

Regional mineral value chains: implications for Zambia's copper sub-sector industrialization- oriented beneficiation

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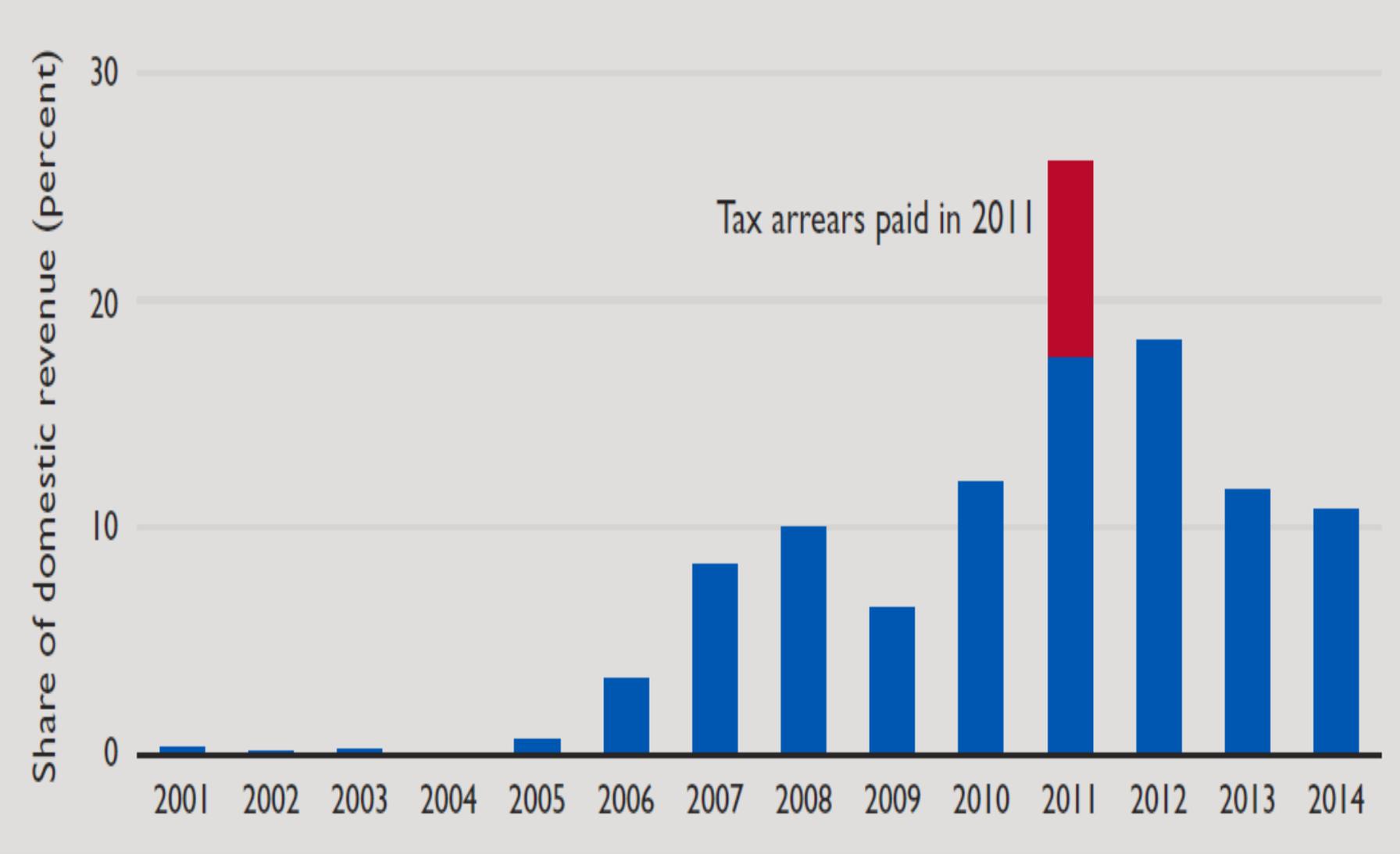
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Introduction and background

- Copper has been the major mineral exploited for nearly a century
- Copper exploitation has mainly been limited to Copperbelt province
- ‘New Copperbelt’ has emerged
- Mining industry has been a major foreign exchange earner and contributor to GDP
 - **As at end of 2014, copper exports averaged 66% of Zambia’s total exports for four consecutive years**
 - **The mining industry contributed 11% to GDP**
 - **Taxes and other revenues, government collected from mining companies averaged 16% in the same period.**

