

AFRICA RISK CONSULTING DRC Monthly Briefing March 2018

DRC Summary 15 March 2018

The prime minister, Bruno Tshibala, states that President Joseph Kabila (2001-present) will step down for scheduled presidential elections in December. Kabila signs a controversial mining law that will increase royalties on mining companies operating in the DRC. South Korea-based Samsung C&T, a subsidiary of mobile phone company Samsung, is reportedly in talks for a multi-year deal to buy cobalt directly from a DRC-based mining company, Somika SPRL.

Prime minister Bruno Tshibala states that Kabila will step down in December

Prime minister **Bruno Tshibala** stated on 7 March that President **Joseph Kabila** (2001-present) will step down for scheduled presidential elections in December.¹ Kabila has remained in power despite his constitutional mandate expiring in 2016 and elections in the **Democratic Republic of the Congo (DRC)** have consistently been postponed.

*"I committed in front of the country's representatives in May last year to bring the Congolese people to elections this year, and I confirm that in December this year the Congolese people will be brought to the ballot boxes."*²

Tshibala, a former leading member of the main opposition **Union pour la Démocratie et le Progrès Social (UDPS)** coalition, is expected to run as the opposition candidate in the December elections.³ Kabila appointed Tshibala as prime minister in May 2017 to head a transitional government tasked with organising the election.⁴ Kabila has yet to state publicly that he will not stand in the elections.⁵ Opposition members believe Kabila is figuring out how to run for a third term, though reforms of Kabila's ruling **Parti du Peuple pour la Reconstruction et la Démocratie (PPRD)** statutes may show that Kabila is looking for other ways to remain in power and retain influence. The January reforms abolished the position of PPRD secretary-general to allow for a party president, which Kabila is likely to assume.⁶ Kabila appointed the former PPRD secretary-general, **Henri Mova Sakanyi**, as interior minister and deputy prime minister on 21 February, opening room for Kabila to run the party and its policies even if no longer president of the DRC.⁷

Elections look likely to go forward and Kabila will find it difficult to postpone them once again. **United Nations (UN)** secretary-general **Antonio Guterres** commended the DRC's progress towards the elections on 9 March, noting "*the encouraging progress accomplished by the national electoral commission regarding work on voters' rolls*".⁸

The DRC's **Commission Electorale Nationale Indépendante (CENI)** (independent national electoral commission) completed voter registration on 1 February, with over 46 million voters registered.⁹ CENI had difficulty completing the voter roll in **Kasai Province**, though Tshibala said that the

¹ eNCA, 8 Mar 2018.

² Bruno Tshibala quoted in eNCA, 8 Mar 2018.

³ eNCA, 8 Mar 2018.

⁴ eNCA, 8 Mar 2018.

⁵ News24, 21 Feb 2018.

⁶ News24, 21 Feb 2018.

⁷ News24, 21 Feb 2018.

⁸ Daily Mail, 9 Mar 2018.

⁹ Defence Web, 1 Feb 2018.

situation “*seems to be improving*”.¹⁰ This contradicts the findings of the **United Nations High Commissioner for Refugees (UNHCR)** which warned on 6 March that inter-ethnic tension may renew conflict and that civilian displacement continues as people flee to **Angola** to escape the violence.¹¹

Conflict is likely to continue in this region and in the DRC until a stable government is elected that can bring meaningful governance and economic reforms to all regions, though this is unlikely to happen soon. Foreign companies nevertheless continue to invest in the DRC due to its vast resources of strategic minerals and are likely to continue to do so, even if the conflicts remain.

Kabila signs controversial mining law...

President Kabila signed a controversial mining law on 9 March that will increase royalties on mining companies operating in the DRC.¹² Kabila signed the law days after he met with mining company representatives to discuss the legislation on 6 March.¹³ Mining companies had lobbied the government to amend the law after parliament first passed it on 24 January (see *ARC Briefing DRC January 2018*). Kabila has stated that he will take the concerns of the mining companies into consideration, but the law was not amended from its previous version.¹⁴ Kabila’s office released a statement on 7 March, after his meetings with the mining companies, that

“...the president reassures mining operators that they are economic partners in the DRC and that their concerns will be taken into account through a constructive dialogue with the government after the new mining law is approved, with a view to finding compromise.”¹⁵

