

Zambia's mines battle with policy changes

By [Gift Chanda](#)

6 Feb 2013

Zambia, Africa's top copper producer, may be enjoying a boom but in the past 15 months its mining sector has experienced sweeping policy changes implemented by the new government under President Michael Sata.

For Zambia, this week's *Mining Indaba* in South Africa is an opportunity for investors to realise its mining potential.

Main stakeholders in the southern African country's mining industry - such as Canada's First Quantum Minerals, London-listed Vedanta Resources, Toronto-and New York-listed Barrick Gold, Brazilian mining giant Vale and Zhonghui Mining of China - are either scaling up investment or expanding production capacity.

The scale of international investment, with a reported US\$6bn coming into the country's mining sector, could mean Zambia may soon overtake Australia and Indonesia to become the world's fifth-largest copper producer.

The government says it plans to increase copper production, which dropped to 824,976 tons last year from 881,108 tons the previous year, to about 1.5-million tons in the next five years.

In the 2013 budget, announced late last year, Finance Minister Alexander Chikwanda cut tax concessions in the mining sector.

The Chamber of Mines of Zambia, which represents foreign mining firms, said the new rule would discourage investment in new projects as mine operators would have to start paying tax before recouping their investment, while a "tax holiday" previously gave companies more leeway.

Investors rattled

Investors have also been rattled by a doubling of base-metal royalties, while frequent power shortages have plagued mining companies, with some even asked to cut back on their electricity consumption.

Stiffer penalties relating to a law that bans the use of foreign currency for daily transactions undertaken locally have also unsettled investors.

Meanwhile, the government raised the monthly minimum wage for domestic workers to 522,000 kwacha (US\$110) in 2012 and for shop workers to 1.1m kwacha (US\$220) without consulting unions and other stakeholders.

These measures are expected to have dramatic consequences for the mining sector. For instance, the government's decision on minimum wages has led to mineworkers demanding wage hikes of up to 50%.

Unions in Zambia are not happy with the way wage increases in the mining industry have been implemented, as companies have agreed to wage increases of just 10% on average. This has raised the spectre for mining strikes in the country.

Understandably, some of these policy changes were inspired by legitimate grievances, including benefits not trickling down to ordinary Zambians. The country's copper has for too long not brought much-needed financial benefits to Zambia's 13m citizens.

More than 60% of Zambians live on less than US\$2 a day according to the United Nations. Infant mortality is at 69 per 1,000 births, and life expectancy is low at just 49.

Tax laws

Weak tax laws mean little revenue is collected and the government has accused mining companies of lacking transparency in their operations. Data shows, for example, that much of Zambia's exported copper is destined for Switzerland but little of it shows up in Swiss customs figures.

According to a report last year by US anti-graft watchdog *Global Financial Integrity* - which highlights how resource wealth is often squandered in the developing world - almost US\$9bn has been illegally siphoned out of Zambia. The amount is almost half of Zambia's current gross domestic product. Much of the money has been channelled to offshore banks and tax havens, draining one of the world's poorest countries of badly needed capital.

Deputy Finance Minister Miles Sampa said the report was in line with the government's own findings, and vowed to crack down on the culprits. The government also intends to tighten its grip on its share of profits from mines as it tries to boost compliance and tax revenue collection.

Last year, it introduced guidelines for mineral exports to allow state agencies to verify weight and content to enhance transparency.

Zambia collected 4.4bn kwacha in mining taxes in 2012, compared with 3.3bn kwacha the year before.

Mines Permanent Secretary Victor Mutambo has said the government wants to ensure that whatever is extracted from the ground is recorded and taxed. But this is not enough - it needs to strengthen institutions that are mandated to collect revenue and monitor mining companies' operations.

However, the future for Zambia's mining sector still looks bright, especially since the government has indicated its intention to diversify mining with more exploration in iron ore, manganese, coal, uranium and gemstones.