

KPMG GLOBAL MINING INSTITUTE

Going for gold, and other minerals...

Singapore's quest to become Asia's
leading commercial mining hub

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Foreword

“ Asia is marching toward economic prosperity, with profound implications for businesses everywhere.

As resource-rich countries engage in a furious fight to supply natural resources, an equally brutal battle has ensued to secure the services revenue associated with the mining boom.

Jockeying for position are Singapore, Hong Kong and Shanghai, all well placed to lure Western trade, all firmly intent on establishing Asia's leading commercial mining hub.

Singapore's ability to emerge from relative obscurity to become a pivotal player in the natural resources landscape would fortify its reputation as an astute strategist, and bolster its economic affluence going forward.

It is a decisive contest, and one worthy of further exploration.”

The Prebisch-Singer hypothesis suggests that commodity prices will continue to fall over time relative to other goods and services. With Japan's 'lost decade', the collapse of the former Soviet Union, the Asian financial crisis and sharp global recessions; come the beginning of the 2000s, the hypothesis seemed precise with unusually low commodity prices prevailing.

Enter the rapid urbanisation and industrialisation of emerging economies in Asia, causing a remarkable revival in commodity prices, and a turnaround in the fortunes of the mining industry. The heroes of demand were multi-fold, with countries such as India, Vietnam, Singapore, Indonesia, South Korea and the Philippines experiencing rapid economic growth. Above them all was China; its market-orientated policy reforms, significant investments, productivity gains and demographic transitions resulting in an average annual GDP growth of approximately 9 per cent since 1980, triple the OECD average. By

2010, it had surpassed Japan to become the world's second-largest economy, and established itself as a global economic superpower.

With commodity prices soaring, resource-rich countries clamoured to supply Asia's emerging economies. In Australia, a major supplier of minerals to China in particular, natural resource exports grew from 35 per cent of total exports in 2000 to 55 per cent of total exports in 2010. In Indonesia, a country with prolific coal reserves, natural resource exports grew from 29 per cent of total exports in 2000 to 43 per cent of total exports in 2010. It was a boom for resource abundant economies, in particular those with close proximity to Asia, with benefits spilling over into domestic economies, generating wealth for citizens.

Outside of the resource-rich countries, as commodity prices staged a Herculean revival, an equally lucrative battle was underway to capture the services revenue of the major mining and natural resources

trading companies as they orientated their operations towards emerging Asia. Extending beyond sales, marketing and trading, to a more comprehensive trading hub capturing functions such as logistics, procurement, information technology, legal, human resources and risk management, the benefits of securing such activities are plentiful.

More than a decade into the commodities revival, with the race well underway, we explore Singapore's progress to date, taking into consideration the opinions of key industry participants.



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SALIENT OBSERVATIONS

A dot on the global landscape and devoid of economically exploitable mineral resources, Singapore appears an unlikely beneficiary of the mining boom. But with only a strategic location, and some shrewd architects, it entered the contest.

Today, major mining and natural resources trading companies such as BHP Billiton, Rio Tinto and Trafigura can be found scattered throughout Singapore's central business district.

What are they doing? What attracted them to Singapore? We sat down with the industry and discussed exactly that.

What are they doing in Singapore?

The major mining and natural resources trading companies are using Singapore as a commercial mining hub to service the important consumer and producer markets of Asia.

At the core of the commercial mining hub is the sale and marketing of minerals, particularly in the case of the natural resources trading companies. Beyond this, ancillary services undertaken in Singapore include logistics, procurement, information technology, legal, human resources and risk management.

What attracted them to Singapore?

Building on its experience in creating an oil and gas trading hub, Singapore has created and facilitated an attractive platform for commercial mining activities. Following discussions, Singapore's commercial mining hub proposition offers several key benefits, but has a number of areas that require further development.

THE KEY BENEFITS

1. Geography

Singapore is located close to major mineral producers and consumers, and at the crossroads of major shipping routes.

Ancillary to the location itself, Singapore has extensive international free trade agreements, fantastic infrastructure and a culturally diverse population capable of seamlessly interacting with individuals from different cultural backgrounds.

The only natural advantage, the geographical location, cannot be underestimated.

2. Legal stability

The legal stability of Singapore is critical, providing certainty around the benefits and incentives offered to the major mining and natural resources trading companies.

Beyond agreements struck with the companies themselves, sound laws and administrative procedures create a stable and predictable business environment.

3. Supporting infrastructure

Singapore's commercial mining hub proposition is supported by world class infrastructure, Singapore having received numerous accolades for its ports, airports, telecommunications and technology.

Further enhancing Singapore's proposition are a slew of service providers, some basic in nature with others offering important products and services such as trade financing and commercial consulting.

4. Quality of living

Singapore offers a high standard of living. Foreigners who are seconded here are generally pleased with their lifestyles. Singapore is anything but a hardship posting.

5. Tax incentives

The platform for benefits is the Global Trader Programme (GTP), offering concessionary tax rates with the intention of making Singapore the preferred regional base for trading operations. These programmes have attracted many of the mining and natural resources trading companies.

THE DEVELOPMENTAL AREAS

1. Human capital

To maximise the benefits of the commercial mining hub, Singapore could place greater emphasis on interpersonal skills, leadership skills, and creativity and innovation.

Mining companies and natural resources trading companies value industry-specific expertise. Combining existing university courses with mining streams, and furthering research and development initiatives aimed at natural resource-related topics, may assist in developing more suitable skills.

2. Trading platforms

As a major producer and consumer of natural resources, Asia requires an internationally recognised trading exchange for minerals. This is a significant issue for the Asia Pacific region, as major mining and natural resources trading companies require such platforms to effectively manage risk.

Singapore must take immediate action to facilitate the creation of a premier exchange, whether through mergers and acquisitions, or deeper investment and incentives.

3. Cost control

With the sector booming, mining and natural resources trading companies are in growth mode, making critical capital expenditure decisions. As they turn to Singapore, they see a previously inexpensive environment that is rapidly increasing in expense.

Singapore must be sure to remain competitive, through economy-wide cost control and carefully structured incentives.

4. Tax Incentives

To further develop Singapore's role, targeted tax incentives aimed specifically at the mining sector could be introduced to create greater traction in driving Singapore's position.



EXPLORING THE PAST

A historical hub

In 1819, Sir Stamford Raffles' founding of Singapore marked the beginning of the island's involvement in entrepot trade. Today, nearly 200 years later, Singapore has become one of the busiest and most dynamic trading hubs in the world.

