ZIMBABWE

By John Hollaway

In relation to its mining industry 'hurry on down' seems to be the motto of Zimbabwe's Government. The year 2003 saw a further worsening of the country's financial situation, with inflation reaching (officially) 620% by year-end. The industry, along with other exporters, continued to be penalised by receiving only between 50 and 70% of the value of its production. This is because the regime insists that all export revenues be handed over to the Reserve Bank, which pays for this hard currency at a rate well below the market value of the plummeting Zimbabwe dollar.

The old Zimbabwe (and before that Rhodesia) had as its export mainstays tobacco and gold. Thanks to the brutal and apparently deranged land redistribution policies of the government, tobacco output is now down to about a quarter of its peak. Official gold production would have been about 10 t - about a third of the past maximum - had it not been for a change in the Reserve Bank payment arrangements in November 2003. This increased the rate paid for gold from small-scale miners (mainly illegal artisanal operators), up to close to the black market value, and resulted in a surge of deposits at the Reserve Bank in the last two months of the year. At the time of writing (March 2004) the government has not revealed how much was received, but it would seem that about an extra 2 t of gold appeared, bringing the total for the year to over 12 t. This phenomenon led the then Minister of Mines to fulminate against these depositors for not coming forward earlier to deposit their gold while the lower price was in force.

However, the boom in commodity prices has benefited some sectors. All of Zimbabwe's chromite is processed into high-carbon ferrochrome for export, and this has become the principal mineral product in value terms for 2003 at about US$180 million. The value of Zimbabwe's nickel output has also increased dramatically, and is approximately US$140 million.

Under pressure from exporters, in particular gold producers, during the year the government grudgingly increased the official exchange rate for the Zimbabwe dollar from 56 to 824 to the US dollar. For a brief period this allowed some of the mines to regain viability, but inflation caught up with this change within four or five months and over the year the black market rate soared from about 1,500 to about 6,000 to the US dollar. This means that the fundamental problem of assessing the significance of Zimbabwe's mining sector remains. As it is denominated in Zimbabwe dollars it is impossible to make more than a rough guess of its total worth. All that can be said is that without the recent boom in prices - particularly for platinum - the sector would be something of a shadow of its former self. Certainly, unless the industry receives the full price for its production, 2004 will see more mines closing, most of them gold mines.

In December 2003, a reforming Governor of the Reserve Bank was appointed. He adopted a tight money policy, causing the Zimbabwe dollar to strengthen. He also introduced an auction system for the currency, although the operation was opaque and, initially at least, the exchange rates it gave seemed surprisingly low. However, the figure has been creeping up towards the black market value, as political pressures have led to the government printing more money.

In early 2004 a submission to the government by the Chamber of Mines pointed out the following:

- By December 2003 the official exchange rate was only 15% of the real rate.
- The auction system for foreign exchange had not helped: this was giving an exchange rate of about 75% of the market rate. However, the mines receive only half of their foreign exchange at this rate, the rest is paid at the official rate. This effectively reduces their revenue to about 50% of what the marketplace thought was the right exchange rate.
- Despite this, customs levies on imports were being calculated using the auction rate, at a time when tariff rates were running at punitive levels.
- Mining royalties had been introduced at the beginning of the year, based on gross mineral proceeds. These had been ranked with gemstone operations paying 10%, gold mines 3%, base metal mines 2% and coal mines 1%, presumably on the fallacious argument that the higher the unit value of production the higher the profitability. There had been a reduction of corporate tax to 25% (from 32%) to compensate for this, but as most mines were running at a loss, this concession was largely irrelevant.
- The introduction of VAT in place of sales tax meant that despite the mining industry being zero rated for turnover taxes as in the past, now it had to pay the VAT at 15% and reclaim it, with repayment not happening until months later.
- The mineworkers trade union was demanding massive wage increases to meet the 700% inflation rate.
- A new requirement that the mines pay the state electricity corporation, ZESA, in hard currency had meant that they have had to source the money for their power bills at (black) market rates.

Given these constraints, the Chamber said, the viability of the industry is at stake.

