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New regulations aim to boost mining investment in Oman

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New legislation could boost investment and growth in Oman's mining sector, although gaps in infrastructure could inhibit expansion in the short to medium term.

Oman's government is currently reviewing a draft law prepared by the Public Authority for Mining (PAM) – the sector's regulatory agency – that will see a major overhaul of the sultanate's mining regulations.

The legislation includes local content requirements, incentives for investment and provisions for longer-term licences, all seen as crucial to attracting private participation in the sector.

Regulatory easing

Expected to go into effect later this year, the draft law is part of a larger programme being undertaken by the government and PAM to broaden the base of the mining sector.

Key to developing the industry is streamlining and integrating approval processes, according to Hilal bin Mohammed Al Busaidi, CEO of PAM.

"Licences for exploration, appraisal and mining currently must meet with no objection from eight government bodies in order to be approved, which is bureaucratic and time consuming," he told OBG.

As part of the fast-tracking process, PAM is working on an initiative to have all relevant government agencies pre-approve large parcels of mining blocks. These blocks will then be divided into smaller concessions and allocated to investors.

Export for raw and processed materials

As regulatory hurdles are eased, new doors are also being opened for overseas sales.

Access to export markets improved at the end of March, with Brazilian mining giant Vale and the Oman National Investments Development Company signing an agreement to create the Sohar Dry Bulk Logistics Corridor.

Under the deal, local companies will be able to use Vale's dedicated port facility at Sohar for the export of raw and processed minerals.

At present, the site is used exclusively by the company to import iron ore from Brazil for processing into steel pellets and blended ore at its plant at Sohar, with the end product then exported to markets abroad.

Vale's bulk cargo port, which has an input and output capacity of 20m tonnes each per year, has significant export capacity to offer local miners and processors, as the pelletising plant produces around 9m tonnes per annum, leaving excess capacity of some 11m tonnes.

Opening the doors to Vale's shipping hub should directly benefit Oman's mining and minerals sector, according to Sergio Espescht, CEO of Vale.

"Our dry bulk terminal in Sohar Port already has the necessary internal infrastructure and logistics capability to support the diversification of Oman's economy," he said at the signing of the agreement.

Market forces

Nonetheless, external market forces – and in particular weaker commodities demand from China – curbed the sector’s performance last year, according to Mohammed Al Shabibi, CEO of Gulf Mining Materials.

“China had been relying on cheap credit to buy up raw materials, but Chinese banks have been tightening liquidity, causing a decline in demand,” Al Shabibi told OBG.

As a result, exports of minerals and associated products fell by 15% last year to OR650.5m (\$1.7bn).

“However, it now appears the Chinese market has bottomed out, and the Indian market continues to grow rapidly,” Al Shabibi added. “Such positive developments among the world’s two largest mineral commodity consumers have helped to improve the overall market conditions of raw materials mining.”

“Oman’s mining sector should be developed with an eye on India, which was the fastest growing economy last year,” Dean Cunningham, CEO of Kunooz Oman Holding, told OBG. “India is on Oman’s doorstep, and rapid urbanisation combined with substantial expected growth in per capita demand for construction materials makes it a very promising market for finished products.”

Domestic demand is also expected to remain robust, as tourism and other logistics projects move ahead in the coming years. While exports have strong growth prospects, with minerals already accounting for one-third of non-oil outbound trade as of 2014, the building materials segment continues to dominate Oman’s mining industry.

Targeting improvements

Looking ahead, growth of Oman’s mining sector is likely to hinge on improved logistics connectivity. Delays in building the national rail network could continue to force raw materials to be transported by road at a higher cost.

Energy shortfalls could also inhibit growth, with restrictions on the supply of electricity limiting plans to expand mining facilities in some areas. Curtailments of natural gas, which is needed in some smelting and other processing activities, could also pose an obstacle to downstream development.

To help address these gaps, the government is moving to lock in new gas supplies – including a previously agreed-upon pipeline to import feedstock from Iran – which would improve reliability and output at plants and pave the way for new investment.

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