

## AFRICA RISK CONSULTING

### Namibia Monthly Briefing July 2016

---

#### Namibia Summary 27 July 2016

*Germany is to finally recognise it committed genocide against Namibia's Ovaherero community in 1904. The government extends the consultation period for the proposed Black Economic Empowerment (BEE) again. Gross domestic product (GDP) growth slows to 3.5% in Q1 2016, but mining and manufacturing prove resilient. A new onshore diamond resource will substantially extend the life of Namdeb's onshore mining operations. Paladin Energy intends to sell a further equity stake in its Langer Heinrich uranium mine to China National Nuclear Corp. (CNNC). Namibia clears the way for the export of beef to the United States and China.*

---

#### Germany to formally recognise 1904 atrocities as genocide

In an historic decision, **German** chancellor **Angela Merkel** (2005-present) is to formally recognise as genocide and apologise for the systematic murders Germany perpetrated against the **Ovaherero** and **Nama** communities from 1904 to 1908. Much of the groundwork for this was done by a Namibian team headed by **Zedekia (Zed) Ngavirue**, himself an Ovaherero, the former **National Planning Commission (NPC)** secretary general and Namibian ambassador to the **European Union (EU)**. Ngavirue was appointed to head the genocide negotiations with Germany last November. Merkel's government is currently in talks with Ngavirue's team on finalising a common language and agreed policy for this.<sup>1</sup>

Twelve years ago, German development minister **Heidemarie Wiecek-Zeul** first expressed the country's regret for the well-documented atrocities conducted by the then German colonial administration in response to the Ovaherero>Nama uprisings between 1904 and 1908, which she acknowledged amounted to genocide.<sup>2</sup> But this fell short of a formal apology and appropriate compensation, for which the traditional leadership of the Ovaherero community in particular has been pressing since independence.

The genocide is now widely viewed as the first of the 20<sup>th</sup> century; an increasing number of historians regard the atrocities as a precursor of the **Holocaust** extermination of Germany's Jewish community during World War II. Germany sent military commander General **Lothar von Trotha** to Namibia in June 1904 to suppress the Ovaherero>Nama uprisings.<sup>3</sup> He issued an extermination order, under which all Ovaherero within Germany's area of control, with or without weapons, were to be shot and the rest driven out of Namibia across the **Kalahari Desert**.<sup>4</sup> Forced labour camps and experiments on prisoners to prove **Aryan** superiority were among the chilling similarities to the Holocaust. Some 85% of the estimated 80,000 Ovaherero – then Namibia's largest tribe and owning a wealth of cattle – were killed or died,

---

<sup>1</sup> Quartz Africa, 16 Jul 2016; New Era, 5 Nov 2015.

<sup>2</sup> Quartz Africa, 16 Jul 2016.

<sup>3</sup> South African History Online

<sup>4</sup> South African History Online

with many of the surviving 15,000 finding refuge in **British-controlled Bechuanaland** (now **Botswana**).<sup>5</sup>

However, Germany is still baulking at the payment of reparations to Namibia as it has done to Holocaust survivors. Instead it will continue its existing policy of providing German bilateral aid for targeted development projects designed to assist the Ovaherero and other affected groups. This is not a popular policy as community leaders argue that the funding provided to the government is not distributed in conformity with these criteria. Germany's foreign ministry spokeswoman **Sawsan Chebli** was quite specific:

*"On the question of whether there could be reparations or legal consequences, there are none. The apology does not come with any consequences on how we deal with the history and portray it."*<sup>6</sup>

Despite the presence of several prominent Ovaherero at the top of the government and within the ruling **South West African People's Organisation (SWAPO Party of Namibia)**, notably the current National Assembly speaker **Peter Katjavivi** and Ngavirue, the Ovaherero community as a whole remains marginalised. The **Oshivambo**, who form the biggest section of the population and a majority of SWAPO members, have received the major share of community and rural investment since independence. Apart from those living in towns, the Ovaherero mainly inhabit eastern Namibia (the largely semi-arid **Otjozondjupa** and **Omaheke** regions) in a rough quadrilateral between **Windhoek, Otjiwarongo, Grootfontein** and **Gobabis**. The smaller, related **Ovahimba** sub-group inhabits the northern part of **Kunene** region in the northwest, also largely arid and facing potential desertification. There has been little development in these areas since independence, with the predominant activity remaining subsistence cattle-rearing, and high rates of youth unemployment. The Nama inhabit the even drier **Hardap** and **Karas** regions in the south but have better employment opportunities in diamond and base metal mines as well as the commercial livestock (sheep) sector.

