

**ADDRESS BY HIS EXCELLENCY THE PRESIDENT
OF THE REPUBLIC OF ZIMBABWE COMRADE R. G. MUGABE,
AT THE CHAMBER OF MINES ANNUAL GENERAL MEETING,
VICTORIA FALLS, 28th MAY, 2010**

Honourable Minister of Mines and Mining Development,
Comrade Obert Mpofu,
Honourable Ministers here present,
Honourable Governor and Resident Minister of Matabeleland
North Province,
Comrade Thokozile Mathuthu,
Senior Civil Servants,
The President of the Chamber of Mines, Mr Victor Gapare,
Distinguished Captains of the Mining Industry,
Distinguished Leaders of Industry and Commerce,
Invited Guests,
Ladies and Gentlemen,
Comrades and Friends.

I am greatly delighted and honoured to be with you here today on the occasion of the 71st Annual General Meeting of the Chamber of Mines. This meeting in our signature resort town of Victoria Falls, under the theme "Rebuilding the Mining Industry for Sustainable Growth, Development and Empowerment", dovetails with Government's thrust towards economically empowering the people. An empowered people are better able to build a strong, tolerant, socially coherent, yet diverse and egalitarian society – the king of heritage we want to bequeath to our children and future generations of Zimbabwe.

This Annual General Meeting is taking place at a very important time in the history of our country, indeed a very defining moment, with Government affirming the importance of the mining sector and its central role in turning around the economy of Zimbabwe. The mining sector currently contributes more than 50 percent to export earnings and provides over 45 000 jobs. Research by the Chamber of Mines shows mining sector contribution to GDP to be at 15.5 percent, reflecting both the growth of the sector and structural changes that have occurred over the past decade. Mining is, therefore, deservedly a key sector providing impetus for growth and economic development.

As is well documented, our economy has gone through very difficult circumstances over the past decade. Indeed, Government is aware of the current challenges constraining the growth of the mining sector, thus slowing down the recovery momentum. In response, the Government has instituted a package of economic stabilisation measures under the Short Term Economic Recovery Programme (STERP), and having achieved stabilisation, will now roll out further economic reforms for sustainable recovery and growth of the economy.

Government has also embarked on a broader process of indigenisation and economic empowerment. Among other things, the implementation of the empowerment initiative will take cognisance of the need to promote growth of the mining industry. Such growth requires to attract new investment, particularly foreign direct investment, facilitate working capital and even long-term capital for exploration and mine development. Accordingly, the implementation mechanisms are being refined to ensure that investors find it attractive to expand current operations and bring new investment into the country.

Government has no intention of expropriating the mining industry. No mine has been nationalised since independence. The record therefore speaks for itself. But it is readily agreed that the war for

independence was fought not just for land, but also for our nation to own other natural resources in circumstances in which they could share with other friendly countries as equitable partners. Past business modalities and practices of companies that deny our people participation as partners in the ownership of their equity are repugnant to the principles of our national sovereignty.

This sense of direction, of seeking to correct historical wrongs, has persuaded Government to explore the path of profitable partnerships and joint venture initiatives with foreign investors in the mining sector. It is our belief that this situation has the potential for a sustainable win-win partnership framework, which would naturally be beneficial to both Zimbabweans and foreign investors. Local investors will have to demonstrate fair value for their equity stake in the process. In recent times, we have seen some indigenisation initiatives by Anglo-American as they sold off such assets as Zimbabwe Alloys, Bindura Nickel Corporation, Iron Duke and Billboes Gold Mines to local investors. Rio Tinto also undertook a similar initiative which resulted in the formation of RioZim, which is locally owned. The twin objectives of growing the mining industry and promoting local empowerment are not mutually exclusive, and Government wishes to assure investors that it will implement a well designed and progressive empowerment programme. However, our Indigenisation and Empowerment Act requires that the Zimbabwean share of equity in an enterprise with foreign investors be not less than fifty-one percent.

Consultations with the private sector, aimed at improving the indigenisation regulations are progressing satisfactorily. Government has received inputs from all stakeholders, including the Chamber of Mines. Government has also accepted the principle of empowerment credits as an integral component of the 51 percent and this is detailed in Section 5(4)(c) of the regulations. I am thus amazed by the rush of negative publicity towards this policy of indigenisation when in fact its regulations provide for flexibility where necessary.

Local procurement and capacitating industries and new companies owned by indigenous business persons constitute premier initiatives that qualify for empowerment credits. Corporate social investment in communities also creates a visible platform for local empowerment, thus achieving broad based and transformative empowerment. For example, the construction of dams and irrigation schemes, approved scholarships and skills development programmes, are some of the initiatives that also qualify as

empowerment credits.

In this regard, work done by Rio Tinto through the Rio Tinto Foundation is illustrative of the merits of well designed and beneficial community development projects. Over the years, the Foundation has undertaken several projects which include: Rupike Irrigation Scheme near Renco; Sanyati Dam construction; Mhondoro Ngezi High School construction; Eiffel Flats SMEs blocks; Empress RioZim Agricultural College, and A-Level and university bursaries, among other forms of help to charities.

