

AFRICA RISK CONSULTING

Country briefing – Zambia

February 2013

1 Summary

A united opposition front calls for Zambia's suspension from the Commonwealth over allegations that President Michael Sata (2011 – present) is cracking down on opposition and suppressing freedom. The Patriotic Front (PF) calls on former president Rupiah Banda (2008 – 2011) and his wife Thandiwe Banda to address allegations of corruption. Canada based Barrick Gold announces a \$3.8 billion impairment charge on its Lumwana copper mining operations in Zambia. The government seizes a Chinese owned coal mine.

2 Political dynamics

Opposition parties and civil society call for Zambia's suspension from the Commonwealth ...

At a press conference in **Johannesburg (South Africa)** on 12 February, several opposition leaders including **Nevers Mumba** of the **Movement for Multiparty Democracy (MMD)**, **Hakainde Hichilema** of the **United Party for National Development (UPND)**, **Sakwiba Sikota** of the **United Liberal Party (ULP)** and **Edwin Sakala** of the **Zambia Direct Democracy Movement (ZDDM)** – called on the **Commonwealth** to suspend Zambia, accusing president **Michael Sata** (2011 – present) of stifling democracy¹. The group claims Sata is increasingly anti-democratic, intolerant of opposition and stifling human rights and freedom of expression².

The opposition leaders claim Sata's ultimate aim is to “*crack down ... suppress and exterminate the opposition*”³. They also say Sata is uncomfortable with criticism and wants to return the country to a one-party state to cover up the ruling **Patriotic Front (PF)** government's policy failings, internal fissures and increasingly corrupt governing style (see January 2013 briefing)⁴.

“With police violently stopping rallies and parliamentary constituency meetings, opposition parties see their freedoms stifled and cannot operate freely. Political intolerance has risen to levels where the opposition cannot get together and are forced to converge in Johannesburg to

¹ Source, political analyst, Zambia.

² AFP, 12 Feb 2013.

³ Source journalist, Zambia.

⁴ Source, political analyst, Zambia.

be able to freely express themselves and call for a ban from the Commonwealth. They worry about their personal safety but that will not deter them. They are determined to fight the Sata regime until democracy is restored. They take inspiration from former South African president Nelson Mandela ...⁵”.

The opposition leaders also vowed to take their case to the **African Union (AU)** and the **Southern African Development Community (SADC)**⁶.

Former president Banda called before a corruption inquiry...

In early February the government called on former president **Rupiah Banda** (2008 - 2011) to appear before an **Anti-Corruption Commission (ACC)** panel of inquiry⁷. ACC head **Rosewin Wandu** said the ACC wanted Banda to address allegations of corruption and other criminal activities⁸. Banda’s lawyers said he will not appear before the ACC panel because he has immunity⁹. Chief government spokesperson **Kennedy Sakeni** said the government was considering removing Banda’s immunity to establish truth behind the allegations of “*widespread corruption*” during his administration¹⁰. Banda’s lawyer, **Robert Amsterdam**, claims the allegations are “*bogus*” and are

“a plot by the government to attack Banda and deflect attention from the corruption [in the PF government] ... This is simply an attempt to do to the former president what they have done to the members of the opposition ... They are attempting to attack every possible politician who could potentially, in their view... present a risk to the Patriotic Front¹¹”.

This is a continuation of Sata’s heavy handed governing style on punishing opponents rather than focusing on policy formation and implementation (see January 2013 briefing). The government has detained several opposition leaders and former politicians,

“... some on flimsy charges for crimes allegedly committed while they were still in government ... Sata is focused on going after the opposition, not policy ... this is slowing him down and is drawing him into somewhat dictatorial tendencies on whoever criticises him...¹²”.

The ACC has also targeted Banda’s wife, former first lady **Thandiwe Banda**. In February, the ACC submitted a request to the **Lusaka High Court** for prosecution of Thandiwe Banda over corruption allegations in connection to apartments belonging to an entity called **Mpundu Trust Ltd**¹³. Thandiwe

⁵ Source journalist, Zambia.

⁶ AFP, 12 Feb 2013.

⁷ AFP, 6 Feb 2013.

⁸ AFP, 6 Feb 2013.

⁹ Times of Zambia, 16 Feb 2013.

¹⁰ Times of Zambia, 16 Feb 2013.

¹¹ AFP, 6 Feb 2013.

¹² Source, journalist, Zambia.

¹³ Times of Zambia, 16 Feb 2013.

Banda established Mpundu Trust while her husband was in office. She allegedly bought properties in Zambia, **Malawi** and **Tanzania** through the Mpundu Trust with the proceeds of corruption¹⁴. Sata says the decision to investigate the Mpundu Trust was without “*malice*” and was underway to set the record straight¹⁵.

3 Business dynamics

The government seizes a Chinese owned coal mine...

