Supplement - The sale of ZCCM

1. The sale packages

Package A - Nkana and Nchanga Divisions, originally including the Chibuluma Copper Mine	Package H - Ndola Precious Metals Plant
Package B - Luanshya Division	Package J - Power Division
Package C - Mufulira Division	Package L - Chingola Refractory Ore Dumps
Package D - Chambishi Copper Mine	Special package - Konkola North Development Area
Package E - Kansanshi Copper Mine	Special package - Konkola Deep Mining Project
Package F - Nampundwe Pyrite Mine	Prior sale - Bwana Mkubwa disused mine and tailings
Package G - Chambishi Cobalt and Acid Plant	

2. The sale process as originally envisaged

The original timetable for privatisation of ZCCM required all bids to be lodged by 28 February 1997. By 31 March 1997 the preferred bidder for each package was to be announced. It was envisaged that negotiations for each sale would be completed and contracts signed by the end of June with full completion and transfer of assets to the new owners by 30 September 1997. Packages or parts of packages not sold were to be re-tendered or transferred to a specially formed management company to be disposed of at a later date.

Bidding for Bwana Mkubwa, Kansanshi and Konkola North was concluded early while the Konkola Deep Mining Project, which was the subject of a prior agreement with Anglo American, was not put out to tender.[1] With these exceptions, ZPA duly announced on 28 February 1997 that twenty-six bids had been received from fifteen companies or bidding groups for the remaining nine ZCCM packages. Each package had attracted at least one bid. The bids were to be evaluated over four weeks by ZPA, ZCCM, and N.M. Rothschild and Clifford Chance as advisers to the sale. Preferred bidders would be selected and negotiations initiated. The final deal and decision to sell to a particular buyer in each case was to be subject to approval by the Cabinet and international lenders.

3. The long delay in selling the core of ZCCM

Package A (main part) - the sale of the core **Nkana/Nchanga Divisions** has only just been finally concluded in 2000, despite the fact that their successful disposal was, from the outset, key to the privatisation of ZCCM as a whole. The two divisions contribute to over half of ZCCM's current copper output and 80 per cent of cobalt production.

The single serious buyer for the package to emerge from the original bidding process in February 1997 was the Kafue Consortium. This consisted of three major international mining companies - Phelps Dodge of the USA, Noranda of Canada, and Avmin of South Africa - and the UK Commonwealth Development Corporation to provide development finance. In March 1997, Francis Kaunda was appointed by the President to head up the ZCCM negotiations in contravention of the Privatisation Act. He was initially successful in driving up the price bid by the Kafue Consortium in June 1997, although he failed to close the deal. This was worth $160 million in cash, $150 million in debt assumption, $400 million in committed investment and $350 million in conditional investment. ZCCM was to retain a 12 per cent holding in the company.[2] In October 1997, a lower offer by the consortium to reflect a fall in copper prices was accepted. This was worth $150 million in cash, takeover of debt worth $75 million and committed investment of $400 million.[3] ZCCM was to retain a 12 per cent holding in the new company and benefit from profit sharing worth up to $75 million. In November 1997, by which time the price of copper had fallen by 35 per cent over its June 1997 level, the offer price was again adjusted. However, this time the Kafue Consortium prepared a memorandum of understanding to act as a pledge in honouring the terms of the deal. The Government refused to sign and continued negotiations. Further reduced offers was tabled by the consortium (renamed the Copperbelt Consortium) in March/April 1998: $105 million in cash with the assumption of $35 million debt and retention of the ZCCM profit sharing component, although premised on more stringent conditions.[4] Reports in the Zambian press have subsequently claimed that the Consortium sought to include Ndola Lime, Nampundwe Mine and a port facility at Dar-es-Salaam as part of the deal. This approach, and a final reduced offer in May 1998 to reflect the fact that ZCCM's losses had escalated, were both rejected. The Consortium dissolved and all its former members finally pulled out of negotiations in June 1998.

Initial efforts to attract another serious buyer for the package were to no avail. The Government invited Anglo American to report into the possibility of repackaging the remaining bulk of ZCCM. In August 1998, Anglo indicated that it would be willing to operate Nkana and Nchanga on a management contract. In October 1998, it affirmed its interest in buying Konkola, Nkana, Nchanga and Nampundwe pyrite mine as a single package and indicated that, in the event of agreement being reached on the sale, it would relinquish its option of buying the Mufulira smelter.[5] This would allow the Mufulira Mine to be sold as a viable unit. The Government had already been approached by Reunion Mining, a UK-listed African mining company, with a view to purchasing Mufulira on condition that the smelter and refinery were part of the sale. A memorandum of understanding confirming Anglo American's proposed single-package purchase was signed by the company, ZCCM and the Government in January 1999. The purchase price was to be $90 million cash with $300 million as investment commitments to rehabilitate Nkana, Nchanga and the existing Konkola mine. However, before the sale could be concluded, a number of preconditions had to be met: the securing of third party 'non-recourse' financing; an agreement with an international mining company to partner Anglo in the venture; confirmation on the part of Government that ZCCM would implement a redundancy programme on the basis of finance secured from multilateral donors; and the completion of a favourable due diligence study.