### **BEE law consultation period is extended**

Prime minister **Saara Kuugongelwa-Amadhila** has extended the consultation period for the proposed black economic empowerment (BEE) law, officially called the **New Equitable Economic Empowerment Framework (NEEEF)** and whose key provisions are a source of concern to many firms (see *ARC Briefing Namibia June 2016*). At the end of June, the prime minister asked the cabinet for a third extension, to an unspecified date, to allow for further input and fine-tuning of the draft law.<sup>7</sup> Kuugongelwa-Amadhila does not seem to have accepted the need for any changes, such as abandoning the highly contentious requirement for mandatory transfers of 25% equity interests in all private companies to BEE entities or individuals. Instead, she stressed the need to include the views of all stakeholders to make the final draft more effective and better understood.<sup>8</sup> The normally pro-government **New Era** daily newspaper, which is owned by the ruling SWAPO Party of Namibia but is editorially independent, commented:

<sup>5</sup> South African History Online

<sup>6</sup> Quartz Africa, 16 Jul 2016.

<sup>7</sup> New Era, 28 Jun 2016.

<sup>8</sup> New Era, 28 Jun 2016.

*“It is understood the new law will surpass existing (sectoral) economic empowerment initiatives and will be binding on the private sector as well.”<sup>9</sup>*

Responding to questions at a 27 June **State House** meeting with president **Hage Geingob** (2015-present) and vice president **Nickey Iyambo**, Kuugongelwa-Amadhila revealed that the request for a further extension of the consultation period had come from the **Law Reform Development Commission (LRDC)**.<sup>10</sup> This is the body finalising drafting of the BEE law. Kuugongelwa-Amadhila added that the government had realised that many who had submitted comments to date were from

*“... a few categories of the beneficiaries and that there would be pockets of stakeholders, whose inputs it would be critical to secure”.*<sup>11</sup>

The looming threat of the NEEEF’s proscriptive and mandatory provisions is delaying some new business developments, including in the key mining sector. One example is **North River Resources (NRR)**, a company listed on **London’s Alternative Investment Market (AIM)** in which state-owned **China General Nuclear Corp. (CGN)** is a minority shareholder. NRR plans to build the small **Namib Lead Zinc Mine (NLZM)** inland from **Swakopmund**, on a previously worked site where it has proven up additional ore resources. But NRR has had to modify its plans and raise additional funds due to a delay by the mines and energy ministry in approving a mining licence, partly because of BEE issues. At the end of June, NRR announced a US\$5.6m fund raising and share capital reorganisation to repay existing debt and provide working capital for a start on outstanding pre-construction works at Namib.<sup>12</sup> However, NRR noted that certain obligations under the NEEEF bill were inconsistent with those laid down in the *“Notice of Preparedness to Grant the Mining Licence”* that NRR accepted in January:<sup>13</sup>

*“The extent to which the NEEEF bill would place additional obligations on the Namib project and the timeline for finalising and enacting the NEEEF Bill is not clear at this stage.”*<sup>14</sup>

### **GDP growth slows to 3.5% in first quarter**

The **Namibia Statistics Agency (NSA)** published preliminary GDP data for Q1 2016 that revealed that real growth slowed considerably on a year-on-year (y/y) basis, although it was higher than in the preceding quarter (Q4 2015).<sup>15</sup> The economy grew by 3.5%, down from 7.3% in Q1 2015, but above the revised 2.9% real growth rate for Q4 2015.<sup>16</sup> This is in line with most expectations that the economy will slow further this year. The **Bank of Namibia (BoN)** (central bank) currently forecasts a 4.3% growth rate, while stockbroker **Simonis Storm Securities (SSS)** recently revised down its 2016 growth forecast from 4.8% to 4.1%. However, SSS expects government spending and mining output growth, especially gold and uranium mines, to cushion Namibia from a recession.<sup>17</sup>

<sup>9</sup> New Era, 28 Jun 2016.

