of the Chamber declined. It dropped from US\$ 4,753,790,815 in 2013 to US\$ 3,943,437,459 in 2014, representing a fall of 17 percent. The contraction in revenue was largely attributable to the softening of the gold price and the decline in shipments of manganese. Even though revenue from diamond was up by 33 percent, this performance was insufficient in averting the slump in overall mineral revenue.

Gold revenue, which accounted for nearly 98 percent of the basket of mineral revenue, declined from US\$ 4,610,248,057 in 2013 to US\$ 3,841,579,039 in 2014. Coupled with the reduction in the average realized price of gold from US\$ 1,444 per ounce in 2013 to US\$ 1,213 per ounce in 2014, the 17 percent drop in gold revenue was also triggered by a percentage dip in output. Gold output of the members of the Chamber declined from 3,192,648 ounces to 3,167,755 ounces. Primarily, this was on account of plunge in output from AngloGold Ashanti Iduapriem, Gold Fields Tarkwa, Golden Star Wassa, Newmont Ahafo, Adamus Resources and Perseus Mining. As well, purchases of gold by ASAP VASA from small scale miners shrank precipitously. Whilst increases in output were recorded at AngloGold Ashanti Obuasi, Gold Fields Damang, Golden Star Bogoso Prestea

as well as a full year production at Newmont Akyem, these were unable to offset the recession in output of the fore- cited companies.

Fig 6.0: Comparison of Mineral Revenue (2013 and 2014)



The output of Gold Fields Ghana- Tarkwa ebbed from 632,244 ounces in 2013 to 558,222 ounces in 2014. The 12 percent decline in production reflected the cessation of all heap leach operations, higher-than-average rainfall in the first quarter of 2014 and a shortage of blasted ore due to poor drill rig availability between the first and third quarters of 2014. It is significant to note that these factors were partly moderated by the overall improvement in process plant performance and an increased recovery to 97.2 percent.

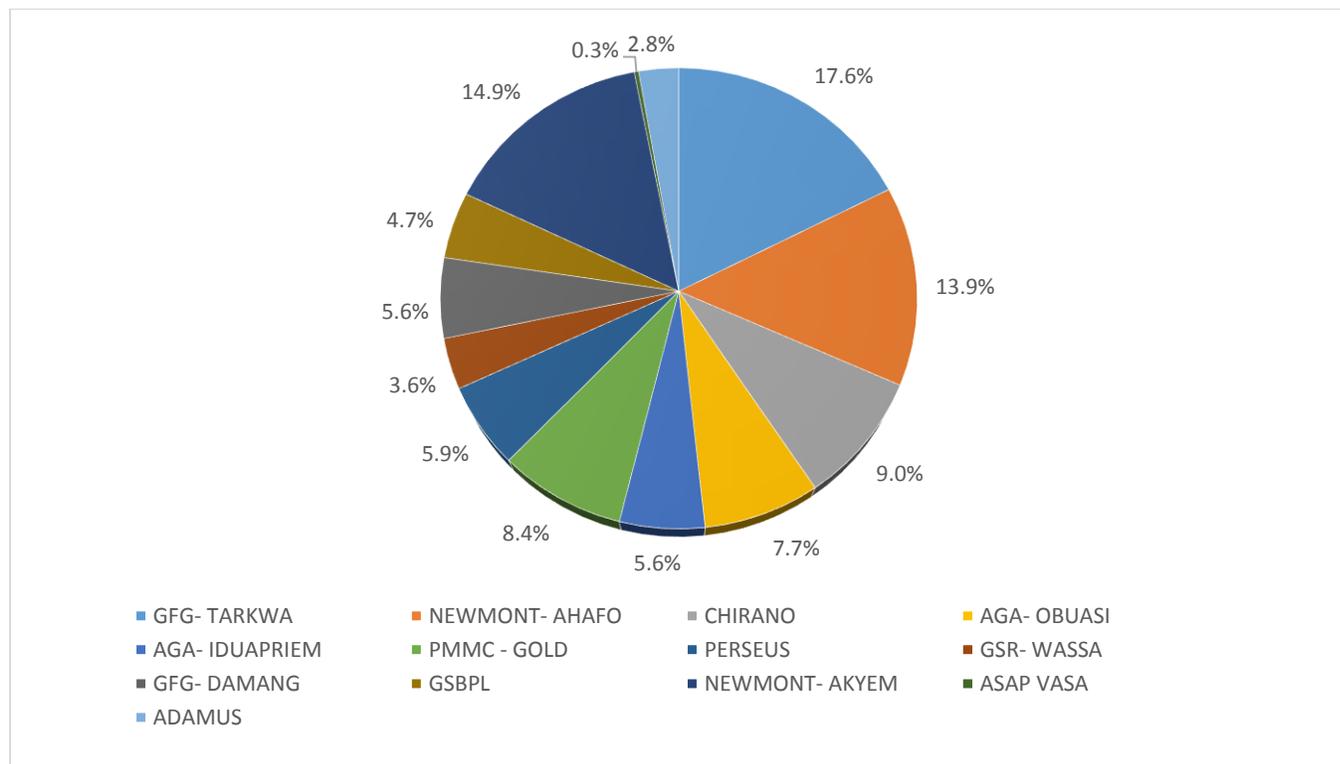
On the other hand, output at Gold Fields Damang appreciated significantly by 16 percent to 177,741 ounces relative to the outturn of 153,117 ounces in 2013. This remarkable performance was as a result of gains in productivity which was precipitated by the restructuring of the mine. The measures included focus on high quality mining, higher grade head, improved recovery due to the installation of an additional Carbon-in-Leach (CIL) tank, transition from a three-shift to two-shift mining system with a commensurate cut in workforce and lower capital expenditure. A drag