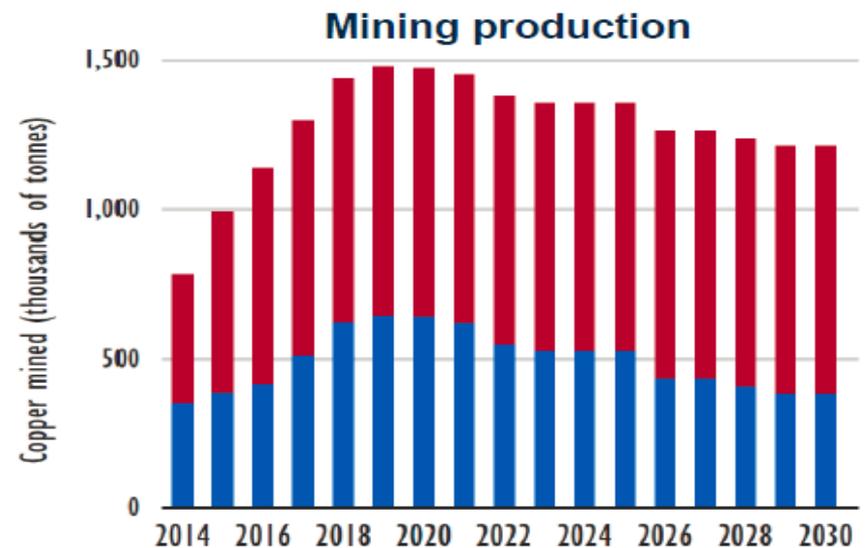
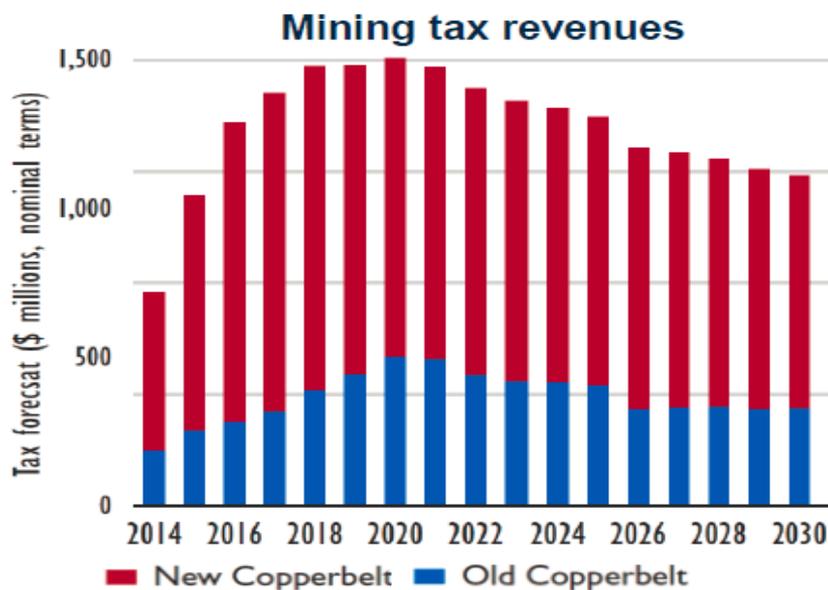
Current State of Mining Companies' Contribution to Government Revenue



Source: Lokanc (2015); World Bank (2015)

Zambia's 'New' and 'Old' Copperbelts' projections

The “New” and “Old” Copperbelts create two unique growth stories and types of opportunities for Zambia.



Most future mining revenues (fiscal linkages) and production (export earnings) are expected to come from the New Copperbelt...

Drivers of Recent and Current Mining Sector performance

- Mining history is characterised by ‘watershed moments’ which have shaped the trajectory of the minerals sector with periods of booms and bursts.
- These moments have shaped the way industrial linkages (or lack thereof) in the country unfold and how in turn the country contributes to or navigates through regional and global minerals linkages.

Drivers of Recent and Current Mining Sector performance cont..

Causes

- Private sector driven mining sector at independence in 1964
- Nationalization “Zambianization” of mining sector in late 1960s
- Decline in copper demand in 1970s versus oil and debt crises
- Re-introduction of democracy and economic liberalization in 1991
- Re-privatization of mines by end of the 1990s

Effects

- Institutional change;
- the role of multinational corporations (MNCs) and foreign direct investments (FDIs);
- Rise in Contribution to global copper production levels,
- Global and regional copper (commodities) demand and prices among others.