The hopeful deadline for the completion of the privatisation by 31 March 1999 passed. Anglo entered into talks with several major mining houses over partnership arrangements, but no deal was struck. Without the assurance of a partner to spread the risk of investment, Anglo successfully modified its proposal of January 1999. The Government signed a revised memorandum of understanding agreeing to the sale on 27 October 1999. Heads of Agreement were officially signed on 15 December 1999, setting a deadline of 31 January 2000 for completion of the sale.

The main changes are the withdrawal of the offer to buy Nkana and the scaling down of investment commitments. Otherwise, the rudiments of the deal remain the same and the mines are to be sold on terms which are highly favourable to the South African company. Anglo is to pay $30 million up front and $60 million on deferred terms for an 80 per cent stake in all three mines, a total of just $90 million. However, Anglo subsidiary ZCI will simultaneously sell its holding in ZCCM for $30 million on deferred terms to the Government to cover the initial purchase price. As a result, the Zambian Government will not receive a net cash transfer unless and until the deferred payments are realised. ZCCM will retain a 20 per cent interest in the new company, Konkola Copper Mines plc, and is to benefit from copper and cobalt participation schemes, although the amount earned will be capped.[6]

The Nkana mine has been excised from the package on Anglo's insistence, but not some of the associated plant. The mine is high cost and has been starved of investment. However, Nkana remains crucial to Anglo's ventures because the company will need to merge their mined and concentrated copper with product from Nkana to ensure an adequate smelting mix. Hence, although Anglo will not buy Nkana mine, it has negotiated the right to veto its sale if the purchaser cannot guarantee investment and development of reserves in a way suited to its own requirements.[7] Anglo/KCM will retain control over the smelter, acid plants and refinery at Nkana, which it will manage under contract with a three year option to buy. The company will build a new concentrator.

In terms of initial investment, the expectation is that $260 million will be committed in capital expenditure to rehabilitate Nchanga, the existing Konkola mine and facilities, and Nampundwe over the next two to three years. Anglo is to provide investment capital of at least $208 million, but a sizeable proportion of the initial investment is to be delivered by the International Finance Corporation and the UK's Commonwealth Development Corporation. The former is to invest $30 million in equity and loans. A similar level of investment is to come from CDC: both corporations will each hold a 7.5 per cent stake in KCM. Anglo/KCM is to commence implementation of the Konkola Deep Mining Project within eighteen months. The cost of developing KDMP is calculated at $523 million.[8]

An agreement to sell Nkana mine itself to First Quantum of Canada, with financial backing from metal traders Glencore International AG of Switzerland, was announced on 20 December 1999. The same partnership is also purchasing Mufulira. The Nkana assets comprise the mining operation, concentrator and cobalt plant. On 10 January 2000, Heads of Agreement were signed. A purchase price of $43 million was agreed, $20 million up-front and $23 million deferred. The new owners will acquire a 90 per cent interest in the new company, with ZCCM retaining a 10 per cent holding.[9] Investment commitments amount to $154 million over the next three years with a further $340 to be delivered subject to a positive evaluation report.

The sale of remaining ZCCM assets was to have been concluded by 31 January 2000. However, on the passing of this deadline, Glencore announced that completion would be delayed into February. Likewise, on 27 January 2000, Anglo announced that its own purchase would not be concluded by the set date. Postponement was blamed on a delay in finalising finance and redundancy arrangements. The sales of Mufulira/Nkana to First Quantum/Glencore and of the core of ZCCM to Anglo American were both finally concluded on 31 March 2000.

The Konkola Deep Mining Project - A memorandum of understanding was originally signed on 11 February 1997 between the Government and a consortium led by Anglo American to conduct feasibility studies into developing mining at Konkola South.[10] The exclusive arrangement reflected Anglo's powerful position as the principal minority shareholder in ZCCM. ZCCM was to retain a 20 per cent holding in the project. As well as the existing Konkola mine, the concession encompasses massive untapped copper deposits. Initial reserves are estimated at 350 million tonnes of high-grade copper ore, sufficient to sustain mining for thirty years. These deposits are to be explored and mined through the Konkola Deep Mining Project. The memorandum of understanding included the option to buy the Konkola concentrator, together with the refinery and modern smelter at Mufulira, in order to process the mined copper ore.

