

Whatever the weaknesses of Zambia's negotiators, there is no excuse for massive multinational investors to blackmail one of the world's poorest countries to provide special concessions from its national laws. Many companies are signed up to the Organisation for Economic Co-operation and Development (OECD) guidelines on investment, which are designed to promote good corporate citizenship. These state clearly, "Enterprises should refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to environmental, health, safety, labour, taxation, financial incentives or other issues." (43). However, the Chamber of Mines of Zambia is quite brazen about the companies' lobbying effort, stating, "The investment climate that prevailed in the country at the time was not attractive to Foreign Direct Investment (FDI) and since by necessity mining operations are long-term the new investors demanded, as a matter of prudence, for special conditions in the purchase conditions." (44).

## Successes of privatisation

The Zambian Government is clear that the privatisation strategy has worked. The Permanent Secretary of the Ministry of Mines argues, "It has been very, very successful. Closed mines have opened up, new mines are coming up, and the existing mines were limping and they are all doing very well." (45).

### New money

This is a fair description of the current 'boom' in Zambia. Under ZCCM, facing historically low global copper prices, the industry was desperately short of investment and was dying on its feet. Significant investment has now been delivered, re-invigorating the industry and increasing production. Despite criticisms of the privatisation, even the Mineworkers Union of Zambia (MUZ) recognises that, "Since 1998 we have close to \$1.4 billion which has gone into the mining industry, into refurbishment of plants, and purchases of spares and machinery. So one sees that privatisation addressed capitalisation, the issue of refurbishing and the issue of exploration and drilling. It has shown in increased copper production." (46).

The companies themselves are also keen to point up that they are delivering their most significant responsibility: providing the finance to rehabilitate the industry and create employment opportunities and income for the country. The mining industry's representative body, the Chamber of Mines, claims that, by 2005 the companies were putting in over US\$350 million a year. See Appendix 2.

### Higher production

Reflecting the new investments, production has rebounded, although available figures suggest that this rebound was only to 400,000 tons by 2004, which is certainly higher than the figure in the last few years of ZCCM, but is not unusually high in the history of the Zambian industry. Production in 1982 was 591,853, and dropped gradually throughout the 1980s to 415,645 tons in 1989. From then on, production fell steadily through the 1990s to just over 250,000 tons before starting a revival in 2000. Appendix 3 suggests that 2005 production was slightly above trends in 1990.

However, several companies have significant plans for future investment, which will increase production and result in employment creation. The Chamber of Mines predicts production may be as high as 600,000 tons in 2006, a figure never bettered in ZCCM's lifespan from 1982-1997, and that by 2009, it may even reach 800,000 tons (47).

## New mines

These figures are partly possible because the investment will lead to the opening of new mines for the first time in twenty-five years. Lumwana, which will be the biggest mine in Africa, is currently under construction in a green-field site in North-western Province. As the Permanent Secretary at the Ministry of Mines notes: "It was a rural area, in the bush. Now the standard of living is becoming comparable to what is on the Copperbelt. That's the nature of large-scale mining - it just transforms a rural area into a high standard of living. The Copperbelt was rural at one time. It's there like that now because of mines." (48).

The other prestige project underway is the Konkola Deep Mining Project (KDMP), owned by Vedanta at KCM. KDMP is sensitive because of high hopes for the project, and the bitter experience with Anglo pulling out. However, management are adamant that the project is now going ahead. The Resident Director claims, "Vedanta has been here one year and has committed \$750m, placing orders for \$400m. Major future projects include KDMP, a concentrator aligned to that and a smelter at Chingola. Nowhere else in the world in one year would someone commit this much. In our Development Agreement, we commit to preparing a feasibility report on KDMP by December 2006. But we bypassed that option and straight away went for the investment. We have already selected the technology, and placed orders." (49). Vedanta are emphatic that they will not be making the same short-term miscalculation as Anglo and dropping KDPM half-way through: "There is no possibility. Everyone knows the current price bubble will burst one day, but there's no danger that the project will run away. Even at 90c [per lb of copper - the current realised price is approximately \$4 per lb], the project is viable. The success will be huge once the project is done." (50). However, recognising that more money is going in, more copper is coming out, and more mines are on the way, does not tell us whether privatisation alone provided this boost to the industry or whether price increases were equally or more important.