Institutional Change

- Institutional change since Zambia's independence has had significant impact on firms in the mining sector
 - corporate entities in the mining sector have been impacted by the diverse laws and regulations in the mining sector. For instance,
 - increase in royalty tax for open-cast mines from 5% to 20% effective January 2015 (which has since been reversed and revised to 9%), led to *Lumwana Mine indicating its intention to put the mine on care and maintenance thereby possibly threatening the local supplier firms' business with possible negative impacts on minerals value chain in the country and even in the region.*

Summary of Key Institutional Changes in Zambia's Mining Sector since the 1990s

Mining fiscal regime	Key features
Development agreements negotiated with individual mines during privatization (1997 to March 2008)	Agreements were made between the Zambian government and each company that bought the assets of the former national company ZCCM. Each development agreement contained a fiscal stability clause.
The “2008 regime” (April 2008–March 2009)	The 2008 reforms passed as part of the 2008 Mines and Minerals Act ruled that the government should not enter into any special agreements for the development of large-scale mining licenses; the reforms also annulled the development agreements. The Act introduced a new tax regime with a higher tax burden: it set the company income tax rate at 30 percent; it introduced a variable income tax and raised the mineral royalty rate to 3 percent from 0.6 percent; and it set the withholding tax on services at 15 percent and introduced a windfall tax.
The “2009 regime” (April 2009–March 2012)	In response to the mining companies’ concerns about the revocation of the development agreements, the government reversed the lower capital depreciation allowance and some other 2008 tax measures such as the windfall tax in its 2009 budget.
The “2014 regime” (April 2012–December 2014)	The government made further reforms to the mining tax regime in its 2012 budget. The two main changes for the mining industry were the increase of the mineral royalty rates for copper and cobalt to 6 percent, and separate treatment of hedging and operating income for income tax purposes.
The “January 2015 regime” (January 2015–June 2015)	Corporate income and profits tax rates descended to zero. The government also set the mineral royalty rate at 20 percent for output from open-pit mines and at 8 percent for output from underground mines.
The “July 2015 regime” (announced in April 2015)	The government set the corporate income and profits tax rates at 30 percent and the mineral royalty rate at 9 percent for output from all mines.

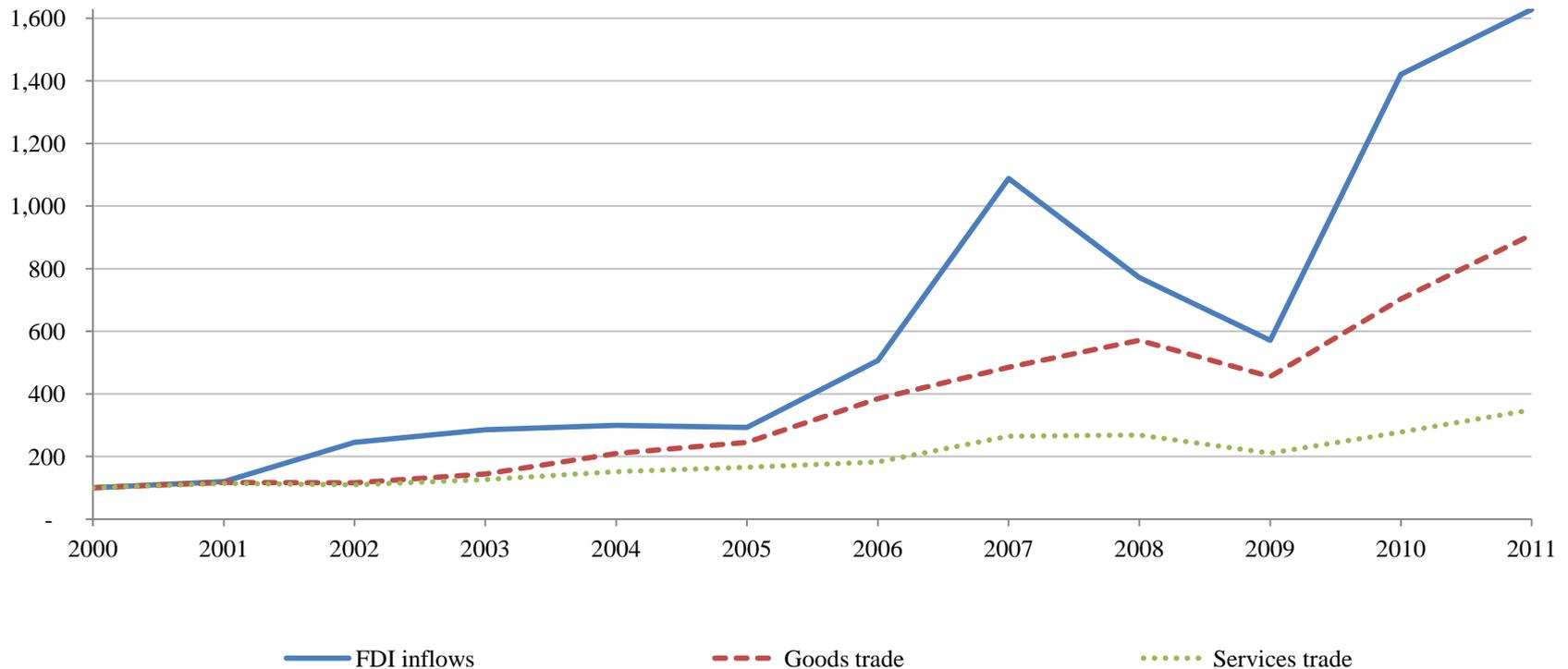
World Bank, (2015)