Completion of the agreement was, however, conditional on the prior sale of Nchanga and Nkana Divisions and the completion of a due diligence study.[11] While Nchanga and Nkana remained unsold, Anglo American was able to avoid committing itself to the final purchase of Konkola while safe in the knowledge that the exclusive deal prevented rival bids for the concession. After the collapse of the bid by the Kafue consortium to buy Nkana and Nchanga, Anglo has been able to negotiate the sale of Konkola as part of the overall package deal on highly favourable terms.

Package C - Mufulira Division - The long delay in disposing of the Mufulira package must reflect the uncertainty over its future created by the original memorandum of understanding over Konkola signed with Anglo American. The mine itself extends deep underground and mining is technically difficult. The refinery and modern electric smelter are seen as crucial to the Divisions profitability. As well as extracting copper from the ore produced by the Mufulira mine, excess capacity in the smelter can be sold at a profit to process copper product from other mines. The option of Anglo to hive-off the smelter and refinery from the Mufulira package was perceived as a threat to the very future of the Mufulira mine and caused significant controversy.

Following the collapse of the Kafue deal and moves by Anglo American to renegotiate its own options, the Mufulira mine was repackaged. In early November 1998, Reunion Mining of the UK announced that it had signed a memorandum of understanding with the mine's existing management with a view to tabling a combined bid. The sale was to have been completed by the end of March 1999, but difficulties in squaring the deal with shareholders in the midst of a takeover bid by the Polish company KGHM, which was to have partnered Reunion in the Mufulira purchase, delayed its conclusion. KGHM was in line to buy the mine until First Quantum/Glencore negotiated its purchase as part of the wider deal to buy Nkana. The Mufulira package provides the all important smelter and refinery, as well as a concentrator and the underground mine.

4. The sale of the other ZCCM packages

Package E - Kansanshi Copper Mine at Solwezi in North Western Province was sold by competitive tender in advance of the main ZCCM package sale. Large scale mining at the site had ceased in 1986. The sale, to Cyprus Amax of the USA, was completed on 14 March 1997. The deal is a complex one. The sales agreement specifies that Cyprus Amax will buy and redevelop the mine in three stages moving from initial exploration, through further exploration and a bankable feasibility study as the basis for finance, to final investment to bring the mine into production. If the company elects to proceed at each stage, the final cash price paid for the mine will total $28 million and investment could total $300 million.

Konkola North - The decision was taken by the Government in January 1996 to split the existing Konkola Mining Licence into two areas. The first newly created licence covers the existing Konkola Mine and the lucrative Konkola Deep Mining Project. An exclusive agreement for these assets was negotiated with Anglo American outside of the main privatisation. The second license relates to the remaining Konkola North concession, which has no operating mine, but includes a shaft which was closed in 1956. This package was sold by competitive tender to Avmin (a subsidiary of Anglovaal of South Africa) with ZCCM retaining 15 -20 per cent interest. The deal is complex. Initial committed investment of $12 million over two years is to be spent on exploration and a pre-feasibility study. After a six month decision period, if the company elects to conduct a final feasibility study, a further $14 million will be invested over two years. Provided the development moves through all stages, the total cash consideration paid for the mine amounts to $8.5 million.

Package B - Luanshya Division, comprising the mine and a metallurgical complex, was sold to the Binani Group of India. The sale was concluded on 15 October 1997. The division now operates under the name of the Roan Antelope Mining Company of Zambia Plc or RAMCZ. The cash consideration in the sale was $35 million and ZCCM retains a 15 per cent shareholding in the company. Under the terms of the sale, $20 million in equity capital is to be invested in the company immediately out of a total of $69 million is to be invested over the next five years. The money will be used to refurbish and improve mining, milling operations, the smelter at Luanshya and the concentrator at Baluba. Preliminary feasibility studies have indicated that there are reserves of 44 million tonnes at Muliashi (North). If a full feasibility study turns out to be favourable and other conditions are met, a new open pit mine will be opened at the site and an additional $103.5 million invested in new mining projects over ten years. However, the mine has not been successfully managed, the planned development has not been delivered, and its very future hangs in the balance.