on the company's performance, however, was the unplanned mill stoppages in the second and third quarters which culminated in the temporary shutdown of all processing at the mine for seven days.

On account of the mixed performance of the two mines operated by Gold Fields, total output of the Group waned from 459,710 ounces in 2013 to 420,153 ounces in 2014, representing a dip of 9 percent.

Newmont Ghana Company's share in total gold output increased from 22 percent in 2013 to 29 percent in 2014, making it the largest mining group in the country. In nominal terms, the company's total output increased from 699,366 ounces to 913,678 ounces. The expansion in the company's output was attributable to the full year production at the Akyem mine which diluted the contraction in output at the Ahafo mine. Total output at the Ahafo mine was down by 22 percent in 2014, from 570,155 ounces to 442,020 ounces while Akyem ramped up production to 471,658 ounces in 2014 from 129,211 ounces in 2013. The latter's 265 percent lift in output reflected a full year's production in 2014 compared to that of 2013 when production was for only three months.

Fig 7.0: Share of Gold Output in 2014



Production at AngloGold Ashanti's Obuasi mine, which was put under a "care and maintenance" programme in the last quarter of 2014, increased marginally from 239,052 ounces in 2013 to 243,223 ounces in 2014, a lift of 2 percent. The rise in output was ascribed to the streamlining of the mine as well as complementary recovery of gold from tailings. Contrastingly, output at the Iduapriem mine shrank by nearly 20 percent to 176,930 ounces in 2014 as compared to the 220,658 ounces recorded in 2013. On the back of this outturn, the total output of AngloGold Ashanti was 39,557 ounces less than the 459,710 ounces observed in 2013.

Golden Star Bogoso Prestea benefited from the investments made in the betterment stripping campaign which commenced in 2012 and ended in early 2014. The strategic decision improved access to ore and led to a 53 percent increment in ore mined in 2014. Against this backdrop, production at the mine increased from 144,997 ounces in 2013 to 147,957 ounces in 2014. This represents a 2 percent increase in output. Conversely, total output at Golden Star Wassa declined by 39 percent to 112,835 ounces in 2014. The comparable output in 2013 was 185,808 ounces. Largely, the slump in Wassa's production was as a result of the decision to discontinue mining in the Father Brown pit in May 2014 as well as frequent unplanned curtailment in power supply. Also, lower than forecasted grade from the other pit, Wassa, was a major factor for the decline in production.

On the whole, Golden Star's aggregate output fell by 27 percent, from 330,805 ounces in 2013 to 260,793 ounces in 2014. With this performance, Golden Star's share in total national production declined from 10 percent in the previous year to 8 percent in 2014.

Chirano Gold Mine's output increased from 274,683 ounces in 2013 to 286,326 ounces in 2014. The 4 percent lift in output was primarily attributable to the processing of higher grade ore from the Akwaaba deposit, which more than made up for the 15 percent decline in ore mined as well as repair work on the mill.