<sup>10</sup> New Era, 28 Jun 2016.

<sup>11</sup> New Era, 28 Jun 2016.

<sup>12</sup> North River Resources, AIM notification, 28 Jun 2016.

<sup>13</sup> North River Resources, AIM notification, 28 Jun 2016.

<sup>14</sup> North River Resources, AIM notification, 28 Jun 2016.

<sup>15</sup> Namibia Statistics Agency (NSA), Gross Domestic Product, First Quarter 2016.

<sup>16</sup> Namibia Statistics Agency (NSA), Gross Domestic Product, First Quarter 2016.

<sup>17</sup> New Era, 12 Jul 2016.

The y/y GDP decrease was mainly because construction output fell to a fractional 0.2%, down from 34.5% in Q1 2015.<sup>18</sup> This was due to the completion of major mining development projects, with the exception of the nearly finished **Husab** mine. Public infrastructure projects have yet to pick up sufficient momentum to take up the slack. Due to the continuing drought, the agricultural sector contracted by 12.2% in Q1 2016, a worsening performance y/y and compared to the previous quarter, with falls in real value-added output by both the livestock farming and crop growing sub sectors.<sup>19</sup> But other sectors proved resilient in the face of the wider impacts of drought and anaemic global growth. The mining sector grew by 2.5% in Q1 2016, down from 3.2% a year earlier but much better than Q4 2015's 8.6% contraction.<sup>20</sup> Due to lower output, diamond real value-added fell by 2.2% and uranium by 1.8% (vs 8% growth and a 23% contraction respectively a year earlier).<sup>21</sup> Base metal (copper and zinc) output growth slowed to 22% from 64% in Q1 2015.<sup>22</sup>

According to **Anglo American plc's** latest production report, **Namdeb** output decreased by 31% to 296,000 carats in Q1 2016, and by 17% to 740,000 carats in the first half of the year.<sup>23</sup> Its 85%-owned subsidiary **De Beers SA** (the Botswana government holds the remaining 15% interest) cut production across all its mines in **Southern Africa** and **Canada** in response to weak trading conditions in the second half of last year.<sup>24</sup> Trading conditions were more normal in H1 2016, with consolidated volume sales by De Beers up by 29% to 17.2m carats, *"but we maintain a cautious outlook"* Anglo American chief CEO **Mark Cutifani** commented.<sup>25</sup>

Manufacturing real value-added grew by 4.8% in contrast to a 1% contraction in Q1 2015, due mainly to higher output of dairy products and metals, despite a further sharp decrease (74%) in local diamond processing.<sup>26</sup> The fortunes of the local cutting and polishing sector should start to recover once the provisions for a substantial increase in supply of rough diamonds produced by Namdeb to local firms under the new, ten-year diamond marketing agreement take effect (see *ARC Briefing Namibia May 2016*).

### New diamond discoveries extend life of onshore mining

The long-term future of Namdeb's onshore diamond mining has also received a major boost with new deposits discovered in the immediate foreshore of the coastal diamond mining area in the south. According to a mid-July announcement by finance minister **Calle Schlettwein**, the new resource, uncovered by ongoing extensions of the land-based operations' sea wall into shallow waters, could prolong onshore mining by another 50 years.<sup>27</sup> For land-based operations, which have been mined for over a century, Namdeb pushes back the sea by creating an artificial (sand and gravel) wall. This has led to recent discoveries made behind the inter-tidal zone. The **Atlantic** coast area contains the world's richest marine diamond deposits, holding some 80 million carats, which are recovered by **De Beers Marine Namibia (Debmarine Namibia)** deep-sea mining vessels.<sup>28</sup>

<sup>18</sup> Namibia Statistics Agency (NSA), Gross Domestic Product, First Quarter 2016.

<sup>19</sup> Namibia Statistics Agency (NSA), Gross Domestic Product, First Quarter 2016.

