

Value-Addition Potential Is Complicated in Zambia's Copper Sector

At the time of Zambia's independence in 1964, copper mining was concentrated in the northern part of the country, and the industry was dominated by two foreign owned companies: Anglo American Corporation (AAC) and Rhodesia Selection Trust (RST). Mining was nationalized by January 1970 and AAC and RST, respectively, became Nchanga Consolidated Copper Mines and Roan Consolidated Mines. In 1982, Nchanga and Roan were combined into a new conglomerate called Zambia Consolidated Copper Mines Ltd. (ZCCM). Following a political change in 2000, most of the nationalized companies were privatized and ZCCM was unbundled, introducing competition and technological development in the mines. The government maintains a 15%–25% stake in the privatized copper mines through ZCCM Investment Holdings. There is no official government policy on value addition in the copper industry.

- Copper has been the mainstay of Zambia's economy since the 1930s. Although the industry's contribution to the GDP is consistently around 10%, it contributes about 80% of export earnings, and around 10% of formal employment.
- Export earnings have been increasing because of increased production following privatization and increased prices. These gains, however, have not been matched by increases in employment, mainly due to capital-intensive technologies used in the mines.
- By 2015, copper production is expected to reach 1.5 million metric tons—almost double the peak achieved during the last boom in the 1970s.
- Principal exports are blister copper (90% purity, produced by smelters) and electrolytic copper (99.9% purity, produced by refineries). Open pit and underground mining processes produce copper concentrate (5%–25% purity) that can be exported in its raw form.
- Most Zambian copper goes to China and India, whose rapid growth has driven prices up.

Promoting Value Addition

Until recently, value addition in the copper sector was not a compelling issue. In 2012, however, the executive chairman of ZCCM-Investment Holdings spoke of the need for value addition in all sectors of the economy, including the mines. Zambia's Minister of Commerce, Trade and Industry stated that the export of raw copper would be banned and emphasized value addition for all raw materials. In response to the announcement of the ban, the Zambia chamber of mines, in a newspaper article, blamed the lack of value addition to the copper sector on the general decline in the country's manufacturing activity. Manufacturing faces a number of challenges (e.g., in logistics, financing, tax, and education) and could benefit from a change in the policy environment. Research conducted by the World Bank and Department for International Development found, on the supply side, little competitive advantage in sourcing copper locally and on the demand side, a low level of local and regional demand to support a substantial fabrication industry. Furthermore, Zambia's low levels of industrialization, shortage of technical skills and international management experience, and poor rail and roads infrastructure make it difficult for local industries to contribute to

the copper sector. Copper mining companies had previously made it clear that their expertise was in mining and not fabrication. Recently, plans were announced to establish an Industrial Copper Park that would allow manufacturers to invest in copper fabrication activities for the purpose of value addition.

Opportunities May be Found in Diversification

- Zambia could benefit through improved taxation of the copper industry and using the proceeds to diversify the economy through investment in agriculture, agro processing, manufacturing, tourism, industrial minerals, and precious stones. The private sector should play a role in the efforts to diversify.
- Improved local procurement of many copper industry requirements, such as equipment and machinery, chemicals, transport, and food, could increase domestic content of production.
- Expansion of current fabrication could take advantage of domestic and regional markets. Entry into fabrication can be encouraged through production of intermediate copper products such as sheet copper and rods.

Zambia Sugar Industry Sparkles as Model of Value Addition

Zambia Sugar PLC is the country's premier producer of sugar and related products. The company, located at Nakambala Estate in Mazabuka District of Southern Province, was established in 1960. It is listed on the Lusaka Stock Exchange with 82% of shares held by Illovo of South Africa and the rest by institutional investors and private individuals. The range of products include industrial sugar, pre-pack sugar, bulk raw sugar for refining, specialty sugars, and downstream products to optimize the return on every stick of sugar cane. Zambia Sugar produces approximately 400,000 metric tons of premier grade sugar, marketed under the White Spoon Sugar brand, and exports about 60% of its output. In comparison, the world's leading sugar producer is Brazil, which produced an estimated 39 million metric tons in 2011–2012. There is tremendous growth opportunity for the sugar industry. Every part of the sugar cane is put to use for different purposes by Zambia Sugar. It can thus serve as an example of a company where value addition is a key activity.

Raw Material Is Sourced Locally

- Cane sugar is sourced locally, either from the company's own estate or from small cane growers or private farmers.
- Equipment and machinery are generally sourced abroad while electricity, fuel, and some services are sourced locally.
- Price competitiveness, good quality capacity to adjust production lines and volumes, lead times, and capacity to learn and keep up with innovation, and trust are emphasized when dealing with suppliers.
- Constraints to local procurement include need for improvement in culture of integrity and fulfillment of commitment, reduction in cost of borrowing, and need for eradication of corruption.
- Overall, the sugar sector can play a bigger role in the Zambian economy because of abundant land, huge water reserves, and a favorable climate. Promotion of the sugar industry is a viable way to diversify the economy.