More recently, ZIMPLATS' social investment of building roads, schools, clinics and the fibre optic link to Norton and Ngezi, has also



President Robert Mugabe at the 71st Annual General Meeting of the Chamber of Mines of Zimbabwe.



Honourable Obert Mpofu The Minister of Mines and Mining Development (left), **Mr Victor Gapare**, the President of the Chamber of Mines of Zimbabwe presenting appreciations of the Chamber of Mines of Zimbabwe to President **Robert Gabriel Mugabe**.

given examples of specific interventions that benefit communities. These examples of corporate social investment and responsibility give impetus to broad-based empowerment and qualify for credits on their quantitative and qualitative basis.

My Government expects a greater role by mining houses in supporting small-scale and artisanal mining, thus creating a symbiosis between large and small-scale mining, beneficial for economic growth and environmental protection. The mining industry is also expected to be proactive and creative in terms of how broad-based empowerment can be expanded in a way that will further the development and prosperity of all Zimbabweans, particularly, the rural poor and the vulnerable.

The finalisation of the Mines and Minerals Act is progressing satisfactorily and the new amendments are designed to improve the administration and management of mineral titles. Government has adopted plans for implementing the 'use it or lose it' policy. This policy seeks to discourage the speculative holding of mineral rights by non-users. Thus, genuine investors with current and ongoing development plans have no reason to be concerned. The implementation of the policy will recognise the long-term nature of investment in mining and the natural mining expansion planning cycle.

Government is aware that recurring power outages continue to impact negatively on the whole economy, including the mining sector. I wish to inform this meeting that several power projects requiring new investors are pending, including the Hwange Power Stations 7 and 8, Kariba and Batoka. In addition, Government will institute the necessary energy sector reforms required for attracting new investment in that sector.

Recapitalisation of the mining industry remains an immediate imperative. The difficult economic environment of the past decade prevented any meaningful capitalisation of mining houses. Indeed, capital depletion accelerated and the mining sector thus missed the golden period of global mining boom, driven by international mineral prices. I urge the mining industry to structure innovative deals that are designed to enhance recapitalisation and growth of the industry.

Several mining houses have already commenced critical capitalisation initiatives for expansion. In this regard, platinum mining houses, combined, are projected to spend over US\$500 million in expansion projects. Such growth is forecast to double production capacity, and create hundreds of new jobs in the process.

The gold industry has faced many difficulties over the past decade, which resulted in cumulative decline in output from a peak of 27 tonnes in 1999 to 3.5 tonnes in 2008. Recovery is underway, though it could be enhanced through recapitalisation of the gold sector.

I am aware that substantial financial resources are tied with the

Reserve Bank of Zimbabwe Gold Bonds. Although Government is financially constrained, the Ministry of Finance will work with industry to come up with a comprehensive strategy to deal with the debt and transforming the debt into cash for mining operations.

I am informed that the Ministry of Mines and Mining Development and the Chamber of Mines are working closely to come up with a new mineral development policy. The new policy must clearly spell out how locals can leverage their mining titles to raise capital for exploration and new mine development. The policy should also articulate the symbiosis between large and small-scale mining of some ore bodies to recognise the differing mineral deposition and formation.

Some minerals such as platinum do not readily lend themselves to small-scale mining, due to the evident requirement of capital intensity, while other mineral deposits can be worked profitably by small-scale miners. However, as a nation, we do not want to end up as a hive of illegal panners, or Amakorokoza, as they are generally called. Even the small deposits must be worked in a professional manner which does not harm the environment or injure people.

The new mining development policy should also lucidly spell out the strategy for beneficiation. Value-addition onto our minerals should be viewed within the context of an overall integrated national industrialisation strategy and not in isolation. It must consider the scale of operations necessary for viability. For instance, the objective of ZIMPLATS is to establish a refinery, but this has to take account of the minimum scale of operations for long-term sustainability and viability.

Skills development is another immediate national imperative for sustaining economic recovery and growth. In the 1980s and 1990s, Zimbabwe developed, through its educational programme, established a formidable skills base across all sectors of the economy, which became a visible testimony to social transformation to the rest of Africa. Most of the skills have now been lost because of a brain drain arising from the country's economic challenges. There is need to attract these skills back into the country and the mining sector should be at the forefront of such an initiative, given the skills intensity of the industry.

There is therefore the need to strengthen our capacity for research and policy analysis to help mitigate against the loss of skills the country has suffered.

I am informed that through the Business Council of Zimbabwe (BCZ), the Chamber of Mines will lead the initiative to establish an Economic Research Institute dedicated to economic policy research and analysis.

Government looks forward to drawing from such research output and any attendant policy dialogue and ideas that can be distilled and applied, broadening and rationalising our national economic policy.

The challenges confronting the economy require an all stakeholder approach. Our objective, as Government, is to continue to work with the private sector to improve the conditions for doing business. Government will continue to seek ways to ameliorate the difficulties currently facing our economy.