Although many of the new mining companies have made major investments ahead of returns, investing sums that were not likely to have been available to ZCCM, other have not, preferring to keep previous operations running on old plant and old systems, and extracting maximum profit as quickly as possible. This was particularly true during the years when the copper price was relatively low, suggesting that the companies deserve less credit than they sometimes suggest for the 'risks' they have taken. As shown in Appendix 2 the Chamber of Mines own figures show that, in its last seven years, 1990-1996, ZCCM's investment in the copper mines was running at around US \$125 million a year. Following privatisation, for the next seven years, 1997-2003, under the new investors, this average figure crept up to around \$135m. As discussed above, during this period, three of the seven initial investors pulled out of the country without making any significant investments, in the process threatening to bring the industry to a complete halt. The investment boom thus only really started in 2004, after the world copper price explosion started. In the period 2000-2003, the average copper price on the London Metal Exchange languished between \$1,558 per tonne and \$1,815. As shown in Appendix 10, over the next two years, this price doubled to \$3,684 per tonne. Unfortunately, both free-market ideology and the companies' Development Agreements give companies the perfect right to make such calculations based on short-term profitability rather than taking a long term perspective. The Development Agreements do include commitments on the companies to invest certain sums. However, they also contain clauses that allow the companies to withhold finance, or to pull out of the mines entirely, as some of them have, without any penalty, entirely on the basis of the companies' own calculations about the commercial viability of the mine in the short term.

## New profits

It is perhaps unsurprising then that the new investors are themselves now making significant sums. Although MCM claim that they are still investing, rather than taking out profits, First Quantum's net earnings exploded from \$4.6 Million in 2003 to \$152.8 Million in 2005. First Quantum returned approximately 10% of the 2005 after tax profit to shareholders, who were also rewarded with exceptional share price performance. Since 2000, First Quantum's shares have returned more than 1,000%, or an average annual rate of 200%<sup>(51)</sup>. As the company's 2005 Annual Report notes, "As good as 2005 was, 2006 is shaping up to be a better year for the Company. Copper production is expected to climb to approximately 200,000 tonnes (441 million pounds), a 68% increase over 2005. To date in 2006, copper prices have risen well above \$2.00 per pound and this will provide a further increase to our already healthy profit margins."<sup>(52)</sup> By November, the company was reporting that profits in the third quarter of 2006 were triple those in the same period in 2005. First Quantum was selling copper at an average of \$3.17 per pound, more than double the price it was achieving a year earlier<sup>(53)</sup>. Similarly, KCM's operating profit increased from \$52.7 Million in the year to 2005 to \$206.3 Million in 2006<sup>(54)</sup>.

Having recognised the success of privatisation in re-capitalising the industry, a MUZ representative thus went on to note that investment, "occurred at a time when copper prices rebounded and rose. These price levels were almost inconceivable, almost unimaginable. We didn't predict that the copper price would ever reach that. So when it did, we found ourselves with a mountain to climb in terms of us taking advantage of the new market and the new copper price."<sup>(55)</sup>

## The Impact of Privatisation on Mine Workers

### Mass redundancies

Perhaps the greatest impact of privatisation on the Copperbelt is the mass unemployment that it generated. The historic peak of employment was 1976 when 62,222 worked in the mines. Although the industry declined over the next fifteen years, employment stayed at similar levels, and in 1991 stood at 56,582<sup>(56)</sup>. From this moment, the Government declared the workforce bloated and, as part of the process of preparing the mines for privatisation, implemented a significant retrenchment programme. Employment levels had fallen to 31,000 by the sale of the first mine in 1997.<sup>(57)</sup> However, after privatisation, the workforce was cut by another third almost immediately and total employment dropped to 19,145 in 2001<sup>(58)</sup>. According to the Chamber of Mines the numbers of people in direct employment by the mining houses has since increased slightly, to 19,900 in 2004<sup>(59)</sup>.

### Unpaid Pensions

Asked whether state negotiators would adopt the same approach to negotiation of the Development Agreements if they could go through the process again, the Permanent Secretary (PS) of the Ministry of Mines and Minerals Development commented: "We would do it differently. There were a large number of people who were being laid off in the process of privatisation to the extent that the general public felt like, what was in it for them in the privatisation? It was like foreigners were just coming over to take over and run and get fat cheques while the local people were thrown into unemployment and they were not seeing anything coming on."<sup>(60)</sup> However, it was not simply the unemployment created by privatisation that was unpopular; it was the manner in which redundant workers were dealt with. The PS continues, "The companies in general did not want to take on the labour liabilities that were under ZCCM, to provide terminal benefits after someone has worked for years. They prefer the situation where the cut-off date would be when they move in. From that date, the people they have as their employees, they will take care of them. But for those who worked in ZCCM and whom the companies did not want to take over because they felt it was a bloated labour force, Government had to take care of that."<sup>(61)</sup>