



A VIEW of Nkana mine, owned by Mopani Copper Mines Plc.



THE new concentrator at Nkana mine cost over US\$200 million.

# Mopani deal: Expert's perspective

■ Sixtus Mulenga says Zambia must command its own development

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**I**N JANUARY, Government's investment arm, Zambia Consolidated Copper Mines - Investment Holdings (ZCCM-IH), agreed to buy Glencore's majority stake in Mopani Copper Mines Plc in a US\$1.5 billion deal, and yesterday, during an extraordinary general meeting, the transaction was finalised, with shareholders overwhelmingly endorsing the deal.

The acquisition of Mopani from the Swiss mining giant, Glencore, is without doubt the biggest takeover deal by a local company in recent history, definitely not after Frederick Chiluba's privatisation era of the 1990s, which saw the end of the country's biggest mining conglomerate, ZCCM.

The deal has, inevitably, generated a lot of public debate. The questions surrounding the deal mainly centre on the ability of the new mine owners to run it successfully and pay the debt owed to Glencore, while some have accused Government of influencing the off-take deal in order to save thousands of jobs in an election year.

For others, perhaps it is just a case of déjà vu, remembering how the mighty ZCCM Ltd was dismantled, with devastating results that remain to date.

But one of the country's well-respected mining experts, Sixtus Mulenga, has defended the deal, saying it was a purely business and not political transaction which will benefit the country in the long run.

He describes the deal as a "step change", made after the realisation that Zambia did not participate in the exploration of its mineral resources after privatising the mines.

"That move of buying shares is normal international business practice; companies buy shares from each other, and the reason ZCCM-IH did it is that Glencore had wanted to put the mine under care and maintenance, so it was important for ZCCM-IH to safeguard jobs



PROCESSED copper at the Mufulira smelter. Inset, Dr Mulenga.

for the Zambian people and to protect the assets because once you put an asset on care and maintenance, it begins to deteriorate and lose value," he says.

Dr Mulenga, who is a mining geologist with over 35 years experience, says Glencore's decision to put the mine under care and maintenance was a contradiction, considering the price of copper, which had risen to impressive levels last year.

Currently, copper is trading at over US\$8,000 per tonne, which should spell boom time for producers such as Zambia.

Dr Mulenga says projections show that the global demand for copper will remain high up to the year 2030, with a global shortfall of 10 million tonnes.

He says the demand is driven, in part, by low investment during the global pandemic period, as well as climate change mitigations, including the push to cut fuel emissions by producing electric cars.

He also says concerns about the huge debt owed to Glencore should not cloud the deal.

"This deal is effectively 'vendor financed', meaning the seller is effectively providing the money for the buyer to purchase the operation. ZCCM-IH is not paying upfront and Glencore has effectively provided ZCCM-IH with the loan for the acquisition of Mopani. As would be the case with a loan from a bank, that loan must of course be repaid, and in this case, the loan is being repaid from the proceeds of the

asset over time," he explains. ZCCM-IH itself has addressed concerns over the huge debt owed to Glencore by stating that "the US\$1.5 billion is a commercial loan to Mopani and a loan of this nature is not unusual for a mine of this size".

It also says the repayment terms provide some relief to Mopani in years when the copper price is depressed or when the operations are not profitable, and that the royalty payment is fixed for the first three years and thereafter is linked to the copper price, meaning when the price goes down, so does the royalty. ZCCM-IH also denies assertions that in the event that Mopani fails to pay the US\$1.5 billion debt, it will be passed on to Government, saying the mining firm is well able to settle the debt from its cash flows.

According to ZCCM-IH, 33.3 percent of cash flows are applied to debt repayment, leaving the company with 66 percent of cash flows to finance its operations.

And of course the mine sits on assets exceeding US\$1.5 billion.

**Mining champion**  
Dr Mulenga also views ZCCM-IH as a good investor because of its status as a publicly-listed company that thrives on good governance. "ZCCM-IH is a good home for Mopani in that ZCCM-IH is a publicly-listed company, providing many investors with the comfort that comes with the improved governance and transparency practices

typically associated with listed companies," he says. He says the fact that ZCCM-IH is a listed company on the Lusaka Securities Exchange and other international stock markets in Europe, with a diverse shareholding, makes it a more responsible and careful investor. "Because it's a listed company, it operates under an excellent corporate governance framework and guidelines and rules and regulations, which makes it very different from the Zambia Consolidated Copper

champion' that can demonstrate what we are capable of in our own country. People will be watching closely and we should all be supporting ZCCM-IH in their endeavours to build Zambia mining for all of us. If this is done successfully, the sky is the limit," he says. Dr Mulenga also has a lot of confidence in the Zambian management at Mopani which he says has in the past one year managed to half the cost of production, from about US\$1,000 per pound to US\$430

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Mines Limited that ran the mines before we privatised [them]," he says. ZCCM Ltd was a parastatal company owned by Government. This also takes care of those screaming nationalisation, since Government is only a shareholder in ZCCM-IH. He describes ZCCM-IH as a "national mining champion". "ZCCM-IH obviously also has considerable mining heritage and experience. It is good that Zambia has a 'national mining

per pound. He says this proves that the team is running the mine efficiently and can do more if supported. "ZCCM-IH must listen to this team, and we must be proud that we have a Zambian team to run the mine," he says. "People may be thinking that there will be political interference, but ZCCM-IH is a shrewd business company. They will appoint a board that will deliver because they have to prove to the country that

they are capable [of running] the mine. People should not be sceptical but proud that we are running our mine [through] our own local people."

Dr Mulenga has a lot of optimism that the mine will float and thrive.

He is also hopeful that with ZCCM-IH fully involved in the copper production, there will be more focus on local value addition.

"We can't spend a hundred years just mining the raw material and exporting cathodes. We can do better," he says.

He says the impact of COVID-19 globally demands a paradigm shift where countries have to survive on their own resources.

**Carving our own future**  
Dr Mulenga says Zambians must now own the means to development and drive their own developmental agenda. It is a point he reemphasises.

"Development cannot be outsourced. You cannot go and invite somebody and say come and develop my country," he says, adding, "Britain was developed by the British, Germany by the Germans, all the European countries developed themselves, so why can't Zambians have a mindset to develop themselves?"

He says ZCCM-IH should be viewed as a local champion to spearhead development, and should be supported by all Zambians.

He says while the privatisation of national assets such as the mines that happened about two decades ago was successful, in that it brought about more investments from foreign entities in new areas such as those in North-Western Province, it provided vital lessons which the country must not ignore.

According to Dr Mulenga, one of those lessons is that locals must be involved in critical industries that drive the economy, such as mining.

He says Zambia needs to encourage local entrepreneurs like himself, who is set to open a large-scale manganese mine in Luapula, to invest in the sector, although he does acknowledge that local investors need support from larger investors from overseas for financial support.

Dr Mulenga's argument is that development can only be driven by citizens themselves, and not foreigners.

"It is the only winning formula for development," he says.

He adds: "We are making breakthroughs in 2021, moving the country in the right direction of trying to do things ourselves, taking the risk that foreign companies take."

With the ownership of Mopani fully in the hands of ZCCM-IH, it remains to be seen whether the narrative about one of Zambia's biggest copper mines will change from negative to positive.



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