<sup>20</sup> Namibia Statistics Agency (NSA), Gross Domestic Product, First Quarter 2016.

<sup>21</sup> Namibia Statistics Agency (NSA), Gross Domestic Product, First Quarter 2016.

<sup>22</sup> Namibia Statistics Agency (NSA), Gross Domestic Product, First Quarter 2016.

<sup>23</sup> Anglo American plc, Production report for the second quarter ended 30 June 2016, 20 Jul 2016.

<sup>24</sup> Anglo American plc, Production report for the second quarter ended 30 June 2016, 20 Jul 2016.

<sup>25</sup> Anglo American plc, Production report for the second quarter ended 30 June 2016, 20 Jul 2016.

<sup>26</sup> Namibia Statistics Agency (NSA), Gross Domestic Product, First Quarter 2016.

<sup>27</sup> Bloomberg, 18 Jul 2016.

<sup>28</sup> De Beers Group website

### Paladin is selling off more of Langer Heinrich

Australia-based **Paladin Energy** is to sell more of the **Langer Heinrich** uranium mine, almost certainly to existing minority shareholder, state-owned **China National Nuclear Corp. (CNNC)**, to raise cash to refinance/repay some US\$237m in principal debt maturing next year. Paladin said the transaction would net it \$175m and be accompanied by a new long-term uranium offtake agreement.<sup>29</sup> Paladin currently owns a 75% interest, having sold a 25% stake to CNNC in 2014, and the new sale will reduce its ownership to 51%. The company did not immediately identify the buyer for another 24% interest, but this was widely reported to be CNNC.<sup>30</sup> The Namibia government seems unlikely to object to the transaction, although the lack of any provision for local ownership could be an issue (see above). If so, **Chinese** utilities will control the bulk of Namibia's uranium mining capacity, given CGN as 90% owner of **Swakop Uranium** is majority owner of the Husab mine, which is expected to start producing up to 6,800 tonnes per year from next year. This would leave only the **Rössing** uranium mine, in which **United Kingdom (UK)**-based **Rio Tinto** holds a 68.6% equity interest, outside Chinese hands. Langer Heinrich is currently the biggest yellowcake producer; output was 1,099 tonnes of uranium oxide in H1 2016, as against 918 tonnes by Rossing. Their combined production of 2,017 tonnes was 18% higher than a year earlier.<sup>31</sup>

### Namibia secures new beef export markets in the US and China

In a major breakthrough for the important meat industry, Namibia has obtained authorisation from the **United States Department of Agriculture (USDA)** to start exports of chilled and frozen cuts of beef produced in local abattoirs from grass-fed cattle.<sup>32</sup> The **Meat Corp. of Namibia (Meatco)** announced in early July that Chinese regulators have provided similar consents, with an export trade licence in the process of being finalised.<sup>33</sup> The USDA granted Namibia eligibility in mid-July to export its beef to the world's largest meat market.<sup>34</sup> Namibia is the first **African** country to gain this status.<sup>35</sup> Exports are expected to begin in September.<sup>36</sup> Namibia initially plans to sell 850 tonnes of beef products to the **United States**, rising to 5,700 tonnes in the fifth year.<sup>37</sup>

The agreements will substantially diversify Namibia's beef export markets. The EU – mainly the UK, Germany, **Denmark** and **Italy** – is currently the principal market by value, followed by **South Africa**, **Norway** and **Reunion**. Namibia's ability to continue exporting beef duty- and quota-free to the **European** market was ensured by its signature of an economic partnership agreement (EPA) with the EU in **Kasane**, Botswana on 10 June.<sup>38</sup> The agreement was signed under the auspices of the **Southern African Development Community (SADC)** EPA group; co-signatories were Botswana, **Lesotho**, **Mozambique**, South Africa and **Swaziland**. Other SADC member countries, such as **Malawi**, **Zambia** and **Zimbabwe**, are negotiating EPAs via other regional groups. In addition to beef, Namibia will be able to continue duty-free exports of fish products and grapes to EU countries.

<sup>29</sup> Paladin Energy, press release of 21 Jul 2016

<sup>30</sup> The Australian, 25 Jul 2016.

