

POLICY BRIEF

The Significance of a Reliable Trade Route for Afghanistan's Mining Sector: The Case of Talc Magnesite¹

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Introduction

Afghanistan is blessed with remarkable mineral resource wealth. The availability of different resources including reserves of oil and gas, copper, iron, gold silver, chromite, marble, granite and talc provide a good foundation for future economic growth and development. The Afghanistan Mining Road Map of 2019 provides strategic direction for mining sector in supporting the country's development.

Talc is an important mineral used in a variety of industries, including cosmetics, medicines, paint, rubber and coating materials. Globally, its production, sales and consumption are on the rise. China is presently the largest [producer of talc](#) followed India, Brazil, the United States, South Korea and Pakistan.

Talc in Afghanistan is facing a number of challenges similar to other sectors. The ongoing conflict coupled with

the country's landlocked geographic position have thus far impeded its growth. At times, control over mines have become an issue in some parts of the country. However, the lack of predictable access to international markets limits Afghanistan's ability to benefit from the overall growth in the production of talc. By in large, neighboring Pakistan, on which Afghanistan is dependent for access to the outside world, is able to capture a substantial share of the value of Afghan talc production. But Afghanistan needs diversity in transit roots if the continued growth in the production of talc and other mind products is to broadly benefit the country. With increasing talk of a |Peace Agreement, access to markets is to become even more central to Afghanistan's future.

Overview of Talc Sector



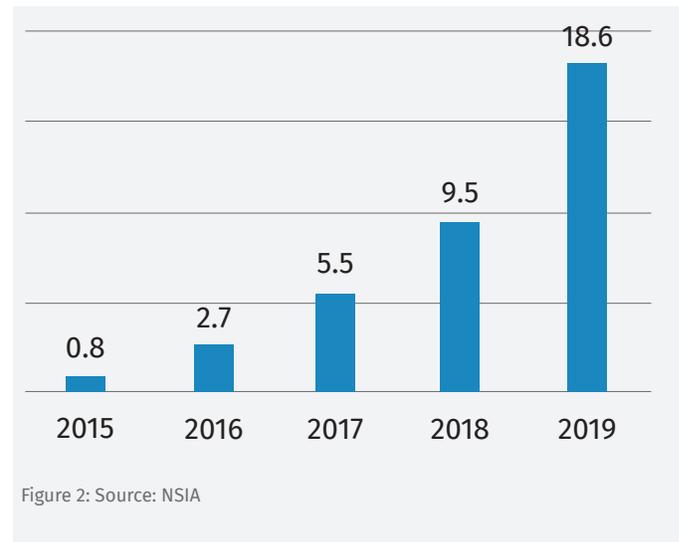
Figure 1: Source: Afghanistan's Ministry of Mines and Petroleum (MoMP)

In 1970, Afghan and Russian geological surveyors studied talc mines in Afghanistan. The findings show presence of talc in Nangarhar, Kabul, Parwan, Kapisa, Logar, Ghazni, Kandahar, Madian Wardak, Kunar and Baghlan provinces. The study in Nangarhar province was more comprehensive and detailed compared to other provinces due to security situation.

The Talc Reserves of Afghanistan

Annual production has been increasing steadily in recent years.

Annual Exports of Talc (Million)



Current Operating Environment

Afghanistan's major talc mines are in Sherzad, Khogyani and Achin districts of eastern Nangarhar province and are considered highly insecure due to conflict and the influence of anti-government elements. At times, it appears the groups are fighting for the control over the talc mines. As such, the conflict makes it difficult to encourage investment, collect revenue, and monitor the activities.

It is important to mention that Pakistan is also an important name in the global talc market. It is a producer, consumer as well as exporter of the mineral to major importing countries. The data from 2016 shows that Pakistan produced 125,330 MT (metric ton) of talc. However, it exported 305,970 MT valued around \$56.7 million

The data reveals that in 2016, Pakistan consumed about 120,000 MT of talc. In other words, Pakistan's domestic production was almost at par with its consumption. It did not have significant imports from another countries. Meanwhile, almost all of Afghanistan's talc was exported through Pakistan. The implication is the remaining gap is filled by talc from Afghanistan. Not only is the country of origin not accurately reflected from a trade perspective, but this underscores the lack of bargaining power of Afghan producers in obtain something approximating the world price for their product.