Singapore is separated from Malaysia by the Straits of Johor to its north and from Indonesia's Riau Islands by the Singapore Strait to its south. Singapore's strategic location offers a vital link for international transport and logistics activities between the East and the West. It connects some 200 shipping lines to more than 600 ports in 120 countries worldwide.

Building a dynamic economy

Singapore's outward-oriented economic policies, coupled with its firm commitment to free trade, have contributed to the country's rapid growth as an international business and shipping hub.

Recent examples of initiatives aimed at facilitating trade include:

- Joining the General Agreement on Tariffs and Trade (GATT) 1973, designed to provide an international forum encouraging free trade between member states.

- Forming the Singapore Trade Development Board in 1983 (now known as International Enterprise Singapore), to further enhance Singapore's position as a premier international trading hub.
- Introducing TradeNet in 1989, the world's first electronic, nationwide, paperless trade facilitation and documentation system.
- Establishing an extensive Free Trade Agreement network with the world's leading trading partners to reduce tax burdens on Singapore-based businesses. Agreements have been signed with key countries such as USA, Japan, Australia, New Zealand, China, India, South Korea, Chile, Switzerland, Norway, and many more.
- Participating in the 'Schemes of Preferences' initiative, formed between nations who agree to give preferential trade tariffs.
- Establishing the GTP in 2001, an initiative aimed at encouraging global trading companies to choose Singapore as their regional or global base of operations, by providing concessionary rates of tax.

Today, Singapore enjoys the presence of behemoth blue chip companies, and is recognised as one of the world's most dynamic economies.

TIMELINE OF SIGNIFICANT EVENTS

-
- 1973** – Joined GATT
-
- 1983** – Established Singapore Trade Development Board
-
- 1985** – Establishment of Economic Committee to review progress of Singapore & identify new directions
-
- 1989** – Trade Net (world's 1st electronic, nationwide paperless trade filing system)
– Approved Oil Trade Programme (AOT)
-
- 1990** – Approved International Trader Programme (AIT)
-
- 1993** – Establishment of Singapore Bullion Market Association
-
- 1995** – Endorsement of WTO agreement along with 81 countries
-
- 1996** – Introduction of International Trade Award
– Expansion of FTA network to reduce tax burden on Singapore based business
– Scheme of Preferences to help reduce trade barriers
-
- 2001** – Global Trader Programme (GTP) to provide tax concessions to global trading companies
-
- 2002** – International Enterprise Singapore, Singapore Business Federation (SBF)
-
- 2003** – Amendment to GTP aimed at medium-sized high growth companies to increase offshore trading
-
- 2007** – Established Minerals, Metals & Materials (M3TC) research center to address R&D manpower issue
-
- 2008** – Establishment of Singapore Mercantile Exchange (SMX), Revival of Singapore Bullion Market Association (SBMA)
-
- 2011** – Listing of early stage Mining, Oil & Gas (MOG) companies on Catalist
– Development of Metal Bulletin Iron Ore (MBIO) Index based futures contract
– GST exemption for precious metal investment
-
- 2012** – GST exemption for investment grade gold & other precious metal
– Grow into gem market (showcase of 110-carat "Yellow Dragon" Diamond)
-
- 2013** – New gold refinery and bullion product manufacturing plant
-

A thriving natural resources hub

Singapore began attracting major mining and natural resources trading companies after the establishment of the GTP in 2001. Since that time, a who's who of the industry has descended upon Singapore, making it a hub for their commercial services in Asia.

With the influx of major mining and natural resources trading companies, many smaller players have followed suit.

The benefits associated with the migration of the mining and natural resources trading companies have been

immense. Trading revenues are reported to be steadily increasing and employment in the sector has increased dramatically, leading to increased prosperity for Singapore.

Age-old competitors

Despite its success in attracting revered mining and natural resources trading companies, Singapore is not the only party awake to the benefits of securing the services revenue associated with the mining boom. Following closely on Singapore's heels, with natural draw cards and attractive government incentives, are Hong Kong and Shanghai.



A THRIVING NATURAL RESOURCES HUB

OIL AND GAS

- BP
- Chevron
- ExxonMobil
- Gazprom
- Kuwait Petroleum
- Saudi Aramco
- Shell
- Total

MINING

- Anglo American
- BHP Billiton
- Glencore Xstrata
- Rio Tinto
- Vale

TRADERS

- Arcadia
- Cargill
- Koch Industries
- Mabanaft
- Mercuria
- Noble Group
- Trafigura

Source: Various company websites



EXTRACTING ALL IT CAN

In the light of increasing competition, we look at Singapore's current offering for mining and natural resources trading companies to determine whether it is equipped to emerge as Asia's leading commercial mining hub.

A strategic location

While devoid of economically exploitable mineral resources, Singapore's proximity to key mineral players has provided it with a unique opportunity to participate in the minerals boom.

Singapore's geographic location is ideal, in close proximity to major mineral producers/exporters Australia and Indonesia, as well as major consumer markets such as China, India, Japan and South Korea. Australia is the largest producer of iron ore, bauxite, zircon and rutile; Indonesia the largest exporter of thermal coal. China is a leading purchaser of natural resources, with India, Japan and South Korea also accounting for significant consumption.

Going forward, robust demand in Asia should continue to underpin the strong outlook for Asia's resources sector, where investment has reached unprecedented levels. This provides an immensely strong platform for companies to migrate to Singapore, the decisions made by those already here seemingly being for the long-term.

Complementing Singapore's strategic geographic location is its conclusion of international agreements with key mineral exporters and importers, rendering preferential treatment and a degree of protection and certainty to the operations and investments of companies domiciled in Singapore.