The mineral royalty tax regime has been adjusted four times in seven years

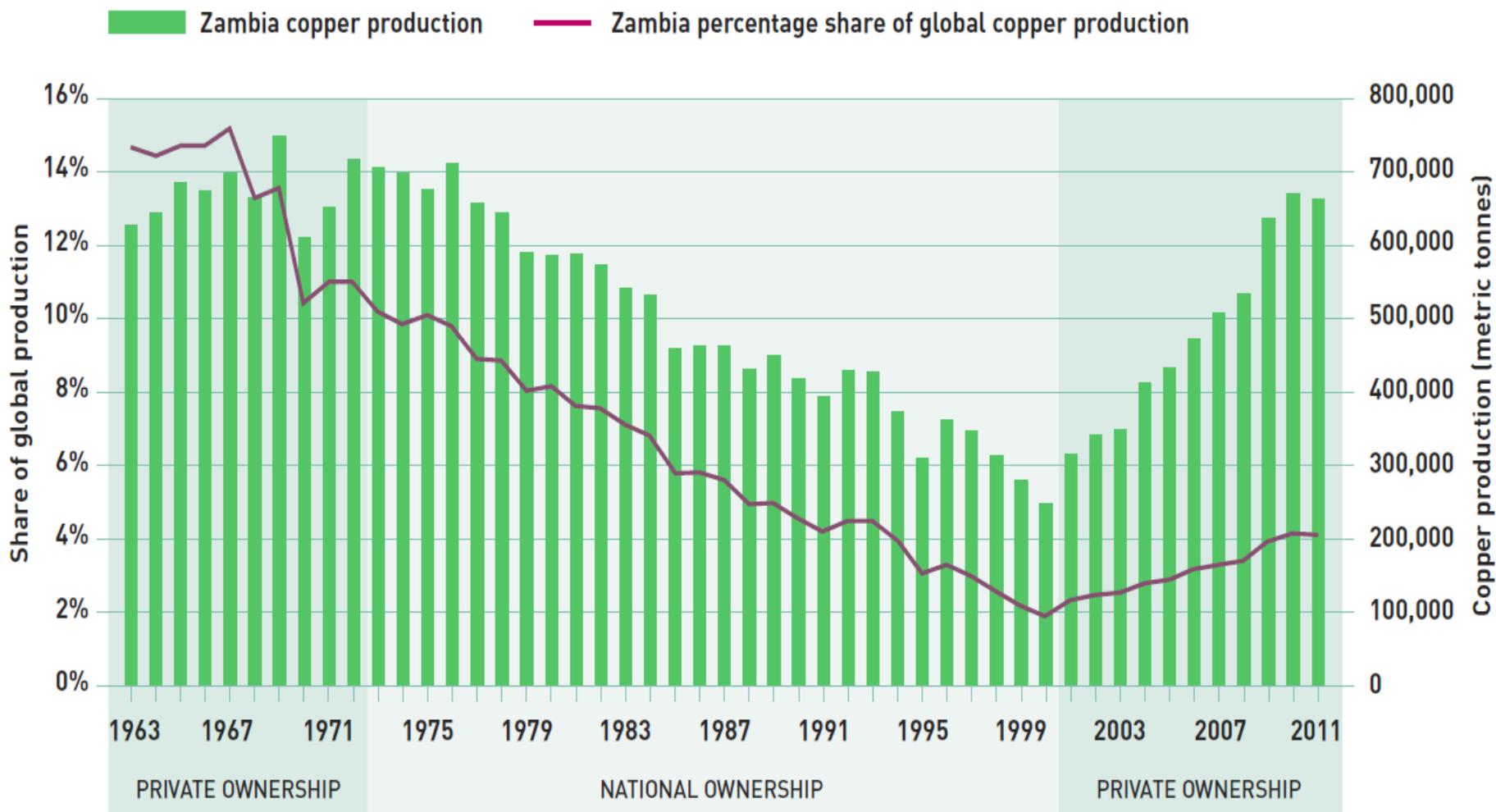
MNCs/FDI flows

- FDI flows into Zambia (in all major sectors including mining) have constantly increased following the commencement of privatization of mines in 1997