<sup>31</sup> Paladin Energy, Rio Tinto first and second quarter 2016 production reports.

<sup>32</sup> New Era, 15 Jul 2016.

<sup>33</sup> Meatco website, 8 Jul 2016.

<sup>34</sup> Meatco website, 8 Jul 2016.

<sup>35</sup> Meatco website, 8 Jul 2016.

<sup>36</sup> Meatco website, 8 Jul 2016.

<sup>37</sup> Meatco website, 8 Jul 2016.

<sup>38</sup> Xinhua, 20 Jun 2016.

Meatco operates two abattoirs with EU export status in Windhoek and **Okahandja** that produce up to 28,000 tonnes of beef per year.<sup>39</sup> Meatco is a producer cooperative that pays most of its earnings to commercial and communal (subsistence) livestock owners; the government took up a 30% equity interest in mid-2015 following its declaration of the meat industry as a strategic sector affected by weather and climate change.<sup>40</sup> Overseas markets accounted for 67% of Meatco's N\$1.6 billion (US\$110m) sales revenue for its 2014/15 financial year, South Africa 21% and the domestic market 12%.<sup>41</sup> South Africa was the largest volume market (38%) as large numbers of live cattle are shipped south for slaughter in South African abattoirs. However, these exports may be hampered by stringent new South African livestock import regulations, effective 1 July, designed to reduce potential transfers to the domestic herd of animal disease such as lung sickness.<sup>42</sup> Namibia views testing requirements, especially for sheep and goats, as impractical and onerous, with mutually acceptable bilateral arrangements yet to be agreed with South Africa.

### Implications

Germany's decision to formally recognise that genocide was committed against the Ovaherero and other Namibian communities over a century ago will put the historical record straight. It will provide some comfort to the descendants of those killed by German troops and lift a cloud over bilateral relations between Namibia and Germany. These have been close since 1990, partly reflecting the fact that Namibia's independence struggle was waged against South Africa, which had captured then **Deutsch-Südwest Afrika** from Germany in 1915 as part of the World War I allied war campaign. Until China began its resource-based diplomatic drive into Africa at the end of the 20<sup>th</sup> century, Germany had been by far Namibia's largest bilateral donor partner and its technical assistance in the water, geological survey and agriculture sectors has been especially valuable.

The formal recognition of genocide, coupled with the return of the skulls of Ovaherero, which had been taken to Germany early last century, will remove most remaining historical animosities. But it will now place the ball in the Namibia government's court, namely to utilise German aid designed to benefit the communities subjected to genocide, especially the Ovaherero, more effectively and transparently. It will be a challenge to ensure German aid funds are used to improve the genocide-affected groups' living conditions and economic opportunities; otherwise there will be a renewed clamour for the payment of formal reparations directly to the communities. As a **Damara**, Geingob may be more aware of these sensibilities than his two Oshivambo predecessors as heads of state, especially as rural Damara communities are also under-privileged. Historically the Damara were effectively subjects of the Ovaherero and also suffered through being caught up in the uprisings, with their own resistance leaders too. But whether Geingob can ensure a better deal for the Ovaherero and Nama is another matter.

The latest economic snapshot – Q1 2016 GDP data – makes clear that growth, as expected given the global uncertainties, has slowed. But even the currently forecast 4% growth rate in 2016 would provide for further growth in national wealth and income levels. The mining sector remains crucial to the economy; both global and local investors will remain on tenterhooks until it becomes clear whether or not Namibia intends to proceed full tilt down

<sup>39</sup> Meatco website

<sup>40</sup> Meatco website

<sup>41</sup> Meatco annual report, 2014/15.

<sup>42</sup> New Era, 20 Jun 2016.

the BEE path. It seems almost certain that despite the laudable intentions, planned compulsory equity transfers to ostensive BEE entities and individuals is likely to prove value-destructive.

---

### 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.

**ARC's** core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

[www.africariskconsulting.com](http://www.africariskconsulting.com)

### About ARC Briefing:

**ARC Briefing** is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

**ARC Briefing** is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

[www.briefing.africariskconsulting.com](http://www.briefing.africariskconsulting.com)

### Getting in touch

Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)