Singapore's positioning, bolstered by its relations with its neighbours, is advantageous in many respects:

- Singapore can be used as a base for individuals to easily travel the region, whether it be visiting a mining asset in Indonesia, or travelling to China to visit a mineral off-taker, major travel destinations do not exceed seven hours by air. With more than 100

A STRATEGIC LOCATION

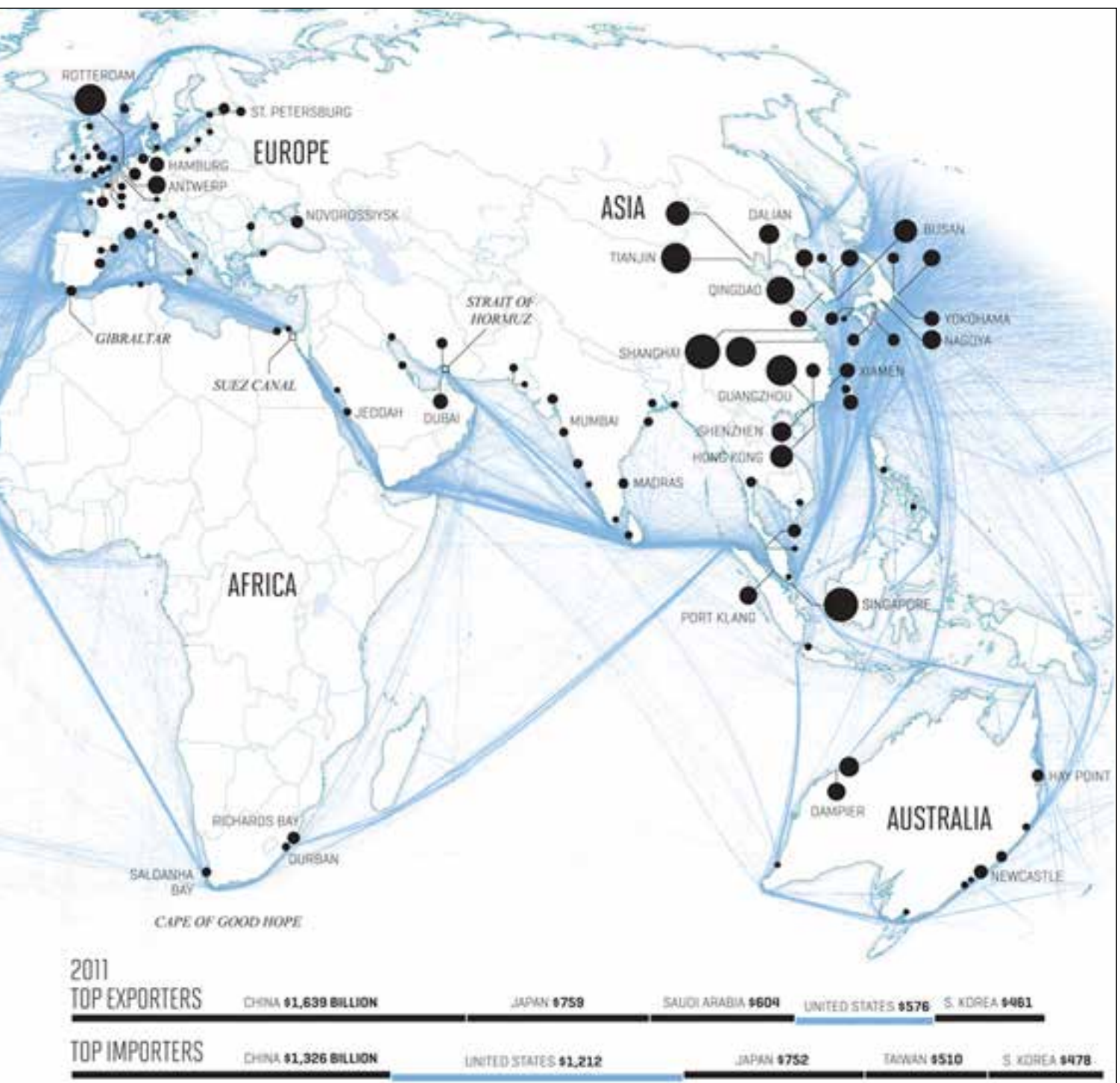


airlines flying from Singapore, the surrounding infrastructure is in place to ensure maximum travel convenience.

- Singapore is at the crossroads of major shipping routes, providing a logical pathway for Australian and Indonesian vessels en route to North Asian markets. With world-leading port

and shipping infrastructure, acclaimed for efficiency, competitiveness and reliability, Singapore is an excellent location for bunkering and breaking of bulk.

- Singapore shares similar time zones with many key markets. This ensures ease of correspondence, facilitating



Source: <http://nicolasrapp.com>

business between all participants in the Asia Pacific minerals marketplace.

- As a truly multicultural nation, there is great diversity within the Singapore workforce, which, when combined with bilingual language skills, provides the necessary skills and insights to

deal with all of the key participants in the Asia Pacific minerals marketplace.

The location dynamics, with the bolstering factors astutely put in place over time by the Singapore Government, are absolutely critical to the major mining and natural resources trading companies and the broader economy.

Legal landscape

In a speech to the International Bar Association at its 2007 annual conference, Minister Mentor Lee Kuan Yew reflected on the establishment of the Singapore legal system:

“ We sought to provide an environment that our neighbours did not provide – first world standards of reliability and predictability. ”

The implementation of strict laws and the equitable administration of justice combine to provide what is arguably Singapore's greatest competitive edge today. It is critical that this continues.

The origins of Singapore's legal system can be traced back to the English system. Following the Westminster Model, Singapore is a republic with a parliamentary system of Government. Sources of law are derived from the Constitution, legislation and common law.

Singapore's legal system has received numerous accolades, and alongside Hong Kong and Japan, is consistently recognized as one of the best in the East Asia and Pacific region.

