ZIMBABWE

By John Hollaway

There has been no doubt that the Zimbabwean mining industry is in bad shape and getting worse. Indeed, after the destruction of the commercial farming sector, it seems that it is now the turn of the mining industry. Recently Robert Mugabe repeated an earlier threat that mines which failed to 'indigenise' voluntarily would be subject to compulsion. No matter that the mining industry has the greatest black participation in Africa, with most of its managers black Zimbabweans (and many black expatriates running mines in South Africa and elsewhere), and with almost every mining company board having a significant and active black presence. Nor does the fact that many of the European mine owners and operators have been in Africa for generations carry any weight. In common with all of his actions over the past four years, economic good sense is subordinate to policies which, if they were carried out in a white-ruled country, would be rightly condemned as racist.

Given inflation at over 200%, price controls and a black market rate for the Zimbabwe dollar running at about 20 times the official rate, it is a credit to the mining industry that it has survived at all. Indeed, mining in Zimbabwe is a curate's egg of a sector: it is good in parts - very good in parts – but the ills that beset the weak areas make its strengths look less attractive. Indeed, there are structural changes to the industry that suggest its former characteristics – dominated by small gold mines, but with many of the major international mining groups having operations – have gone, perhaps permanently.

A fundamental problem with assessing Zimbabwe's mining sector is that it is denominated in Zimbabwe dollars, and so nobody knows any more what its production is worth. The government continues to buy its hard currency from the Reserve Bank at a rate of 56 Zimbabwe dollars to one US dollar, but at the end of 2002 the black market rate was around 1500:1. As a belated concession, in early 2003 it was announced that exporters who deposited their hard currency earnings with the Reserve Bank were to be paid at a rate of 800:1, not nearly enough for them to stay in business.

In summary, in 2002 the mining industry of Zimbabwe had one major success story - in platinum - and one major failure – in gold. The first follows the downfall of BHP's Hartley Platinum project. With a write-off of about $500 million, this was arguably the biggest failure of any mining venture in Africa. Its revival seemed unlikely at that time, four years ago, but Zimplats has emerged as a triumphant phoenix.

Yet all four platinum-bearing zones of Zimbabwe's Great Dyke are now under development, with two mines, Ngezi (Zimplats) and Mimosa (ZCE) in production and two, Selous (Zimplats) and Unki (Anglo American) being constructed.

The big player here, Zimplats, does not produce precious metals as such, but generates a high grade intermediate (a matte) product from the old BHP plant at Selous. This matte is refined in South Africa by its major shareholder, Impala Platinum Mines. Zimplats started shipping matte only in January 2002, and it has had its normal share of start-up hiccups. However, it has now settled down, and the figures for the first quarter of 2003 suggest that it can expect to produce platinum and base metals worth about US$90 million annually at current prices. The actual turnover will be about US$75 million per year, the balance being taken by refining and transport charges.

Zimplats has revisited BHP's underground mine at Selous and believes that sections of this orebody can be developed using simple room-and-pillar operations with a stoping width (meaning height in this case) of 1.6 m. Trial mining has commenced, with no problems reported so far. Coupling this evidence with the success of Zimbabwe's other platinum mine, Mimosa, which uses the same system, increases the reserves of Zimplats ten-fold.

Mimosa is a home-grown success in the sense that it is an underground operation which has been steadily developed from a pilot mine over the past seven years, with difficulties being overcome before too much money was spent on the wrong things. It has also limited its production to flotation concentrates. Now it has been seen as desirable enough to be effectively taken over by Impala Platinum and Aquarius Platinum of the UK, and its output is being increased from 31,000 oz/y of platinum group metals to 135,000 oz/y, putting it into the same league as Zimplats.

Platinum producers have been able to ride on the back of the original BHP deal, which allows for offshore accounts and full remittance of all profits. Zimbabwe's gold production, by contrast, has slumped thanks to the government's insistence on both an overvalued exchange rate and that all gold produced is sold to the Reserve Bank. Output was 15 t in 2002, according to the Chamber of Mines figures, down from 18 t in 2001, 22 t the year before and a record 28 t in 1999. In 2003, the Chamber believes official production (the distinction is important) will be down to 1982 levels of about 1 t/mth.