- FDI flows in all major sectors especially mining started experiencing a sharp rise in FDI in 2005.

Growth in value of FDI inflows and trade in goods and services (USD bn) 2000-2011



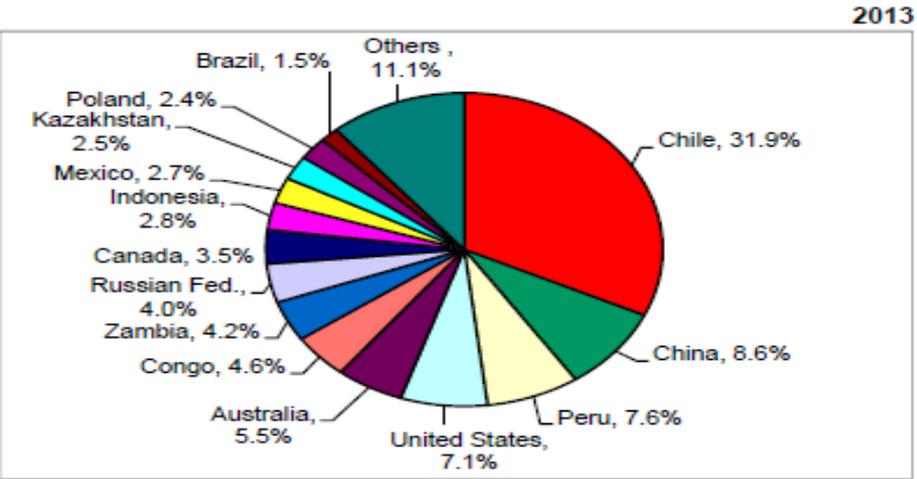
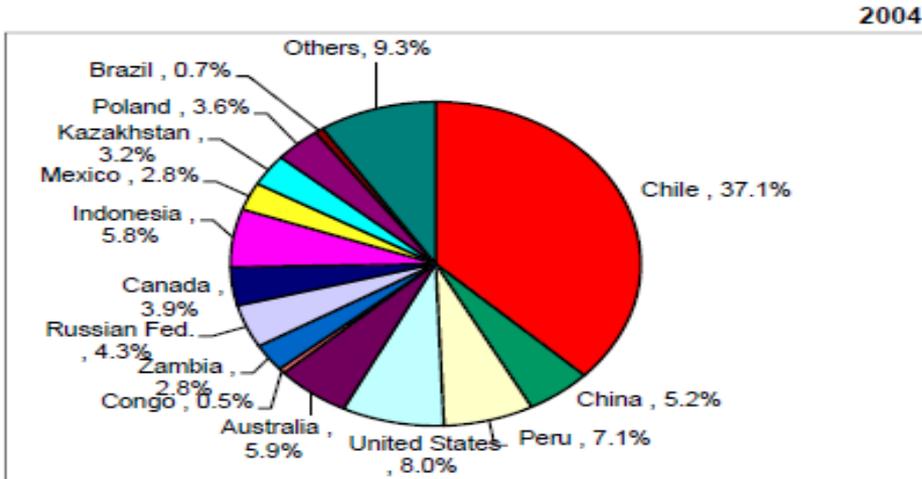
Zambia's Copper Production Shares (1963-2011) versus Mine Ownership Type and Global Production