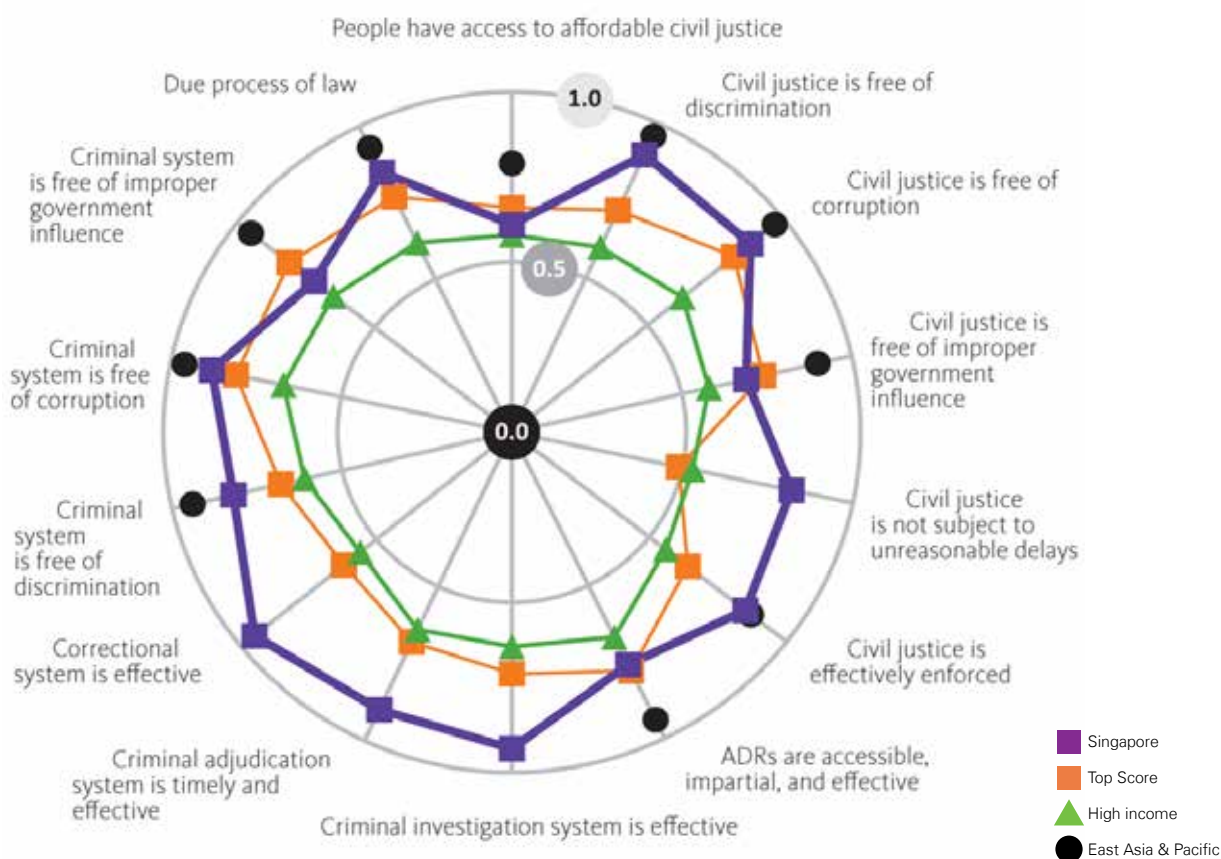
Most relevant for the development of a metals and minerals trading hub, Singapore performs exceptionally well in the following important areas:

- In the assessment of the stability of laws, Singapore ranked highly, well ahead of East Asia and Pacific region

averages, and ahead of most countries with similar income statistics. This factor was critical to many of the major mining and natural resources trading companies that have migrated to Singapore, providing the confidence to make long-term investments into their commercial mining operations.

- A less critical advantage of the Singapore legal system, albeit important for easy commercial dealings, is its strength in the area of civil justice, enabling companies to resolve commercial disputes in an affordable, effective and impartial environment.
- While many of the major mining and mineral trading companies continue to utilise English law as the basis for commercial arrangements, the usage and success of the Singapore International Arbitration Centre (SIAC) is noteworthy. With a panel of approximately 200 legal and industry experts, the SIAC has been hugely successful; its awards enforced by the courts of Australia, Hong Kong, India, Indonesia and the USA amongst other New York Convention countries.

DELIVERY OF JUSTICE



Available infrastructure

Singapore is the recognised hub in Southeast Asia for trade, providing extensive transportation solutions, telecommunication connections and technology options – ensuring that it is an ideal conduit for accessing the region and the rest of the world.

Transportation

Singapore is the major shipping and air transport node of the region, linked by sea and air to all parts of Asia and beyond.

For some time, Singapore has been the busiest port in the world in terms of shipping tonnage and transshipment. The port has won multiple awards and accolades, and been a cornerstone of Singapore's economy for nearly 200 years. It has played a key role in Singapore's transformation into a global trading power.

Changi Airport is the 7th busiest

international airport in the world, connecting more than 100 international airlines to some 220 cities in about 60 countries and territories worldwide. It has been ranked as the world's leading airport on six occasions by the World Travel Awards.

Beyond the abovementioned physical infrastructure, Singapore is home to an abundance of related services providers – financiers, industry consultants, ship brokers, freight forwarders, marine service providers and couriers – ensuring access to all necessary services.

Telecommunications

In telecommunications, operator assisted, STD and IDD telephone services connect Singapore with almost every country in the world. The entire city is being networked by fibre-optic cable, which links households, businesses, government agencies and other institutions.

THE LOGISTICS PERFORMANCE INDEX (2012)

Economy	Rank	Score	% of highest performance
Singapore	1	4.13	100.00
Hong Kong SAR, China	2	4.12	99.9
Finland	3	4.05	97.6
Germany	4	4.03	97.0
Netherlands	5	4.02	96.7
Denmark	6	4.02	96.6
Belgium	7	3.98	95.3
Japan	8	3.93	93.7
United States	9	3.93	93.7
United Kingdom	10	3.90	92.7

Source: Trade Logistics in the Global Economy, The Logistics Performance Index and its Indicators, 2012