About 45 significant gold mines (in the Zimbabwean sense, meaning those producing more than about 10 oz/d) have closed. There has also been a wholesale withdrawal of small producers from the formal sector. About eight years ago there were over 1,000 such mines ('smallworkings') selling their gold, as required, to the Reserve Bank of Zimbabwe. By the end of 2002, there were only about 30, and while many of these tiny operations have closed, there has been a countrywide switch to black market sales, where between five and twenty times the official payment rate per ounce can be received. Perhaps 10 t/y of gold are now being smuggled out this way.

In November 2002, Lonrho Mining (Lonmin) ended an era in Zimbabwe when its remaining gold mines were sold to Pemberton International Investments for US$15.5 million. The five mines in the group produce about 170,000 oz/y, or over a third of Zimbabwe's official output. Pemberton is effectively controlled by the African Mining Group of Mr Mzi Khumalo, the South African businessman whose fraught tenure as JCI's chairman drew international attention. Lonmin is now solely a major platinum company in South Africa, but Lonrho's original rise from its Rhodesian base was thanks to the late 'Tiny' Rowlands' acquisition of gold mines there, and his manipulation of the Johannesburg stock exchange.

The slippage in coal output is more significant than the figures suggest; by the end of 2002 there was a full-blown supply crisis, exacerbated by the inability of the railways to move the fuel. Much of the equipment at the open pit of the sole producer, Wankie Colliery is now over 20 years old but, like the gold miners, its prices are effectively state-controlled, and the mine cannot raise the money to bring capacity back up again. Iron ore has also slipped badly, reflecting the state-owned Zimbabwe Iron and Steel Corp.'s perennial problems with maintenance and management.

Indeed, the state sector of the mining industry has had a bad year. The government-run Zimbabwe Mining Development Corp. began life in 1982, and between then and 2002 it has closed 15 out of the 18 mines it had acquired. Its major gold producer, Sabi, shut in 2002.

The trend for the mining majors to shed all their minor holdings in Zimbabwe has been exemplified by Anglo American, which in early 2003 disposed of its gold mines there in a management buyout, and also sold its nickel interests to another South African-based black group, Mwana Africa.

In the grim conditions of Zimbabwe today, nickel output has suffered. The mines have always been marginal operations; the grades at Bindura Nickel Corp. (BNC) are regarded as so much waste rock elsewhere in the world, and any price downturn forces BNC to trim costs. It will be interesting to see if the new owners can improve matters.

Anglo's major new platinum mine, Unki, which has been hovering in the wings for so long, will, it seems, be run from Johannesburg, a fact that illuminates a challenge Zimbabwe is going to face increasingly in the future. Both Anglo American and Rio Tinto are amongst the largest mining groups in the world. They have achieved this by developing only the largest mineral resources. Unfortunately, while Zimbabwe is a country with a very diverse mineral heritage, it is one that is mainly composed of small- and medium-sized deposits. As a consequence, both groups have been quietly downsizing for years. Rio Tinto has the Murowa diamond discovery, which will be significant in Zimbabwe terms when it is in production, but it is not a world-class discovery. It also has its Sengwa coalfield, which might be a major mine one distant day when the electric power surplus in the region has been soaked up. For such major players the small gold and base metal mines, which have been the mainstay of the industry for many years, are of no real interest.

There is a danger that Zimbabwe will end up with a mining sector like most of Africa. This means a few very big mines run largely with expatriate skills at one extreme, and a mass of panners in the rivers at the other, searching for gold and precious stones, with nothing in between. Up to now Zimbabwe has been unique in Africa, with a proliferation of small- and medium-sized mines, but foolish economic and political policies have done terrible damage to these operations.

Mining Production Major Minerals and Metals

	Unit	2001	2002	% Change on 2001
Asbestos	t	136,327	167,954	23
Black Granite	t	385,532	411,989	7
Chromite	t	780,150	749,339	-4
Coal	t	4,064,497	3,721,112	-8
Gold	kg	18,050	15,468	-14
Iron Ore	t	360,862	325,000*	-10
Iron Pyrite	t	88,156	87,592	-1
Limestone	t	3,798,956	4,442,095	17
Nickel	t	8,145	8,092	-1
Phosphate	t	87,880	107,854	23
Palladium	kg	371	1,942	423
Platinum	kg	519	2,306	344
Rhodium	kg	42	217	417

*estimate