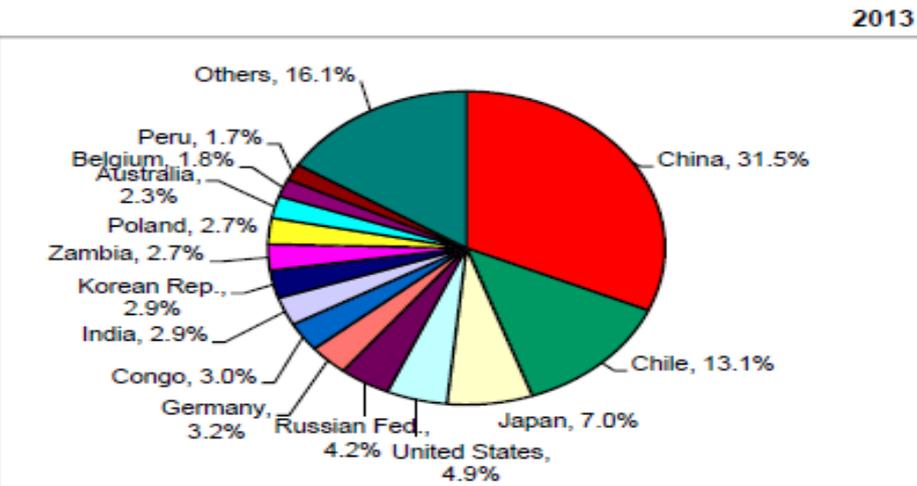
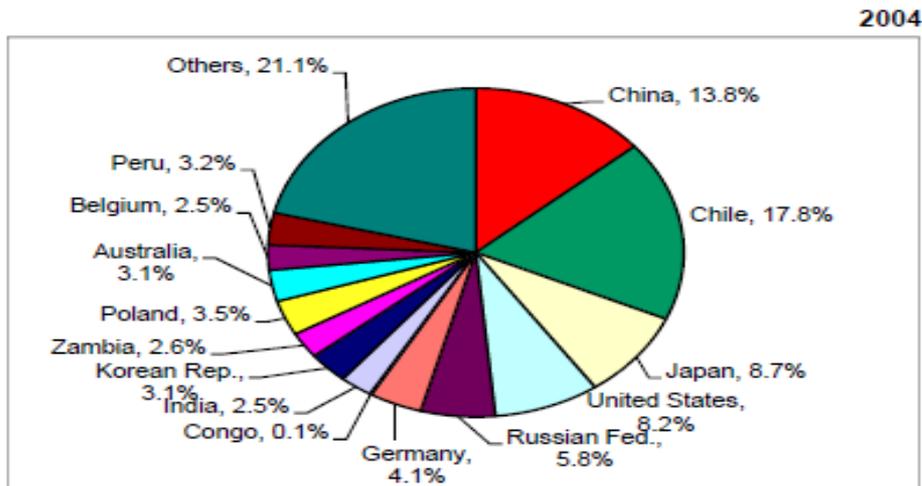
Source: International Copper Study Group (ICSG) from 1996 onwards (*Copper Bulletin* March 2012 and April 2013; *Yearbook* 2006; *Statistical Yearbook* 2008), US Geological Survey annual mineral reports 1963-95.

Zambia's contribution to Global Copper Production Chain

COPPER MINE PRODUCTION (% OF WORLD COPPER MINE PRODUCTION)



REFINED COPPER PRODUCTION (% OF WORLD COPPER REFINED PRODUCTION)