Technology

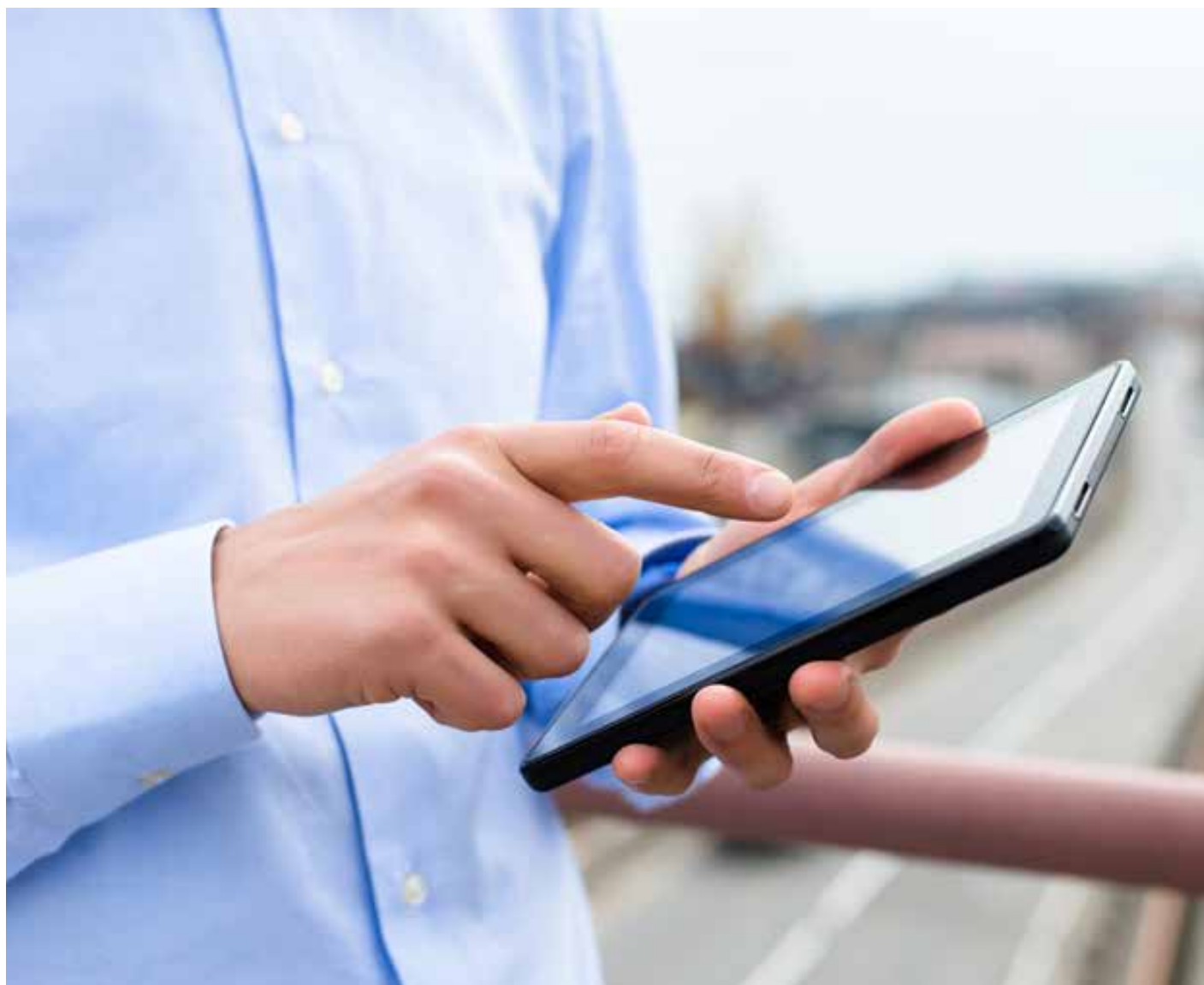
The World Economic Forum's Global Competitiveness Report (2012-2013) ranked Singapore as 5th in technology readiness, a measure of the agility with which an economy adopts existing technologies to enhance business productivity.

Although highly ranked, Singapore is aiming for significant improvement in this area. The Infocomm Development Authority of Singapore is specifically tasked to grow the infocomm sector and infocomm technologies for the purpose of enhancing the competitiveness of key economic sectors.

GLOBAL COMPETITIVENESS INDEX 2012-2013 (TECHNOLOGY READINESS)

Economy	Rank	Score
Sweden	1	6.29
Luxembourg	2	6.21
Denmark	3	6.17
Hong Kong SAR	4	6.16
Singapore	5	6.10
Switzerland	6	6.02
United Kingdom	7	6.00
Iceland	8	5.99
Netherlands	9	5.98
Finland	10	5.92

Source: The Global Competitiveness Report, 2012-2013, World Economic Forum



Social environment

Singapore's high standard of living makes it an attractive place to live. This facilitates the recruitment or relocation of senior mining and natural resources trading company executives to Singapore. Often ranked as Asia's best city to live, Singapore scores well across a range of quality of life factors:

- Singapore enjoys a stable political climate, which has been in place since achieving sovereignty in 1965.
- A strong emphasis is placed on communal and racial harmony, designed to ensure understanding and happiness amongst citizens.
- Singapore is renowned for having strict laws and enforcement procedures, resulting in minimal crime and making it a safe place to live.
- Healthcare infrastructure in Singapore consists of both public and private healthcare facilities with both offering high-quality medical care.
- Singapore's public schools are highly regarded, with high standards of teaching. With the growing presence of foreigners, international schools have flourished, replicating educational programs that are available abroad.
- Housing is generally to a very high standard.

Talent pool

The structural dynamics of the Singapore workforce are attractive to employers. In The Global Competitiveness Report (2012-2013) published by the World Economic Forum (WEF), Singapore ranked behind only Switzerland for labour market efficiency. Key areas of consideration were the degree of flexibility afforded to employers in hiring and firing as well as wage determination, and the lack of disruption caused by tensions between employers and employees.

Beyond the structural dynamics of the Singapore workforce, global reports suggest that Singapore is well positioned to provide the talent necessary for exploiting opportunities. The WEF report ranked Singapore 1st in Quality of Math and Science Education, 3rd in overall Quality of Education System, and 6th in Quality of Management Schools.

While Singapore ranked highly in independent talent reports, the industry's management and executive positions are predominantly filled by expatriate employees, with a number of issues at play:

- There is a natural inclination for management and executive positions to be filled by 'company people' who have a broad understanding of the particular company's culture and corporate personality. While legacy issues play a role, industry respondents also noted that the Singaporean workforce is highly transient, with individuals readily open to switching companies.
- Within the industry there was a belief that the Singapore workforce is strong in mathematics and science, but could improve in the areas of creativity and innovation, interpersonal skills, and leadership qualities.
- Not being a country endowed with natural resources, the Singapore workforce suffers from a lack of natural resources education programs, leading to issues in sourcing Singaporeans for management and executive positions.

Although alluding to some of the above deficiencies, the industry was cognisant of the initiatives by the Singapore Government in driving learning and development relevant to the sector:

- International Enterprise Singapore, together with Singapore Management University and a number of industry partners, founded the International Trading Institute in 2006. Since that time, 400 industry executives and 100 graduates have completed trading-orientated courses.
- The Singapore Economic Development Board and National University of Singapore have combined to undertake research and development in relation to natural resources, forming the Minerals, Metals and Materials Technology Centre (M3TC). Through M3TC, research has been undertaken in relation to the coal sector, amongst others.

To position itself as Asia's premier commercial mining hub, Singapore needs to do more to provide a suitable talent pool. Certainly, technical prowess and knowledge will propel Singapore; however, a broader emphasis on interpersonal skills and leadership qualities is needed.