Fig 8.0: Gold Production by Members of the Chamber (2013 and 2014)

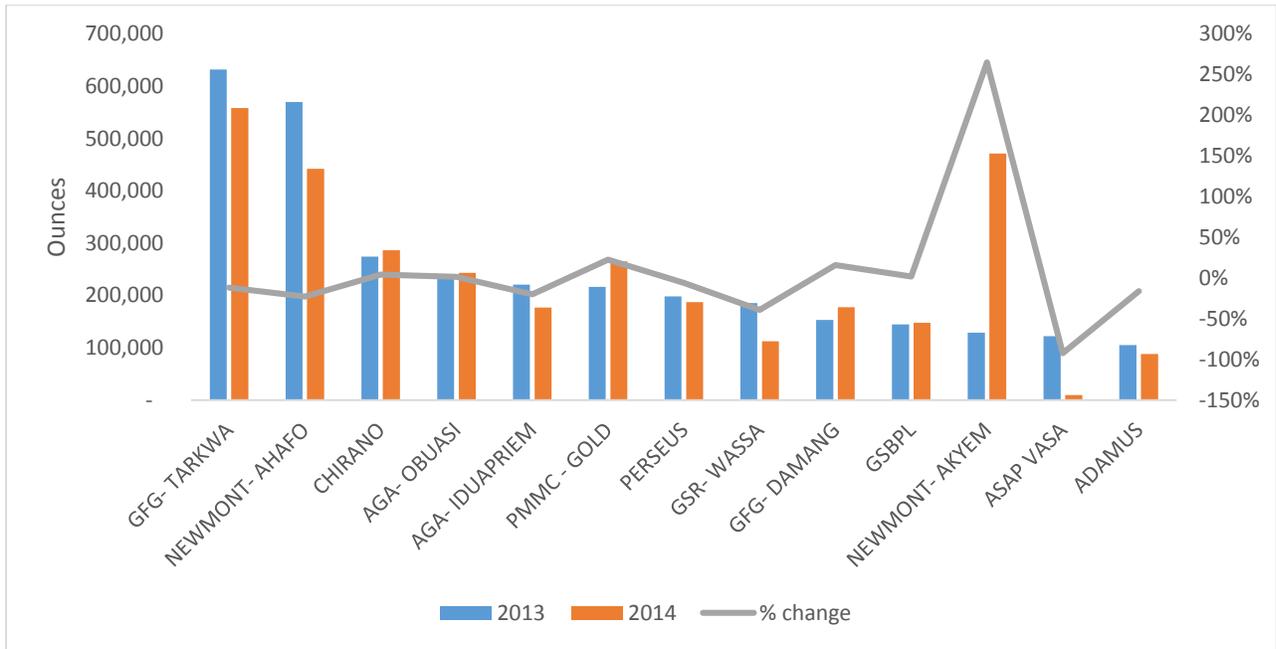
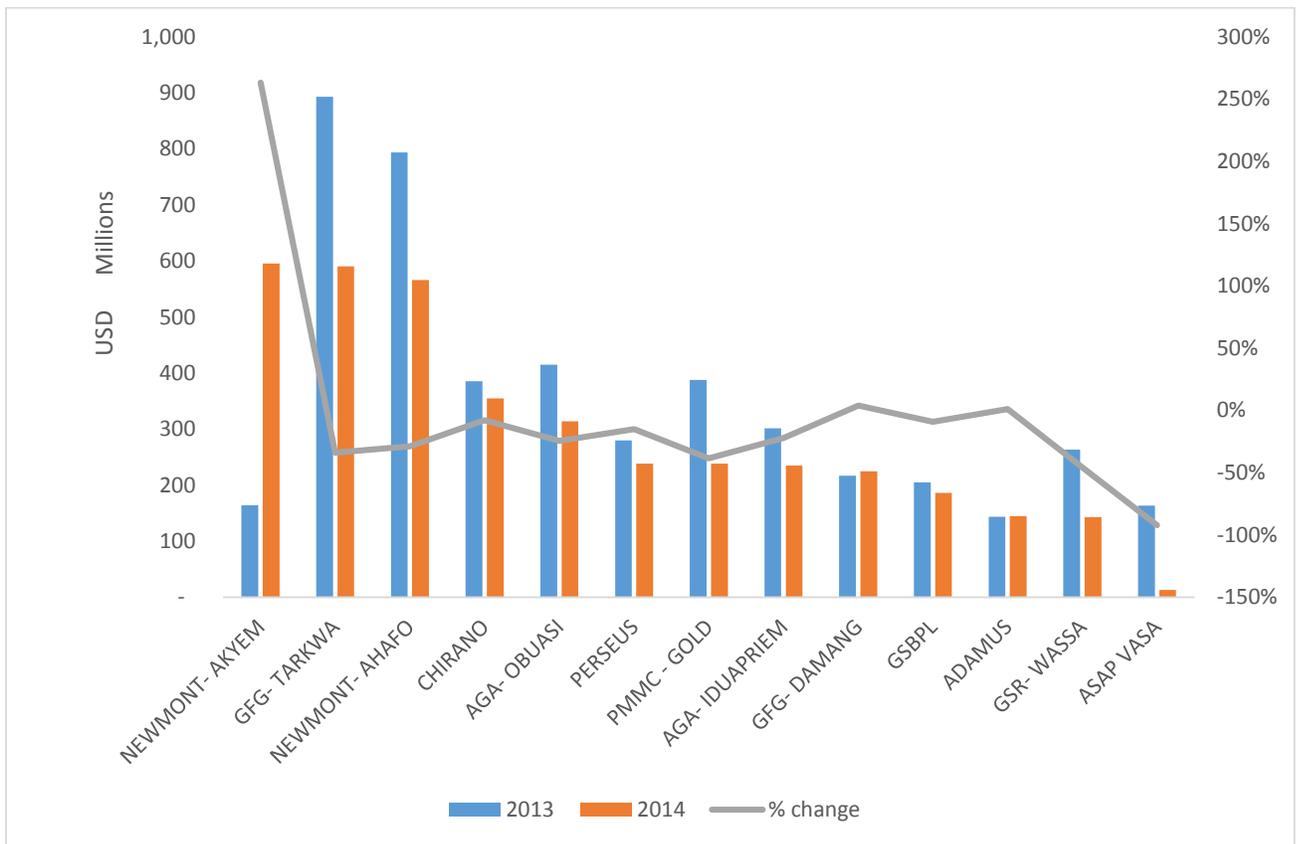