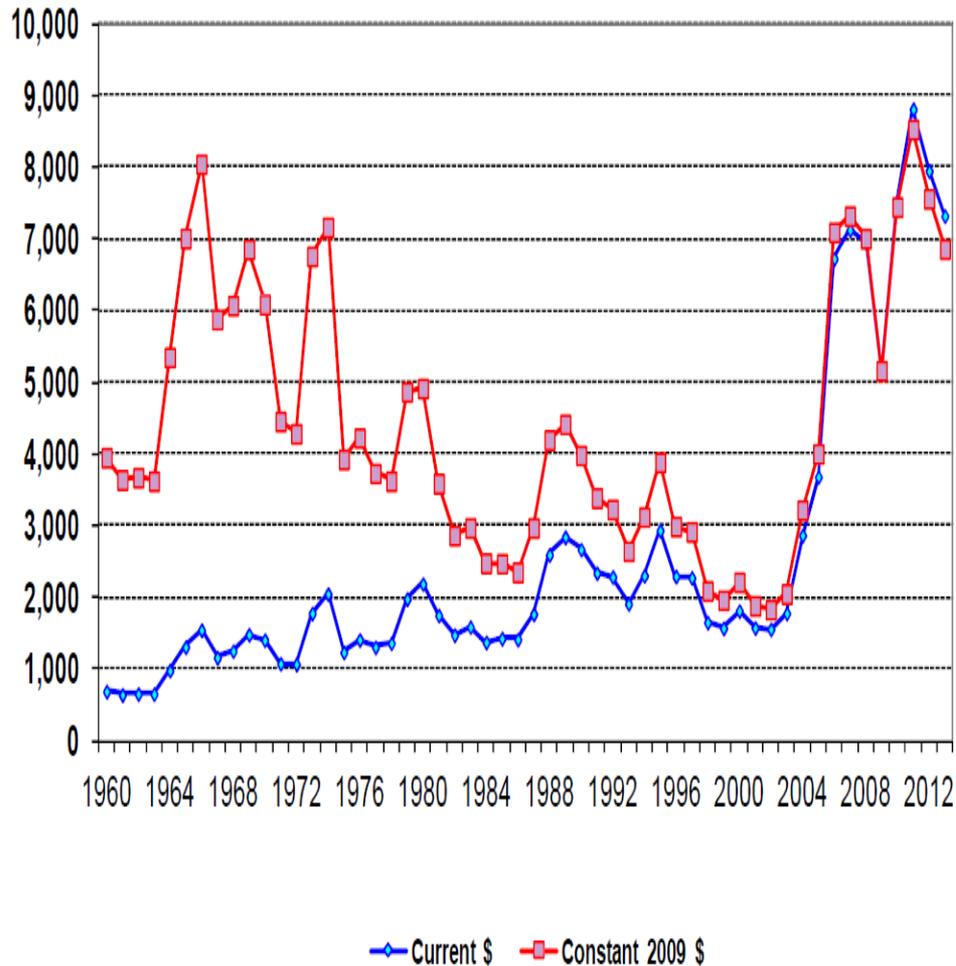


Global Copper Prices and Demand

Average Annual Copper Prices (LME, Grade A, Cash), 1960-2013

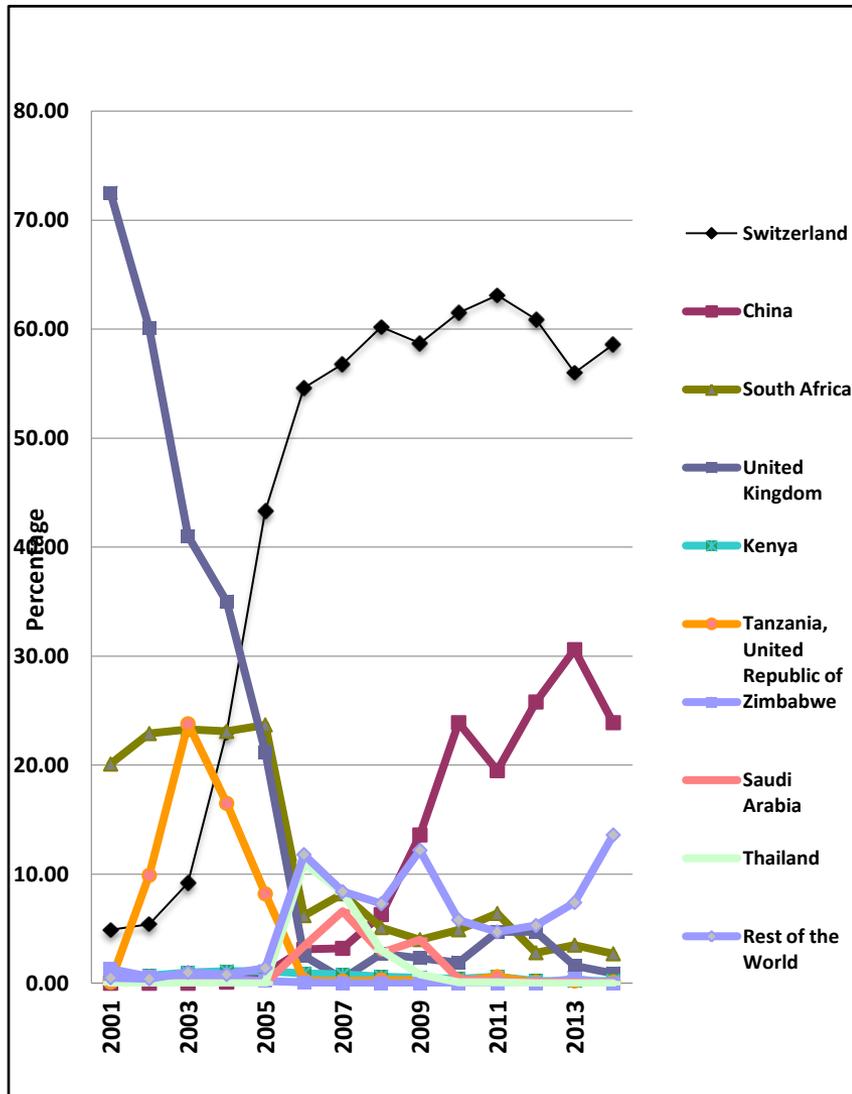
US\$ per tonne

Source: ICSG



- The overall soaring copper prices have been the main reason behind the strong growth of Zambian net exports in recent years.
- Copper prices during the 2003 - 2011 period multiplied five times to reach an all-time high of about USD10, 000 per ton in early 2011 but later declined to about USD 8,000 per ton.
- Zambia's exports grew at an annual average rate of 12% during the 2003-2011 period

Global, Regional Demand for Zambia's Copper:2001-2014



Importers	2001	2005	2008	2011	2014
WORLD TOTAL	100	100	100	100	100
Switzerland	4,90	43,30	60,20	63,10	58,60
China	0	0,9	6,3	19,5	23,9
South Africa	20,1	23,7	5,1	6,4	2,7
United Kingdom	72,5	21,2	2,7	4,7	0,9
Kenya	0,6	1,1	0,6	0,6	0,2
Tanzania, United Republic of	0,1	8,2	0,3	0,6	0,1
Zimbabwe	1,3	0,2	0	0	0
Saudi Arabia	0	0	2,8	0,2	0
Thailand	0	0	3	0,1	0
Egypt	0	0	11,7	0,1	0
SUB TOTAL	99,50	98,60	92,70	95,30	86,40
Rest of the World	0,50	1,40	7,30	4,70	13,60

Zambia's mining sector linkages in the regional context

- Zambia's mining sector is generally described as one having a relatively bigger supply cluster than several other countries in Southern Africa.
- Although the cluster is relatively bigger, there is a decline in the supply of locally value-added content.
 - privatization of mines in the 1990s when the country deviated from the development of linkages which was a major component of Zambia's industrialization strategy during the nationalization era of the late 1960s.
 - Emergence of a phenomenon of "briefcase businessmen" in the 1990s

South Africa's role in Zambia's Copper Value Chain

- Being the largest economy in the region, South Africa exerts influence on the minerals' value chains in Zambia
 - Skills development and training
 - Supply of capital equipment and other inputs
 - R&D etc
- **Some products from South Africa directly feed into Zambia's copper production processes whereas others have an indirect relationship.**
 - **E.g. During the 2012 – 2014 period, machinery, nuclear reactors and boilers among others were Zambia's main imports from RSA.**