Taxation considerations

Singapore's tax policy, in particular the GTP incentive, may be seen as "the cream on the top" in Singapore's bid to distinguish itself from its key global competitors.

The GTP builds on Singapore's historical strength as a trading hub and is intended to incentivise major trading organizations to build a substantive presence in Singapore to manage and support significant trading operations.

It offers a 5 percent or 10 percent concessionary tax rate on qualifying trade, fee or commission income for a 5 year renewable period. There is also scope to reduce this rate further on a case-by-case basis where more substantial activities are brought to Singapore alongside the trading operations. There is also an option for a shorter term of a 3 year GTP status to attract emerging high-growth medium

sized international trading companies that are keen to choose Singapore as their regional base for trading activities. Once such companies are able to demonstrate sustainable growth projections that are in line with the requirements of the GTP, they can apply for the 5 year renewable GTP scheme after an initial 3 year period. The qualifying commodities and products include petroleum and petroleum products, minerals, agricultural commodities and carbon credits as well as a long list of other qualifying products and components.

To enable Singapore to strengthen its competitiveness as a global or regional trading hub for the mining industry, it is important for Singapore to continually measure itself against other global trading hubs or emerging hubs in the mining sector.

The table presented herein looks at the



tax attributes of a number of jurisdictions which can currently be considered competitor jurisdictions for Singapore when it comes to trading in the broader energy and natural resources sector.

Singapore's tax policy and its continual focus on building commercial substance is a critical factor when comparing Singapore to other competitor hubs around the world. However, Singapore cannot be complacent as its competitors will watch and learn from Singapore's strengths. It is particularly notable that Hong Kong and Switzerland have made significant leaps in strengthening treaty networks and free trade relations with their major trading partners. Singapore should not be left in doubt that tax policy can be tweaked to make these jurisdictions more competitive.

From a tax perspective, there are currently broad based tax incentive

schemes that are available for many relevant activities in Singapore:

- The Headquarters Program offers an attractive tax rate of as low as 10 percent on the qualifying income for a substantial level of headquarter activities performed in Singapore.
- Singapore based companies leasing equipment offshore to mining companies can also enjoy an incentivised tax rate of 10 percent on their leasing income. There are also schemes that encourage offshore support vessels to be based from Singapore.
- For businesses that have intensive research and development work undertaken in Singapore, companies can enjoy enhanced tax deductions of up to 400 percent of their expenditures against its income.



TAX AND OTHER INCENTIVES TO LOCATE

	Singapore	China (Shanghai)	Hong Kong	Dubai
Headline tax rate	17%	25%	16.5%	0%
Incentive	5, 10% ⁱ	– ⁱⁱ	– ⁱⁱⁱ	–
Scope for incentives	Employees, physical office, local spending, business plan	–	–	–
Requirements to obtain a certificate of residence ^v	Board control and day-to-day management	Incorporation and place of effective management	Incorporation / Control and management	Incorporation, Substantial trade-related income and property used in the business
Dividend withholding tax rate	–	10% ^{vi}	–	–
Tax treaties	69	97	18	47
Global Enabling Trade Report (Ranking) ^{viii}	1	48	2	16
Strengths	Proximity to key markets and suppliers / Incentives / Commercial substance	Proximity to key markets	Tax policy / Proximity to key markets	Tax policy
Weaknesses	Need for more specific incentives for the industry	Tax and regulatory environment / China market only	Single focus on China / Limited scope for tax incentives	Proximity to key markets / Commercial substance

One distinguishing factor from the other countries is that tax incentives in Singapore generally require a certain level of commercial substance before approval can be obtained from the relevant Government agencies.

- i. The Global Trader Programme typically requires at least USD 100m of sales, at least 3 employees and S\$3 million of local business spending. On the basis of higher numbers and spending a lower tax rate may be negotiated.
- ii. No specific incentives. Depending on the quantum of capital investment, lower tax rates may be negotiated. Typically incentives are granted to manufacturing investments and may not be suited for trading companies.
- iii. A 0% tax rate may be obtained with planning, however from a practical perspective this typically puts considerable strain on the daily operations.
- iv. The lower tax rates are available to a company with a “mixed company” status. The “mixed company” status is granted to companies with predominantly foreign business activities. A business activity is deemed to be predominantly performed outside Switzerland if generally at least 80% of the total gross income is derived from foreign sources and at least 80% of the expenses are incurred abroad. Switzerland-sourced income is taxed at the normal headline tax rate.

Switzerland	Luxembourg	UK (London)	Netherlands	US (Houston)	Panama
11.32% - 24.43%	29.22%	23%	25%	40%	0% ^{ix}
8.5 - 10.5% ^{iv}	1.5 - 5% ^{xi}	–	–	–	–
80% > Overseas income / expenses	Trading volume, minimum employees, office space, resident directors	–	–	–	–
Registered office / Place of effective management	Legal seat / Central administration	Incorporation / Control and management	Incorporation / Control and management	Incorporation	Business activities in Panama
35% ^{vii}	– ^{xi}	–	15% ^{xii}	30% ^{xiii}	5/10% ^{xiv}
98	64	120	94	66	11
5	9	17	10	19	61
Tax policy / Central market expertise	Tax policy	Central market expertise	Central market expertise	Proximity to key suppliers / Central market expertise	Proximity to key suppliers / tax policy
Proximity to key markets / Tax policy / Balancing tax policy and commercial substance	Proximity to key markets / Commercial substance	Proximity to key markets / Tax Incentive policy	Proximity to key markets / Tax Incentive policy	Tax Incentive policy / Incentives / Highly regulated / Complex tax system	Singularly Americas / Limited double tax treaty network / Often black listed / Commercial substance

v. Taking into consideration the likely trading partner jurisdictions, it is also expected that each of the trading jurisdictions are seen to have adequate commercial substance and beneficial ownership of the relevant trading income streams. In that regard, in addition to meeting the tax residence criteria, each jurisdiction should have appropriate senior level decision makers located in the jurisdiction; decision makers who make key decisions and understand the trading and risk models of the business and are more than merely nominees or low level decision makers appointed to give effect to decisions which are made elsewhere.

vi. The dividend withholding tax rate may be reduced to 5% under applicable Double Tax Treaties.

vii. The dividend withholding tax rate may be reduced on the basis of the EU-Swiss Savings Agreement or Double Tax Treaties.