Fig 9.0: Gold Revenue by Members of the Chamber (2013 and 2014)



Output from Adamus Resources, a subsidiary of Endeavour Mining, shrank by 16 percent to 88,476 ounces in 2014 relative to 105,215 in 2013. The subdued performance of the mine was due to the higher-than-anticipated water table which constrained mining from the Aliva pit, disruptions in power supply as well as periodic and heavy rainfall. Also, throughput limitations which were engendered by the hardness of the ore feed from the Adamus pit and grade variances within the blocks mined, partly accounted for the contraction in output.

Interruptions to the processing of ore, which was occasioned by a combination of a fire outbreak in the mill as well as unreliable supply of power in the second half of the year, induced a 6 percent fall in the output of Perseus Mining. In addition, lower average head grades accounted for the output outturn of 187,363 ounces in 2014 relative to the 198,608 ounces achieved in 2013.

Purchase of gold from small scale miners by the Precious Minerals Marketing Company (PMMC) and ASAP VASA increased by 23 percent and declined by 92 percent respectively. The significant rise in purchases by PMMC, from 216,381 ounces in 2013 to 265,350 ounces in 2014, reflects the growth in the output of small scale miners. In the previous year, the Minerals Commission reported that the artisanal and small scale sub-sector's output, which includes unlicensed miners, was 34 percent of total gold output. The downturn in the activities of ASAP VASA was largely a derivate of liquidity constraints, which stalled the company's capacity to purchase gold from small scale miners in the third and fourth quarters of 2014. Consequently, the company's purchases declined from 122,518 ounces in 2013 to 9,652 ounces in 2014.

The purchases and exports of diamond by PMMC from scale miners increased to 241,120 carats in 2014, relative to the corresponding outturn of 159,074 carats in 2013, representing a growth of 51 percent.

Ghana Manganese Company's export of manganese dropped by 32 percent in 2014, from 1,997,911 tonnes in 2013 to 1,353,486 tonnes in 2014. The steep decline in exports was attributable to the inability of the company's major client to lift manganese in the third quarter of 2014.