The government decision to seize a **Chinese** run mine fulfills one of Sata’s campaign promises and wins widespread popular support. Mines minister **Yamfwa Mukanga** on 20 February cancelled the operating licence of Chinese-owned **Collum Coal Mining Industries Ltd** in **Sinazongwe** in southern Zambia. Mukanga cited Collum’s failure to comply with Zambia’s health, safety and environmental standards, failure to report production levels and failure to pay \$921,000 in royalties¹⁶ as reasons for the cancellation. He said government-owned **ZCCM Investment Holdings Ltd** will take over operations until a new investor is found. The Collum mine has had a long history of conflict with its employees. During a 2006 visit to the mine then local government minister **Alice Simango** cried after seeing the working conditions of the Zambian employees¹⁷. In 2010 Chinese managers shot at protesting workers. When charges were dropped against the managers unions and opposition accused president Banda of being too soft on Chinese investors. More recently in August 2012 a Zambian employee killed a Chinese supervisor during a protest over pay.

Sata’s main electoral support base is in the copper rich and mining dependent **Copperbelt** in northern Zambia. Sata campaigned as a fierce critic of Chinese investment in Zambia’s mining sector. After winning the 2011 election, Sata softened his rhetoric against the Chinese to avoid increasing tensions with one of Zambia’s largest mining sector investors. Sata used the seizure of the Collum mine to show his support base he still maintains a tough line on Chinese investors¹⁸. The seizure was received well in the Copperbelt and throughout Zambia. The **Mineworkers Union of Zambia (MUZ)**, the **National Union of Miners and Allied Workers (NUMAW)** and the **Council of Churches of Zambia (CCZ)**, all publicly backed Sata’s action¹⁹. On 20 February **Human Rights Watch (HRW)** said Sata, who promised to prioritise labour rights when he took office in 2011,

¹⁴ Africa Review, 19 Jan 2013.

¹⁵ www.supremetimes.com

¹⁶ Multiple sources: Zambia Reports, 20 Feb 2013; AFP, 20 Feb 2013; AP, 20 Feb 2013.

¹⁷ Multiple sources: Zambia Reports, 21 Feb 2013; Times of Zambia, 21 Feb 2013; Business Day, 21 Feb 2013.

¹⁸ Source, political analyst, Zambia.

¹⁹ Multiple sources: Zambia Reports, 21 Feb 2013; Times of Zambia, 22 Feb 2013;



“... has made some improvements in supporting the oversight of the mines, but there remains inadequate enforcement of national labor laws designed to protect workers’ rights²⁰”.

The seizure of the mine increases uncertainty in the mining sector as whole. However, the Callum mine is in southern Zambia, outside the main Copperbelt mining area, which may indicate Sata is not willing to take action against violations in more significant large scale Chinese investments in Zambia’s mining sector region, for the time being.

Barrick Gold takes a \$3.8 billion charge on its Zambian assets...

Canada based **Barrick Gold** has announced a \$3.8 billion impairment charge on its Lumwana copper mining operations partly due to the government’s decision to increase mining royalties in late 2011 from 3% to 6%²¹. An impairment charge is an accounting term and does not mean Barrick Gold will stop operating in Zambia²².

“The \$3.8 billion charge includes \$3 billion for Lumwana and \$0.8 billion for Barrick Gold’s copper business. The main reason was the cost of the life of the Lumwana mine has increased more than expected since the mine was purchased in April 2011 ... effectively lowering the value of the mine on Barrick Gold’s books ... ²³”.

The increase in mining royalties is not the sole reason²⁴. Barrick Gold says after the most recent drilling program was completed at the end of 2012, the updated results did not meet the company’s expectations. The results, combined with lower than expected copper prices, forced the company to revise its life-of-mine (LOM) cost estimates, hence the impairment charges (see above). Barrick Gold will focus on lower costs to improve value²⁵. Barrick Gold also says

“A focus on higher utilization and productivity of the mining fleet has also been identified as one of the major opportunities to improve value. Until we can improve mining costs, and/or copper prices increase, the expansion opportunity to increase the throughput capacity of the processing plant does not meet our investment criteria. The company will only invest capital if it generates acceptable rates of return suitable to the size of the capital investment. We will not invest capital simply to increase production²⁶”.

²⁰ www.hrw.org

²¹ www.barrick.com

²² Source, senior Barrick Gold executive, Canada.

²³ Source, senior Barrick Gold executive, Canada.

²⁴ Source, senior Barrick Gold executive, Canada.

²⁵ www.barrick.com

²⁶ www.barrick.com



4 Implications

The PF government's concentration on stifling the opposition will increase Sata's heavy handed governance style and continue to divert attention from establishing and implementing a more coherent economic and social policy agenda. The seizure of a Chinese owned coal mine heightens the level of uncertainty in Zambia's mining sector and is a sign that the PF government is committed to resource nationalism, enforcing safety and environmental violations and taking a tougher approach towards Chinese foreign investment. Due to Barrick Gold's \$3.8 billion impairment charge the company will probably not increase capital investments in its Lumwana project until it is able to increase LOM value through cost reductions.