viii. The Global Enabling Trade Report is published by the World Economic Forum. The Enabling Trade Index measures the factors, policies and services that facilitate the trade in goods across borders and to destination. It is made up of four sub-indexes, consisting of (i) Market access (ii) Border administration (iii) Transport and

communications infrastructure and (iv) Business environment. The data used is based on the 2010 rankings.

ix. Income from sales where the goods do not enter Panamanian territory should not be considered sourced in Panama and therefore should not be subject to corporate income tax in Panama.

x. It is possible to structure the operations to achieve lower tax rates. Tax rulings can be obtained from the Luxembourg tax authorities to confirm the tax treatment of the proposed operations.

xi. The Luxembourg tax law provides for a dividend withholding tax exemption if the parent company is subject to tax and owns at least 10% of the shares.

xii. May be reduced under the EU Parent Subsidiary Directive or a Double Tax Treaty. Alternatively dividend withholding tax may be reduced to 0%.

xiii. The dividend withholding tax rate may be reduced under applicable Double Tax Treaties.

xiv. 5% or 10% applies depending on the source of the income. The applicable withholding tax rate may be reduced to 5% or 0% by operating from one of the free trade zones.

Trading exchanges

Asia Pacific is expected to shift from being a 'price taker' to a 'price maker' – a natural progression given its status as a major producer and consumer of natural resources. Yet there is currently no globally relevant trading hub for physical and futures markets in the region.

The lack of a globally relevant exchange is a significant issue for the Asia Pacific region, as major mining and natural resources trading companies require such platforms to effectively manage risk. Due to timing issues, as well as the types of products being traded, existing exchanges in the United States and Europe are not particularly useful for regional players.

Appreciating the importance of a global exchange, the Hong Kong Stock Exchange recently acquired the London Metals Exchange (LME), which hosts approximately 80 percent of global trading in metals futures. This positions Hong Kong for a significant presence in

the financial markets for metals contracts and derivatives, riding on enlarged trade volumes and liquidity.

Singapore has seen the rise of several exchanges, the most prominent of which are the Singapore Mercantile Exchange (SMX) and the Singapore Exchange Ltd (SGX). Both seek to offer multi-product commodity portfolios. Separately, two prominent commodity-specific exchanges have emerged: Global Coal and Global Ore.

Existing attempts at founding a globally relevant exchange in Singapore have not been particularly successful. While some of the platforms have gained scale, the exchanges have yet to gain international traction, and some are product specific.

Playing host to a major trading exchange would go a long way towards Singapore being regarded as Asia's leading metals and minerals trading hub. With this in mind, Singapore must be wary of its age-old competitor, Hong Kong.

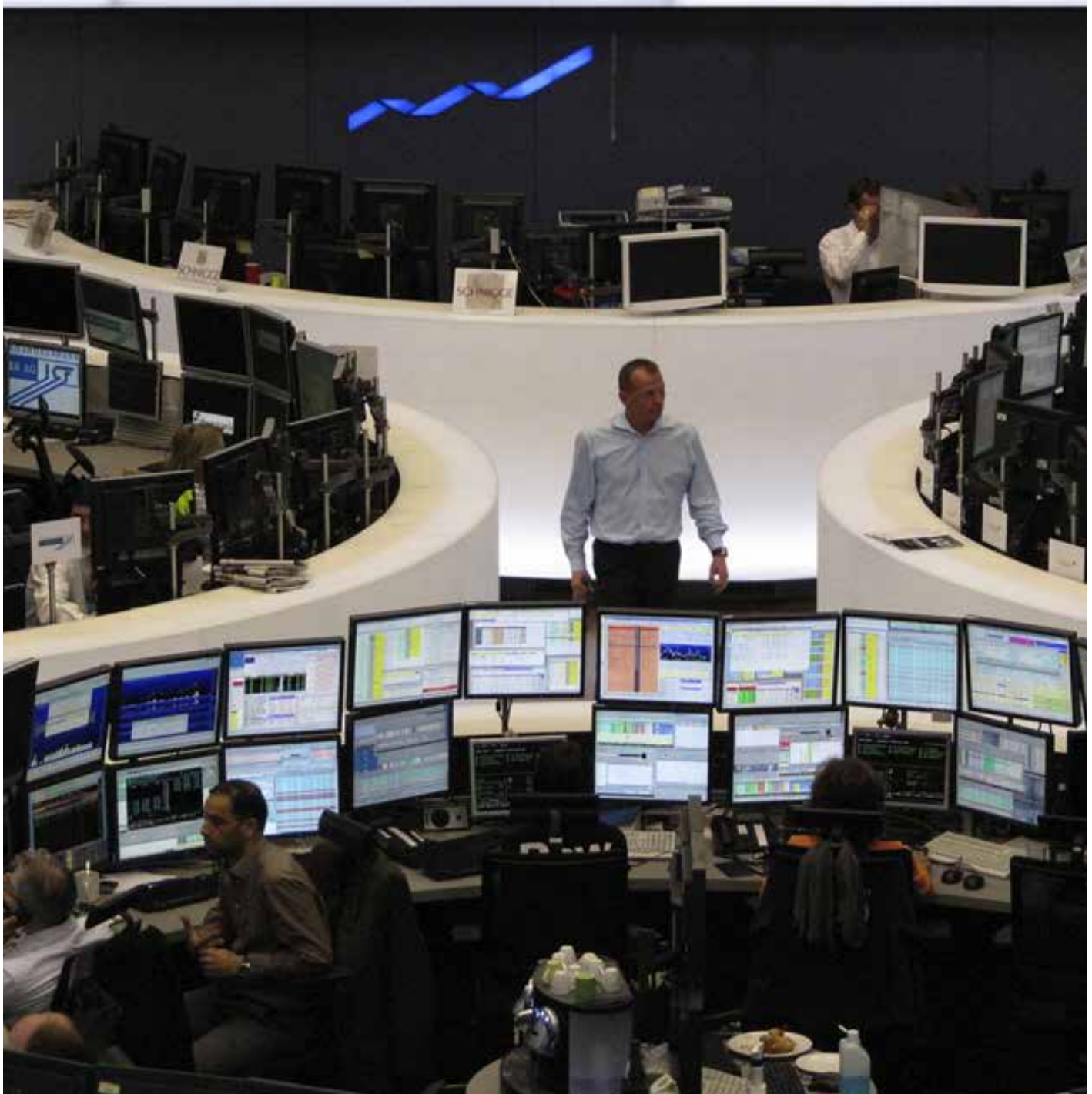
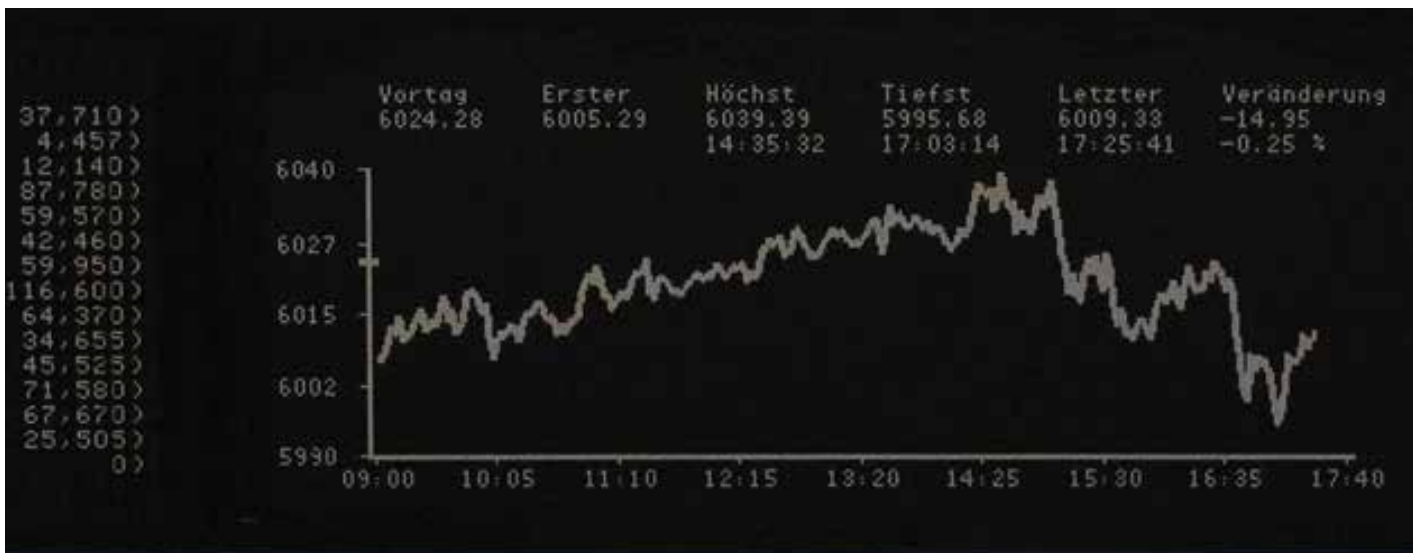
Costs