Package A (excised part) - Chibuluma Mine was originally part of Package A with the Nkana/Nchanga mines at its core. While the Kafue Consortium, the leading bidder at the time for Nkana/Nchanga, wanted Chibuluma to remain as part of Package A, the smaller mine was excised and sold to the Metorex Consortium of South Africa. The cash consideration was $17.5 million with investment commitments of $34 million over three years. The company plans to close Chibuluma Mine (West) within 5 years and develop Chibuluma South within 36 - 48 months. Retrenched workers will be partly reabsorbed in the South Mine. ZCCM retains a 15 per cent holding.

Package D - Chambishi Mine was sold to China Non Ferrous Metals Industries Corporation after the original winning bidder, the Ivanhoe Capital Corporation of Canada, pulled out of the sale. The mine was sold for a total cash price of $20 million, the majority of which is on deferred terms and conditional on feasibility studies. Provided the mine is developed as planned in three phases and exploration of the ore bodies at Chambishi West and South East proves fruitful, the company will commit $110 million in investment. Once more, ZCCM retains a 15 per cent holding.

Package J - Power Division was sold to the Copperbelt Energy Consortium made up of Midlands Power International Limited and the National Grid Company plc (both UK-based companies) in partnership with five Zambian senior management staff. The sale was completed on 24 November 1997. The cash consideration paid was $50 million for an 80 per cent holding, with ZCCM retaining the balance of shares. In terms of investment, the company will invest $22.5 million within five years. An additional $34.5 million of investment over the next fifteen years is contingent on certain conditions and plans being realised.

Package H - Ndola Precious Metals Plant attracted only one bid from First Quantum of Canada. The bid was rejected. The plant was later sold in September 1998 to Binani Industries of India for $350,000 cash and $1.4 million recapitalisation. It now operates under the name of Minerva. Once more, Binani's management of the company has attracted criticism and a deterioration in working conditions has sparked a series of disputes with employees. Please refer to Section 2(II) for more details. **Package G - Chambishi Cobalt and Acid Plants** was originally to have been purchased by the Kafue Consortium. Instead, the sale of the package, together with the Nkana Slag Dumps, to Avmin of South Africa was announced in August 1998 for $50 million cash and $90 million in investment commitments.

Notes

[1] The bidding for Konkola North and Kansanshi closed on 30 May 1996 and 6 December 1996 respectively. To complete the picture, and outside of the main privatisation, the abandoned Bwana Mkubwa copper mine at Ndola was sold to First Quantum in December 1996. The company has built an acid plant to process the copper tailings left from previous operations and will undertake further exploration of the mine area.

[2] John Phiri, 'Mines' sale - the inside story,' *Times of Zambia*, 8 April 1998.

[3] Ibid.; also Theo Bull, 'ZCCM - the story nears its close,' *Profit*, December 1997/January 1998, pp. 17 - 19.

[4] John Phiri, 'Mines' sale - the inside story,' *Times of Zambia*, 8 April 1998.

[5] In the initial bidding process concluded in February 1997, no offers were made to purchase the Nampundwe Pyrite Mine outright; however, the Kafue Consortium offered to manage the mine for three years on a contract basis. This offer was withdrawn when the overarching sale to the Consortium of Nkana/Nchanga collapsed.

[6] The Government/ZCCM 20 per cent stake comprises a 5 per cent free and 15 per cent repayable delayed participation in Konkola Copper Mines plc. The cap on revenue from copper and cobalt participation schemes is fixed at $125 million over the life of the company.

[7] Originally it was agreed that if Nkana was not sold by January 2000, Anglo would take over the running of the mine on a management contract and retain first refusal over its eventual sale. However, this arrangement appears to be no longer relevant given the sale of Nkana to First Quantum/Glencore. However, the latter deal remains to be concluded.

[8] Previously, the cost of developing KDMP as originally planned had been estimated at between $700 - $800 million.

[9] This comprises a 5 per cent free and 5 per cent repayable carried interest.

[10] The original consortium comprised ZCI/Anglo American (with a 40 per cent stake in the consortium), Gencor of South Africa (30 per cent) and Falconbridge of Canada (30 per cent). Falconbridge itself was a replacement for the Western Mining Corporation of Australia. However, Gencor pulled out of the deal on 21 May 1997, followed by Falconbridge on 25 March 1998. In 1999, Anglo and the Chilean mining company Codelco were engaged in talks over the joint development of Konkola, but these did not result in a partnership agreement.

[11] Furthermore, under the original memorandum of understanding of 11 February 1997, the consortium had the option to relinquish ownership of the Konkola mine, concentrator and plant at Mufulira prior to a decision to proceed with KDMP.