Challenges

Curtailement in Supply of Electricity

At the beginning of the second half of the year, which coincided with the period of the FIFA World Cup, the National Grid Company, GRIDCo, installed Automatic Frequency Load Shedding (AFLS) devices on the feeders of power to the mining companies. The device instantaneously cuts the supply of power to the mines in the event of a deficit in generation of electricity at peak periods. This automaticity in managing the shortfall in load had adverse impacts on the operations of the producing member companies. In particular, it resulted in materials in process plants solidifying, and which takes approximately two (2) hours for sequential start up and normalization of processes.

As well, it resulted in damages to sensitive equipment on the mines, particularly at the processing plants. Following the remote load management programme, the then Ministry of Energy and Petroleum requested the industrial consumers of Volta River Authority, which includes the mining companies, to reduce their load in-take by 25 percent. This temporary measure was expected to end in December 2014, based on the assurances of the Ministry. However, the exercise spilled over to 2015 during which the companies were requested to increase the load shed from 25 percent to 33 percent.

Disruption to the supply of electricity has grave implications for the operations of the mines, their employees, government and host community members. In order to avert the debilitating impacts of such power crisis, the quartet mining industries (AngloGold Ashanti, Gold Fields, Newmont and Golden Star Resources) persuaded their principals to finance the acquisition of a US\$ 50 million power plant, Mines Reserve Plant (MRP), for the state in 2008. This arrangement was brokered on the premise that the funding companies will have the first call on the available load from the plant in times of a shortfall in national power supply. The industry recognizes that the government funded the conversion of the MRP to a gas powered plant and applauds the government in this regard. In the industry's opinion, this exemplifies collaboration between the state and private sector, which must be actively encouraged in the interest of national development.

Unfortunately, the government has not been able to keep to the terms of the Memorandum of Understanding on the MRP, particularly with respect to the first call on the plant in the wake of the recent debilitating load shedding exercise in the country. This development presents a grim view of the Ghanaian Directors of the quartet benefactor mining companies as well as government. More so, it generates significant moral hazards in the industry's subsequent engagement with government and also broadcasts negative signals to the investor community. It would therefore be mutually beneficial for the state to remediate this unhealthy situation in this challenging period for the mining industry.

Policy experts concur that mining companies together with other bulk customers of power are the linchpins for attracting Independent Power Producers (IPPs) into the power sector. If they are not assisted to survive this current crisis, the Power Ministry's bid to attract IPPs and eventually establish the Wholesale Electricity Market would be in jeopardy. It goes without saying that given Electricity Company of Ghana's (ECG) dire financial situation, mining companies and other bulk customers are better positioned to enter into agreements with prospective IPP's power supply.

The prompt and regular foreign exchange denominated payments by mining company customers of ECG, have largely contributed to the survival of ECG. Any drastic reduction in power consumed by its mining company customers would worsen its financial plight. This is also true of the other utilities, including GRIDCo and VRA.

Most companies, who are yet to recover from the impact of the initial load shedding programme, did not anticipate the extension into 2015 and have therefore not installed the capacity to co-generate power to substitute the 33.3% shortfall from the utility providers. It is equally important to note that the emergency generation plants of the mining companies were not designed to run for prolonged periods, and may therefore breakdown if put to continuous use.

In the light of the Ministry's decision, the mining companies which do not have the considerably more expensive alternatives of stand-by generation are compelled to suspend production to accommodate the load relief requirements whenever outages are imposed. Certainly, this potential output loss will have adverse ramifications on all segments of the economy, as suppliers, the state

and host communities will be hard hit by declines in income or contributions from the mining companies.

Absence of Incentives for Exploration Companies

The relevance of exploration in ensuring a pipeline of future viable projects cannot be over-emphasized. Naturally, this would ensure that the country continues to benefit from its mineral endowment at all times. It would therefore be apposite to put in place an incentive scheme that will attract the required investments. As a first step, the government should consider exempting Exploration Companies from payment of VAT on Drilling and Laboratory Services. Such a measure would not only reduce the cash flow and other related constraints or costs borne by these companies but also enhance the country's image as a competitive destination for exploration investment.