There can be two assumptions about the status of Pakistan's domestic production, consumption and export. First, if the domestic consumption of talc is covered entirely by Afghan talc, then Pakistan's contribution to its export figure is only 40%, implying that the remaining 60% is covered by Afghan talc. Second, if the domestic consumption is met by both Pakistani and Afghan talc together, then the contribution of Afghan talc in Pakistan's export figure reaches 80%. The major destination markets for talc exported from Pakistan are the United States and the European Union. Together, they account for 80% of its total exports. The remaining

20% is exported to countries such as Republic of Korea, Saudi Arabia, and Japan.

Of course, a lack of bargaining power is not the only reason why Afghan traders sell to Pakistani producers. The trade route via Pakistan has been viewed as a relatively attractive option, particularly for talc exports, because it is relatively closer to crossing points in the eastern region of the country. Pakistani companies dealing in talc and other minerals are well established in the global market with effective e-commerce presence and efficient processing potential. Contrary to this, Afghanistan's extractive companies are small, with little access and/ or linkages to international markets. Therefore, the proximity of major talc mines in eastern Afghanistan make it easy for traders to transport it to Pakistan via Torkham border crossing point.

Nevertheless, the revenue implications of this arrangement for Afghanistan's government and its mining sector are significant. In short, its proceeds from talc are far below their potential. In 2016-17, the traders declared the price of talc to be \$14/ ton to customs. However, the average price of the product was around \$60/ ton in the open market. During the same period the price on Alibaba, on online marketplace, was between \$150 to \$300 for processed talc and \$160- \$220 per ton for [talc lumps](#) |exported from Pakistan.

The Afghan government assesses a 5% export duty on talc. At the official declared valued of \$14 per MT, this measure generated only \$315,393. If one accessed it at the actual market rates, it would have generated \$1.38 million at \$60 a MT and \$3.38 million at \$160 per MT. The figures reveal the extent of revenue loss to the public and private sectors.

The gaps in Pakistan's export and production statistics provide an estimate of the potential re- exportation of Afghan talc. It also underscores the potential demand for Afghan talc in the international market if miners at home were able to exert greater control over its delivery to global customers.

Recommendations

Direct Export to International Market

Afghanistan's talc is exported to Pakistan and from there it is re-exported by Pakistani companies that have partnerships with international companies. These companies have undertaken heavy investments in Pakistan in processing

and marketing of talc which originates in Afghanistan. Therefore, it is important to remove the "intermediary" role of Pakistan and ensure that international companies directly partner with Afghan companies. This would encourage heavy investment in the talc trade.

Operationalize Chabahar

As detailed in Policy Brief II, Chabahar Port is an important option that can help Afghanistan diversify its trade routes. This can play a vital role in enabling Afghanistan exploit and export its mineral reserves in different regions particularly those located in central, northern and south western region. The development of Chabahar port has been underway and almost ready to be operationalized. The first consignment to be sent from Afghanistan to India after the latter took over the operations of Chabahar port included **440 tons of talc** in March 2019.

Direct Access to India via Wagah

Afghanistan has irregular access to India via Wagah crossing point in Pakistan. Afghanistan can only export to India for which the goods have to be unloaded at the Wagah, transported to Attari on the Indian side via cart over five kilometers, then reloaded onto trucks for onward transport. This practically makes the export of mined products, including coal, marble and talc, unfeasible. A direct and smooth access to India would enable Afghanistan to export talc to India via the shortest route. Advocacy for a smoother transit process on the part of countries in Europe, North America, and Asia with an interest in trade facilitation in greater South Asia would be welcome.

Moving Up the Value Chain

The control on the export of unprocessed talc should be improved so that the companies ensure processing of the product. The processed product has higher value and as such more revenue for the government. In addition, the processing would have economic implications like increased investment and job creation in Afghanistan. Donors and multilateral development banks should consider how to aid this process.

Find New Markets in the Region

As per typical features of landlocked countries, they usually find their neighboring countries as an immediate export destination. Therefore, exploring neighboring countries for a potential market could reduce challenges associated with transit and transportation. Apart from this, other countries with close proximity to Afghanistan, notably the Central Asian Republics, Iran, Russia, India and Azerbaijan, could be explored as potential growth markets for Afghan talc.