ZIMBABWE

By John Hollaway and Associates

For the past three years, state-inspired anarchy has caused a decline in Zimbabwe's mining sector. Although the principal target has been the largely white-owned commercial farms, some 95% of which have been 'designated' and about half occupied by youthful 'veterans' of the bush war, the mining sector was not spared from illegal and often violent interference. About 20 mines were invaded, albeit temporarily, in 2001, and pronouncements by President Robert Mugabe suggested that the industry as a whole might be treated in the same way that the commercial farmers have been. Gold mines and black granite quarries were the operations most seriously affected.

There was also considerable collateral damage. For instance, Rio Tinto was unable to resettle people from its Murowa diamond prospect because the commercial farming area it acquired for this purpose has itself been occupied by 'war veterans', so halting the development of the mine. The low ebb of the industry was symbolised by the downsizing of the Chamber of Mines, where the staff has been reduced from 20 to 11. With inflation at 100%, serious hardship is being experienced amongst employees in the industry, and this discontent surfaced as a number of strikes during the year. The most serious was at Zimbabwe Iron and Steel Co.'s works at Kwekwe, where the army used live ammunition to drive the workers off the site, causing a number of casualties.

It is not possible to give an official figure for the deterioration in the value of output because for the past two years the government has used a fixed exchange rate of Z$55 to the US dollar, while the black market rate has been about six times this. For miners buying imported supplies, such as drill steel and cyanide, the black market has been almost the only source of hard currency, and this discrepancy has been the principal factor behind the weakness of the mining sector.

The consequences are startling. If the 55:1 figure is used, then the mining industry as a whole in 2001 achieved an all-time record of products worth US$718 million, more than twice the value of the previous year. On the other hand, taking figures from 1998 (as the last time when the official and the real exchange rates coincided), the value of mined output has dropped from US$466 million in that year to only US$131 million in 2001. It can only be estimated, but the actual current value of output is probably around US$300 million, making it the lowest value in historical US dollar terms since 1975.

Hardest hit was the gold sector, usually the mainstay of the industry. By December, the monthly gold output was down to its lowest since 1983, and gold production for the year, at 18 t, was 35% below the peak of 27.7 t in 1999. However, this is not a true reflection of the situation. The over-valued exchange rate has given rise to considerable smuggling - indeed has led to a marked growth in the production of artisanally-mined gold sold almost exclusively on the black market - and probably about another 5 t has to be added to that figure.

Gold producers in Zimbabwe's formal sector are particularly vulnerable, as all gold is supposed to be sold to the Reserve Bank for Zimbabwe dollars at the official exchange rate. Base metal producers are allowed to hold their hard currency earnings in separate foreign currency accounts in Zimbabwean banks, but this has been denied the gold miners, on the technicality that as they have to sell to the Reserve Bank they are not direct exporters.

However, seeing its income from gold diminishing, the government re-introduced a support price system in April 2001, last in use in 1987, and in November increased this to Z$23,650/oz, equivalent (at the official exchange rate) to US$430/oz. A facility was also introduced through one of the commercial banks for the gold mining industry to draw foreign exchange for essential imports directly against its gold deposits with the Reserve Bank. This had limited success; by August 2001 the bank had accumulated orders for US$8 million worth of supplies, but only US$1 million had been passed to it from the Reserve Bank. Inevitably under these circumstances, mine closures have continued: by early 2002 about 40 significant gold mines have gone out of business.

The government raised further concern when it announced plans to change fundamentally the fiscal policy on mining. It held out the carrot of a (future) lower rate of income tax, a five-year exemption from customs duty for new mines and the retention of the current system of allowing most capital expenditure to be offset against revenue, with an indefinite carry-forward of losses.

On the negative side, the government introduced (with immediate effect) the ‘ring-fencing’ of mines, borrowing this system from South Africa (which has begun to abandon it). This treats every mine in the group as a separate entity for taxation purposes, preventing losses from a poorly performing mine from being offset against income from more profitable ones. In parallel with this, and potentially much more serious, exploration expenditure is now allowed against tax only when it results in a cash flow from a new mine. With considerable understatement the chairman of Rio Tinto Zimbabwe has pointed out that not all exploration expense results in a new mine.