VAT Refunds

On account of the traction in reimbursement of VAT refunds, the mining companies continue to suffer severe cash flow limitations which has been worsened by the recent dip in the price of gold as well as escalation of cost engendered by the hike in fuel cost and curtailment in the supply of electricity. As at the end of June 2014, the refund due the mining industry was GH¢ 250 million. The situation is not healthy for private enterprise and only compounds the escalating cost of doing business in Ghana.

In recognition of the significant VAT arrears owed mining companies, the government announced a set of measures to address the long lead time in repaying the companies. These measures, which were contained in the 2015 Budget and Economic Statement suggested that the government would abolish the use of VAT Relief Purchase Order (VRPO) and replace it with a credible refund system to cover duty drawback, VAT refund and corporate tax overpayments. Also, it mentioned that the current VAT refund account, into which 5 percent of VAT revenue is paid, would be replaced with a general refund account into which up to 5 percent of GRA collection would be paid. As well, the industry has taken note of government's effort to expedite the passage of the Revenue Administration Bill which would allow companies to offset their VAT refund with other fiscal liabilities.

It is the industry's expectation that these measures would permanently redress the perennial delay in the refund of VAT to the mining companies.

Cost Pressures

In spite of the general decline in the core mining cost metrics, Ghana continues to be a relatively high cost destination for mining investments. Producing member companies' all-in-sustaining cost, which is the summation of exploration, development, depreciation, depletion, amortization and cash costs, dropped from US\$ 1,387 per ounce in 2013 to US\$ 1,001 per ounce in 2014, a fall of 27 percent. Similarly, the all-in-cost declined by 28 percent to US\$ 1,058 per ounce in 2014, relative to US\$ 1,473 per ounce in 2013. The all-in-cost is measured as the sum of all-in-sustaining-cost, indirect and corporate costs.

The primary contributor to the contraction in cost was the impact of the rationalization measures implemented by most producing member companies in the previous year which spilled into 2014. However, the effect of the downsizing on production cost was moderated by the hike in labour, electricity, diesel and general consumable costs. A major cost driver of diesel was the imposition of the 17.5 percent tax on petroleum products (Special Petroleum Tax) in the latter part of the year.

Special Petroleum Tax

Relative to the generic consumer, the mining industry pays a premium for the consumption of diesel. Conventionally, the resulting windfall is used in subsidizing social fuel such as premix, which is consumed by low-income households. In addition to this incipient tax, the Government's 2015 Budget Statement and Economic Policy announced the introduction of a 17.5% tax on petroleum products under the Special Petroleum Tax (SPT) Act, 2014 (Act 879). This widened the price differential for the product between the mine and generic consumer from 12 percent to 19 percent. Given the high volume of diesel consumed by the industry, the impost hiked the operating cost of mining companies deeply and instantaneously. For instance, a member company's annual expenditure on fuel increased by about US\$ 100,000 on the back of the impost.

As well, the deficit in supply of electricity has compelled most companies to rely on diesel-propelled generators to augment their load demands, further exacerbating the cost pressure on the industry. Estimates from the Chamber suggests that the increase in expenditure on fuel as a result of the SPT will drive the all-in-cost of a typical mine by US\$ 17 per ounce. Within the context of bearish commodity prices, especially gold, most mining companies would involuntarily scale down or suspend their operations which would ultimately shrink fiscal outflows from the sector to the state and other beneficiaries. The Chamber therefore suggests that the government should relieve the mining sector from the payment of the SPT, not only on account of its significant contribution to the growth of the Ghanaian economy but also due to the premium it pays on diesel.

Deplorable State of Railway Infrastructure

The Western railway line, which was the primary mode of hauling bulk minerals to the port, has deteriorated over the years as a result of infrastructure obsolescence and limited corrective investments. Consequently, the bulk mining companies, like the other producers of bulk export commodities, have had to make use of the more expensive road-haulage system. It is estimated that the cost of road haulage is 50% more expensive than the alternative of using the railway lines. This attenuates the bottom line of the bulk mineral producers and could threaten the very viability of their business if a solution is not found soon.

Successive Budget and Economic Statements consistently point out the intention of government to rehabilitate the Western Rail network. Unfortunately, this is yet to happen. As an industry association, the Chamber believes that the benefits of a well-functioning railway system will not be a preserve of its members only but the entire economy. It could serve as an alternative means of transporting life, foodstuff and other commodities across the country. The industry will collaborate with government to rehabilitate the railway system.