Mining companies will have to approach the government regarding their objections to the mining code, particularly the steep increase in royalties and the abolishment of the 10-year stability agreement, which officials from the mining ministry said they would deal with on a case-by-case basis.¹⁶ Mining minister **Martin Kabwelulu** stated that there would be “*implementation measures [to] ease the toughness of the law*” on mining companies.¹⁷ **South Africa**-based **Randgold** said it planned to begin discussions in mid-March.¹⁸

The code is likely to lead to higher costs for consumers for products that use cobalt, a key ingredient in premium rechargeable batteries.¹⁹ **Colin Hamilton**, an analyst at **BMO**, states that

“...given the tight nature of the cobalt market at present, we would expect miners to attempt to pass through higher royalty costs to consumers.”²⁰

The new code may also affect the price of cobalt, which has doubled over the past year:

“The increase in royalties will ultimately see less investment in the country, which could help the cobalt price in the long term as fewer projects are developed.”²¹

Mining companies and international non-government organisations warn that much of the increased revenue will not be used for service delivery but will continue the cycle of corruption in the DRC.²² The DRC government will, ideally, look to increase the refining of cobalt before its export, rather than

¹⁰ CNBC Africa, 9 Mar 2018.

¹¹ VOA, 6 Mar 2018.

¹² News24, 10 Mar 2018.

¹³ News24, 10 Mar 2018.

¹⁴ News24, 10 Mar 2018.

¹⁵ News24, 9 Mar 2018.

¹⁶ News24, 9 Mar 2018.

¹⁷ News24, 9 Mar 2018.

¹⁸ Business Day, 8 Mar 2018.

¹⁹ Financial Times, 8 Mar 2018.

²⁰ Financial Times, 8 Mar 2018.

²¹ Financial Times, 8 Mar 2018.

²² www.cartercenter.org

rely on increased revenues from exported raw minerals, in order to increase employment and beneficiation of DRC’s cobalt. Currently, the DRC exports raw materials or semi-processed materials, mostly to **China**.²³ According to **Florent Musha**, an economist and activist,

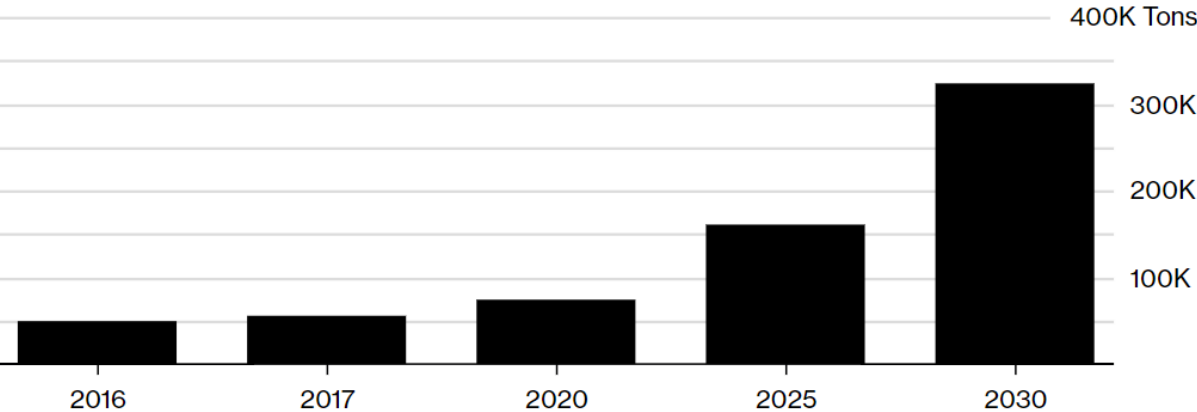
*“[The DRC] does not export finished products that are ready to be used by [United States-based smartphone maker] **Apple**, [South Korea-based] **Samsung** and the other big battery users in the world. It exports a mineral product which is in the process of being treated.”²⁴*

Thus, while DRC has the largest reserves, China is the world’s biggest seller of cobalt, and the DRC will have to invest in stable electricity supply and infrastructure to be able to reverse this trend.²⁵ This is unlikely to happen before 2019 at the earliest, when a new government may take power in the DRC.

...though DRC cobalt mining remains popular, despite new mining code

South Korea-based Samsung C&T, a subsidiary of mobile phone company Samsung, is reportedly in talks for a multi-year deal to buy cobalt directly from a DRC-based mining company, **Somika SPRL**, according to reports on 13 March.²⁶ Samsung C&T has previously bought copper from Somika, but now plans to purchase cobalt produced at Somika’s **Kisanfu** mine in **Katanga Province**.²⁷ Somika chairman **Chetan Chug** confirmed the talks, though it is unclear how much cobalt Samsung C&T would purchase.²⁸ Cobalt demand is likely to jump in the near future, particularly with the increased production and use of electric cars, and the DRC holds much of the world’s reserves.