However, as the output figures show, the platinum mines are bucking this trend. At the end of the year the Mimosa mine, now jointly controlled by Implats and Aquarius Platinum, completed its expansion programme and reached its design output of 135,000 oz of PGM (68,000 oz of platinum). A further expansion, which will nearly double this figure, is already being contemplated.

The biggest producer is Zimplats, now effectively controlled by Implats. This had a good year, with an output of over 270,000 oz of PGM in matte (Mimosa produces a flotation concentrate). Zimplats is now preparing to recommission the refinery inherited from the BHP operation.

Finally, in July 2003, Anglo American announced that it was to proceed with the development of its Unki mine in the midlands of Zimbabwe. This project was first mooted in the late 1960s, and it is a measure of how political issues have bedevilled Zimbabwe's development that it has taken some 35 years for the project to get to the starting post. Over the years about US$80 million has been invested in the project, with the initial production stage costing a further US$90 million. Ultimately an annual output of about 350,000 oz of PGM is envisaged.

The reason for the success of this sector, at a time when many other mines are foundering, is that the platinum producers have been able to ride on the back of an arrangement dating back to BHP’s failed US$400 million investment in the Hartley Platinum Mine. Zimplats’ managing director put it well when he said: "It is almost as if we operate in our own little economy - we are not constrained by Zimbabwe's foreign exchange shortages". Platinum producers enjoy immunity from the government's tampering with the exchange rate (Zimplats runs its accounts in US dollars), with their income paid directly into offshore accounts and the ability to undertake full remittance of all profits. However, the merits of this arrangement (employment in the platinum industry has now shot up to about 3,000) do not seem to have recommended themselves to the government.

The importance of this feature was underlined when Anglo American divested itself of its other mining interests in Zimbabwe at the beginning of the year. The Bindura Nickel Corporation was acquired by Mwana Africa Holdings, a South African company with an eclectic directorate: a Congolese chairman and a mixture of black and white South Africans, Zambians and Zimbabweans making up the board. The gold mines and prospects were bought by a local consortium of black Zimbabweans.

Apart from Unki, the most important go-ahead decision during the year was Rio Tinto Zimbabwe's announcement that it is to proceed with its Murorwa diamond mine. It has spent about US$40 million in the preliminary phases, and is negotiating a further US$7 million to meet its objective of commencing commercial production in the third quarter of 2004, mining at an annual rate of 200,000 t.

Coal output from the sole producer, Wankie Colliery, continued to slip; production in 2003 was only 60% of the normal demand which was close to 5 Mt/y. The inability of the run-down National Railways of Zimbabwe to move the fuel also contributed to this and most coal was being hauled by road from this remote mine which is 300 km from the nearest consumer. The coal price is fixed by government, and the colliery found itself in the same sort of bind as the gold mines, being unable to obtain, or afford, the hard currency needed to keep operations going.

The government had an effective 40% shareholding of Wankie, and felt frustrated by the independence of the board and management. A buy-out of the shares needed to gain control was arranged, and in June the directorate was sacked in favour of a more amenable body. By the end of the year outsourcing arrangements had reduced the company's dependence on its own run-down equipment, and output had started to improve.

In the meantime, Zimbabwe benefited from a second colliery, on Rio Tinto's undeveloped Gokwe North field. Production commenced in September, and by the year-end the mine was supplying about 30,000 t/mth to industry, which had previously had to resort to importing coal from South Africa and Botswana.

Mining production: major minerals and metals

Commodity	2002	2003	% Change on 2002
Asbestos t	167,954	147,209	-12
Black granite t	411,989	n/a	
Chromite t	749,339	586,947	-22
Coal t	3,721,112	2,871,962	-23
Gold kg	15,468	12,564	-19
Iron ore t	325,000	366,737	+13
Iron Pyrite t	87,592	93,010	+6
Limestone t	4,442,095	921,744	-79
Nickel t	8,092	9,517	+18
Phosphate t	107,854	94,496	-12
Palladium kg	1,942	4,270	+85
Platinum kg	2,306	3,449	+78
Rhodium kg	217	376	+73