In the Economist Corporate Network's latest Asia Business Outlook Survey, rising costs were identified as the major drawback associated with locating corporate regional headquarters in Singapore. This was substantiated in a survey of 575 Singapore companies by the Institute of Certified Public Accountants of Singapore, where 60 percent of respondents flagged high business costs as a major concern.

The data supports this position. Inflation averaged 3.9 percent over the past five years, double the historic rate of 2.0 percent. Soaring rents are an issue; industrial rents jumped 6 percent in the first six months of 2012, while industrial property prices rocketed 26.7 percent in the same period. Rising wage costs are also a concern. The unit labour cost index, which measures the cost of labour in the economy, was at 111.9 in September 2012, up 7.8 percent from 103.8 two years earlier.

STATISTICS SINGAPORE – TIME SERIES ON CPI (2009=100) & INFLATION RATE

Year	Consumer price Index (2009=100)	Annual Inflation Rate
2003	88.5	0.5
2004	90.0	1.7
2005	90.4	0.5
2006	91.3	1.0
2007	93.2	2.1
2007	93.2	2.1
2008	99.4	6.6
2009	100.0	0.6
2010	102.8	2.8
2011	108.2	5.2
2012	113.1	4.6



GOING FOR GOLD

Singapore holds strong appeal for mining and natural resources trading companies. At present, it appears to be Asia's leading commercial mining hub. However, competition for this position requires Singapore to continue to develop and strengthen its proposition in order to cement its position at the top. Below we identify some of the key areas for development:

- Asia requires, and is deserving of, a trading exchange for minerals – it would be a massive boon for the mining and natural resources trading companies, who could utilise it for risk management purposes.

To date several exchanges have been established in Singapore; however, none have achieved serious international recognition. At the same time, Hong Kong has made a bold and potentially astute move in acquiring the LME.

Singapore must take action to facilitate the creation of a premier exchange, whether through mergers and acquisitions, or deeper investment and incentives.

- Singapore needs to ensure that its citizens maximise the benefits

associated with its premier offering as a commercial mining hub. To achieve this, refinements are required:

- Mining-specific expertise must be nurtured and developed. Such skills are appealing to mining companies when they source senior executives, who are expected to have a broad overview and understanding of the sector's value chain.

Singapore can close this gap by combining existing university courses with mining streams, and furthering research and development initiatives aimed at natural resource-related topics.

- Singapore's education system fosters high competencies in the areas of mathematics and science, and ensures bilingual capabilities. These exceptional attributes aside, more emphasis could be placed on the development of interpersonal skills, leadership skills, creativity and innovation.

- Singapore needs to continue to position its role in the mining sector through targeted incentives. These incentives could offer concessionary tax rates for income derived key

support functions around the trading industry, including specific grants and or incentives for the following:

- Training and educational programs for the mining sector undertaken in Singapore.
- Key functions and services which support the mining industry e.g. geological research and innovation, strategic project management, risk management and other project support activities.
- Specific incentives for the management of supply chain and logistics around mining activities.

- With the boom in natural resources, mining and natural resources trading companies are in growth mode, making critical capital expenditure decisions. As they turn to Singapore, they see a previously inexpensive environment where costs are now rapidly rising.

Given that 'the time is now' to lure mining and mineral trading companies, Singapore must be sure to remain competitive, through economy-wide cost control or carefully structured incentives.



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Each center is composed of professionals with extensive practical experience in the mining industry who work together to share information, thought leadership, training, and support. As a client, you will get access to the latest industry thinking, skills, resources, and technical development from a team that has local knowledge, backed up by in-depth global expertise. Our firms are continually building our understanding of global trends and developments by sharing observations and insights with you.

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KPMG's Global Mining Institute (GMI)

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