Illegal Mining

Member companies of the Chamber recognize and applaud the government's efforts to stem the tide of illegal mining. In the past year, the producing members and exploration companies received support from the National Security Sub-Committee on Lands and Natural Resources in addressing the encroachment of their concessions by illegal miners. However, pockets of illegal miners

continue to encroach the concessions of our member companies in spite of the interventions of the state.

This illegality deprives duly licensed companies of the opportunity to exploit the inherent mineral resources more safely and prudentially while it bequeaths them with additional costs, since they are required to rehabilitate the land. As well, the trail of pits excavated by illegal miners have claimed the lives of some employees, security officials and residents of the host communities. We therefore urge government to amend the relevant sections of the Minerals and Mining Act, 2006 (Act 703) to make illegal mining a statutory offence.

Development of Mining Communities

Generally, mining communities tend to be in remote locations and therefore lag behind in terms of social and economic infrastructure. The challenge of rustic conditions in the communities have been exacerbated by the prevalent mechanism for distributing mineral revenue, which tends to channel a large share of the revenue to the Consolidated Fund. On account of the crowded fiscal space, the spending pattern of the government does not tend to benefit the mining communities. Not surprisingly, the state of these areas continue to be below par.

The impact of the historic imbalance in developmental funding for the communities on the one hand and the defining roles of all relevant players and what they are expected to achieve on the other hand, have been a peculiar bane in holistic community development in all mining areas. In the meantime, what endures reflects negatively on the image of the mining industry in particular and usually fuels social tension between the residents and the mining companies.

In order to enhance the development of mining communities therefore, the Chamber recommends that the share of mineral royalty revenue ploughed back to the host community should be increased from the current rate of 9% to 30% and tied to specific development projects for the community. In that regard, the Chamber commends the Minerals Commission for crafting the Minerals Development Fund Bill and commits to work with the Commission to realize the objectives of the bill when passed into law. Equally, the Chamber posits that the government's use of mineral revenue should be governed by legislation akin to the Petroleum Revenue Management Act. This

would ensure efficiency, transparency and accountability in the management and use of revenue from mineral resources.

Outlook for 2015

The recovery of the price of gold in 2015 is expected to be restrained by growth in the global economy, which would swing investor appetite towards interest bearing and near-money assets such as treasury bills and equities. Consequently, market-watchers anticipate that gold producing companies would continue to reorganize their production processes to keep cost low in order to remain viable in an environment of subdued price of the yellow metal. In the local context, output from the gold producing member companies is forecasted to remain flat or dip marginally in 2015. On the other hand, shipment of manganese is anticipated to increase in 2015.

Minerals production is expected to increase in the periods after 2015 with the completion of Asanko Gold's Obotan mine and Golden Star Wassa Limited's underground mine project. The Obotan mine is expected to pour its first gold in early 2016.

APPENDIX

Table 1.0: Summary of Mineral Output and Revenue (2013 and 2014)

COMPANY	2013		2014	
	PRODUCTION	REVENUE (US \$)	PRODUCTION	REVENUE (US\$)
AGA- OBUASI	239,052	414,794,330	243,223	313,666,710
AGA- IDUAPRIEM	220,658	301,112,215	176,930	234,604,046
GFG- TARKWA	632,244	893,149,334	558,222	590,393,835
GFG- DAMANG	153,117	216,444,000	177,741	224,652,540
GSBPL	144,997	204,743,250	147,957	186,181,634
GSR- WASSA	185,808	263,072,401	112,835	142,734,191
CHIRANO	274,683	385,457,028	286,326	354,691,899
NEWMONT- AHAFO	570,155	793,670,767	442,020	565,732,824
NEWMONT- AKYEM	129,211	163,888,151	471,658	595,474,578
ADAMUS	105,215	143,205,706	88,476	144,592,629
PERSEUS	198,608	279,883,073	187,363	238,110,562
PMMC - GOLD	216,381	387,601,517	265,350	238,110,562
ASAP VASA	122,518	163,262,284	9,652	12,633,028
PMMC - DIAMOND	159,074	8,030,808	241,120	10,700,962
GHANA MANGANESE COMPANY	1,997,911	135,475,951	1,353,486	91,147,458