 - Out of a total of USD 1,489, 070 (thousand) Zambia spent on machinery, nuclear reactors and boilers imports from all over the world, South Africa accounted for almost half the amount at USD 617, 610 (thousand).
 - Many other products with direct relevance to mining also have a similar trend.
- Zambia is one of South Africa's major markets for iron and steel.
- Zambia hosts some of South Africa's major companies and OEMs supplying to the mining sector.

Regional Value Chain - Natural Resource-Curse?

– the mineral value chain is characterized by capital-intensive operations, usually foreign-owned, operated largely by expatriates, and uses inputs purchased abroad – a situation largely evident in Zambia.

- Overall, **Zambia's upstream and downstream linkages show potential for growth**
- South African economy is crucial for the possible unleashing of regional sustained economic diversification.
 - However, for Zambia to transit from a primary-commodity exporter to a high-technology, knowledge-intensive industrial leader, there is need to develop more dynamic linkages at each stage of the minerals value chain

Conclusion and Policy Implications

- Zambia's current epicenter of copper production and government revenue collection is now North Western province
 - **There is need to further investigate how this has a role in the regional value chain and beneficiation**
- Zambia has to deepen and broaden collaboration with South Africa and other countries in Southern Africa to foster regional linkages in the minerals value chains
- Zambia needs to explore the WTO exceptions which can help stimulate local supplier firms' growth as well as empower such firms to develop adequate capabilities
 - **It is this which equally enhances the beneficiation of both the firms and the economy from the MNCs investments in the copper sub-sector and contributes to the country's industrialization efforts and position in regional minerals linkages.**

Conclusion and Policy Implications cont..

- **Zambia needs to promote copper revenue-based beneficiation that yields economic growth and human development by fostering the development of stronger mineral regional linkages**

...END...

THANK YOU