There are also plans to introduce royalties on mined products and to levy a new charge called ‘surface rentals’. Zimbabwe has been almost unique in Africa in not levying royalties; the government gains most of its revenue from this sector in the form of personal and corporate income tax. Consultants funded by development assistance agencies have argued that this absence of royalties and other ‘turnover taxes’ has led to the looting of natural resources in Zimbabwe. From the viewpoint of the mining sector this seems an improbable claim. Indeed, the whole package is more appropriate to a country at the initial stages of mining development, with large high-grade undeveloped resources, rather than one with a mature, complex and diverse mining sector treating generally small and low-grade deposits using largely local skills and capital.

While the outlook for the mining sector is bleak, it is not without hope. Robert Mugabe and his henchmen are facing a massive challenge from the electorate, with the opposition Movement for Democratic Change (MDC) now having substantially more support than his ZANU (PF) party. Following the general election in 2000, the MDC gained more votes than ZANU (PF) and would control parliament but for the 30 MPs appointed by the President.

Readers will probably be familiar with the political developments in Zimbabwe since the end of 2001, but to summarise, the presidential elections held in February that returned Robert Mugabe to power for another six years, were generally believed to be fraudulent. Zimbabwe’s leadership is under international sanctions, the country is a pariah as far as international investment is concerned and the economic situation in 2002 is not likely to change for the better unless, quite specifically, Robert Mugabe (now 78 years old) is no longer in power.

As the output table below shows, while the trend is generally downward, there have been some improvements. Limestone output nearly doubled, to 3.7 Mt, with the start-up of a new Chinese-funded cement works near Gweru, and chromite output also improved by about 15%. However, this latter is probably a temporarily blip, as one of the two ferrochrome smelters in the country closed in late 2001.

Diamond production ceased from the sole producer, River Ranch. Rio Tinto’s Murowa diamond prospect is based on three kimberlites with a mining reserve of 16.5 Mt at 0.9 ct/t. It is planned to mine 500,000 t/y initially but, as noted above, politically-related events have delayed the start.

Black granite, a star performer in the 1990s when its output grew by over 300%, has seen a drop in 2001 of nearly 50%. Much of this is due to political interference; being a new industry operating in a part of the country with little mining tradition, it has been vulnerable to attacks from local political figures who can argue that they are not benefiting from this very visible activity.

On the positive side, the Zimplats project started up successfully at the end of the year. This draws ore from a new open-pit mine on the southern limb of the platinum horizon of the Great Dyke at Ngezi and trucks it 77 km to the concentrator and smelter of the old BHP Hartley Platinum mine, now known Makwiro mine. Initial output from the Ngezi operation will be 2.2 Mt/y of ore, and the product will be a matte containing about 200,000 oz of PGM and gold. Eventually it is planned to build a concentrator at Ngezi, and it is proposed then to open a similar open-pit mine on the northern end of the platinum horizon to take up the spare capacity at Makwiro.

Mine Production in Zimbabwe (Principal Minerals and Metals only '000 t except where stated)

Mineral/Metal	2001	2000
Asbestos	136.7	152.0
Chromite	780.2	668.0
Coal (raised)	4,064	3,986
Cobalt oxide (t)	95	79
Copper	2.1	3.1
Diamonds (ct)	Nil	23,028
Emeralds (rough) (g)	36.8	33.3
Gold (kg)	18,005	22,007
Graphite	11.8	11.8
Iron ore	360.9	450.6
Iron Pyrites	88.2	69.1
Limestone	3,740	1,978
Lithium Minerals	36.1	37.9
Nickel	8.1	7.1
Platinum (kg)	519	504
Palladium (kg)	371	360
Phosphate	86.9	110
Silver (kg)	1,768	3,799
Black Granite	289.4	512.5
Total Value Z$ million	**39,542**	**19,063**
Total Value US$ million	**719**	**347**