■ Cobalt use in electric vehicles and other lithium-ion battery applications



Source: Darton Commodities

Apple is also in talks to buy long-term supplies of cobalt directly from the miners, rather than allowing the battery suppliers to purchase the metals, to ensure it will have enough cobalt as demand increases from the electric vehicle sector.²⁹ Automobile companies, such as **Germany-based BMW AG** and **Volkswagen AG**, are planning on signing multi-year cobalt contracts to ensure they have supply to meet their targets.³⁰ South Korea-based oil refiner **SK Innovation Co** agreed to a 13-year cobalt and nickel supply deal worth \$3.9 billion with **Australia-based Australian Mines Ltd**, in which SK Innovation will buy all of Australia Mines’ output.³¹

²³ News24, 22 Feb 2018.
²⁴ News24, 22 Feb 2018.
²⁵ News24, 22 Feb 2018.
²⁶ Bloomberg, 13 Mar 2018.
²⁷ Bloomberg, 13 Mar 2018.
²⁸ Bloomberg, 13 Mar 2018.
²⁹ Bloomberg, 21 Feb 2018.
³⁰ Bloomberg, 21 Feb 2018.
³¹ Bloomberg, 21 Feb 2018.

Some companies, such as Samsung, are moving to work directly with suppliers due to their participation in the **Responsible Cobalt Initiative**, which aims to increase transparency in the cobalt supply chain.³² **Amnesty International** criticised major companies in 2017 for seemingly ignoring the conditions of DRC mines, including allegations of child labour.³³

The **Asian** demand for cobalt will mean that it is unlikely that already-present Western mining companies will decide to leave, despite the new mining code. Demand is too great for cobalt and other resources that are almost uniquely found in the DRC. This demand is likely to increase greatly in the future. However, foreign investors should continue to press the government to handle its governance issues – decreasing corruption, improving infrastructure and following the constitution – before the many small conflicts in the DRC turn into another large war.

Planner

13 Jan 2019 **(DRC)** President to be sworn into office
 9 Jan 2019 **(DRC)** Electoral results published
 23 Dec 2018 **(DRC)** President, legislative and provincial elections scheduled
 July 2018 **(DRC)** President **Joseph Kabila** expected to name his preferred successor for December elections
 June 2018 **(DRC)** DRC Mining Week expected to return in **Lubumbashi**

Chronology

14 Mar 2018 **Ituri (DRC)** *Andolu Agency*. **United Nations** reinforces its troop numbers in **Ituri Province**, where more than 100 people have been killed in ethnic conflict;
 13 Mar 2018 **(DRC)** *Business Day*. **South Korea**-based **Samsung C&T Corporation** approaches DRC mining company, **Somika**, for a multi-year deal to purchase cobalt;
 13 Mar 2018 **(DRC)** *Reuters*. DRC opposition leader **Moise Katumbi** announces he plans to return to the DRC in June to submit his candidacy for presidential elections;
 13 Mar 2018 **(DRC)** *Reuters*. Local media reports at least 40 people killed in ethnic conflict in Ituri Province;
 10 Mar 2018 **Kinshasa (DRC)** *News24*. President **Joseph Kabila** signs mining law;
 8 Mar 2018 **(DRC)** *Reuters*. Kabila meets with mining companies, but the government states the mining law will be passed as it currently stands;
 8 Mar 2018 **(DRC)** *Reuters*. DRC prime minister **Bruno Tshibala** states that elections in December remain on schedule;
 7 Mar 2018 **(DRC)** *MiningMX*. **Kazakhstan**-based **Eurasian Resources Group** considers selling its DRC-based **Frontier** copper mine, though the new mining law may complicate this transaction;
 6 Mar 2018 **Lubumbashi (DRC)** *News24*. Freight rail traffic between the DRC and **Angola** resumes after a 34-year pause, providing a new export market for DRC's minerals;
 2 Mar 2017 **Maze (DRC)** *Al Jazeera*. Inter-ethnic violence results in the death of 79 people in Ituri Province;

³² www.cccmc.org.cn

³³ Quartz, 14 Mar 2018.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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