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CHAMBER OF MINES RELEASES FINAL INDEPENDENT REPORT ON TRADE MISINVOICING

Calls on UNCTAD to withdraw its report and acknowledge its shortcomings

Johannesburg, 22 August 2017: The Chamber of Mines is pleased to release the third and final report in a series commissioned to examine the July 2016 UNCTAD report entitled *Trade Misinvoicing in Primary Commodities in Developing Countries: The cases of Chile, Cote d'Ivoire, Nigeria, South Africa and Zambia*. UNCTAD revised the report in December, though its fundamentals remained unchanged.

The UNCTAD report purportedly found widespread underinvoicing which, it alleged, was designed by commodities producers to evade tax and other entitlements due to the fiscal authorities. For South Africa, the report calculated cumulative underinvoicing over the period 2000-2014 to have amounted to US$102.8 billion (in constant 2014 US dollars): US$620 million for iron ore; US$24 billion for silver and platinum; and US$78.2 billion for gold.

Introduction

The first two Chamber-commissioned Eunomix reports, published in December and February respectively, focused on UNCTAD's gold scenarios. The third, which we publish today and can be found at http://www.chamberofmines.org.za/industry-news/special-features/275-independent-report-on-trade-misinvoicing-available, deals with the other commodities.

To summarise the gold findings, the UNCTAD study methodology compared reported exports by product and country of destination with the reported imports of the products by those same countries. It did so by using the United Nations Commodity Trade Statistics (UN COMTRADE) database.

Had it used other widely available data, including that of Statistics SA and the Reserve Bank as did the first Eunomix report, it would have discovered that, in the case of gold, the discrepancy was not US$78.2 billion (in the July 2016 report) or US$57 billion (in the December 2016 report), but only US$9.8 billion. And as the second report in

February showed, the bulk of this was attributable to gold sent from other producers to be refined at the Rand Refinery and then re-exported, and not properly recorded by COMTRADE as such. This is because it appears that this gold is classified as South African gold by importers, whereas it is (correctly) not declared as South African gold exports by customs in South Africa.

Silver and platinum

As indicated, this third Eunomix report investigates alleged misinvoicing in respect of platinum and silver, and iron ore.

The UNCTAD report claims that export misinvoicing totals US$24 billion for silver and platinum exports from South Africa. It notes that there were three years in particular (2000, 2002, 2014) when misinvoicing seems to have been significant. There is no attempt, however, to try to understand discrepancies during these years.

Eunomix's analysis, using data gathered from South Africa's Department of Mineral Resources (DMR) and from the Department of Trade and Industry (dti) show a smaller difference, of about US$15 billion. And then the very large discrepancies between trade values accounted for in 2000 and 2002 are shown to have been a data-collection issue.

A likely explanation for at least some of the remaining discrepancy is that platinum mined in Zimbabwe, but refined in South Africa, is recorded by importers as SA platinum and not Zimbabwean platinum, as in the case of non-SA gold exports.

Iron ore

In respect of iron ore exports, where misinvoicing of US$600 million is alleged, UNCTAD had noted underinvoicing of US$5.6 billion between 2000−2010, while during 2011−2014, there was US$1.3 billion in iron-ore export overinvoicing.. There is no attempt at an explanation for these discrepancies.

Eunomix's analysis of South African export data (both from the DMR and dti) showed lower figures than those shown on COMTRADE. This demonstrates an even larger trade discrepancy. It is not, however, proof that misinvoicing is occurring. Rather it shows the problems there are with data discrepancies in general.

For example, the Netherlands and Japan are noted as having particularly large overinvoicing discrepancies. The Netherlands is renowned for being a trans-shipment port. This results in significant confusion and data discrepancies as Rotterdam (the Netherlands) is not the final destination for goods. It is highly likely that SA recorded the destination of export as the Netherlands for a large amount of iron ore, even though it ended up in other EU states or was shipped further abroad.

Eunomix also uncovers complexities and inaccuracies regarding UNCTAD's assumptions on the value of the Cost, Insurance and Freight (CIF) amount in the equation to calculate the value of misinvoicing.

Conclusion

All these factors reinforce the point made in the earlier Eunomix reports regarding the lack of rigour and unreliable methodologies used in UNCTAD's report.

This, is extremely unfortunate given the levels of credence that tend to be given to reports of this UN agency. Accusations of extensive misinvoicing and other illicit financial flows are feeding a growing lack of trust between key stakeholders in the mining industry.

The Chamber of Mines again calls on UNCTAD to withdraw this report and acknowledge its shortcomings.

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