Finally, let me take this opportunity to wish you well in your deliberations during this Annual General Meeting. I hope you will come up with recommendations which can assist us in quickly getting the Mining Industry to recover its viability.

On this note, it gives me great pleasure to now declare the 71st Annual General Meeting of the Chamber of Mines of Zimbabwe officially open. I thank you, Tinotenda. Siyabonga.

CHAMBER OF MINES OF ZIMBABWE
71ST ANNUAL GENERAL MEETING -
VICTORIA FALLS 27 - 29 MAY 2010
CHAMBER PRESIDENT'S ADDRESS TO CONGRESS

His Excellency, President Robert Mugabe;
Minister of Mines and Mining Development; Hon O. Mpofu;
Governor of Matabeleland North; Hon. S. Mathuthu;
Cabinet Ministers, here present;
Deputy Minister of Mines and Mining Development,
M Zwizwai and other Deputy Ministers here present;
Members of the Diplomatic Corps;
The Permanent Secretary for Mines and Mining Development,
Thankful Musukutwa and other Permanent Secretaries here
present;
Senior Government Officials;
Captains of the Mining Industry;
Captains of industry and Commerce;
Invited Guests;
Ladies and Gentlemen.

It is my honour to welcome you all to this, the 71st Annual General Meeting of the Chamber of Mines of Zimbabwe. Thank you, on behalf of the members of the Chamber, for making time to be here for us to share our thoughts on how we can grow the mining industry and in the process contribute to the development of our country, Zimbabwe. I would like to particularly thank His Excellency, President Mugabe, our Guest of Honour, for accepting our invitation to officially open this Annual General Meeting. A special welcome, Gushungo Mbwerambwetete. I also extend a special welcome to our presenters who have come from far away countries to be with us and share their thoughts on the mining business.

The other day I was at an event where my former work colleague and good friend, Deputy Minister Mike Bimha was a Guest of Honour. He started by telling a joke and it goes something like this: When the British are giving a speech, they start by saying something about the weather; the Americans start with a joke; the Chinese start by offering a few words of wisdom and the Africans, start by apologising. As a good African, I'll start by apologising for being very honest with you about the state of our industry and how we believe we should move forward!

The theme of our AGM is **REBUILDING THE MINING INDUSTRY FOR SUSTAINABLE GROWTH, DEVELOPMENT AND EMPOWERMENT** which is appropriate given the paramount objectives of empowerment and growing the economy.

To set the tone for my address to you today, I would like to make clear two very important points in the context of our theme:

1. The mining industry is committed to playing its part in the national objective of achieving the economic turnaround of Zimbabwe. It has the greatest potential to make a significant contribution to the turnaround.
2. The nation has been debating the issue of indigenisation and economic empowerment. The industry supports indigenisation and economic empowerment and recognises this as a national imperative. As a Chamber, we have put together our ideas and come up with proposals which we believe if implemented or incorporated in the National Strategy, will achieve empowerment in the industry over time and in a manner that safeguards the

interests of all stakeholders. We will discuss this further during this AGM.

MINING INDUSTRY PERFORMANCE IN 2009

Mineral production in 2009 was affected by a number of factors including the lack of capital, erratic power supplies, high costs, low productivity, and low prices particularly for base metals.

GOLD

Gold production at 4.9mt was up 39% from the 2008 figure of 3.5mt. While this may look like a decent increase in production, from an industry capacity point of view this is very low given that in 1999, the country produced 27mt. However, when one considers that virtually all gold mines had been shut down in 2008, this output was a commendable performance. Looking forward, 2010 production is expected to be around 7 - 8mt, an increase of just over 43% when compared with 2009. The greatest challenge facing the gold mining industry is lack of capital. Due to the economic problems which the country experienced in the last several years, the gold mining industry failed to recapitalise as is required by conventional practice. This has come to haunt the industry as the capital expenditure not done during those bad years cannot be wished away. As an industry, we believe our short to medium term capacity is around 20mt per year. At the current production output of around 7mt per year, the effective capacity utilisation is therefore around 35%.

Your Excellency, the low gold production in Zimbabwe is not as a result of mineral depletion, but rather under investment in exploration and production facilities over the years. Our own projections suggest that with the right amount of exploration and investment in production facilities, gold production could increase to 50mt within a ten to fifteen year time horizon. Recent advances in technology, particularly in exploration and the treatment of refractory ore bodies, offer significant opportunities for the development of the gold mining industry in Zimbabwe.

The liberalisation of the gold marketing arrangements in early 2009 has brought back confidence into the sector. Going forward, gold producers will use their future production as security for loans to recapitalise the industry. One issue that remains to be addressed is obviously the tenure of the gold dealing licences which at the moment is one year. Providers of capital view the one year gold dealing licence as too short when compared to the optimum investment periods which range from three to ten years. The capital required by the industry is long term and we have suggested to the Minister of Finance that the tenure of licences be at least five to ten years. This would enable gold producers to leverage future gold production when raising long term capital which is what is needed in the industry.

Gold prices remain firm and all forecasts suggest that the price will remain above US\$1,000 for a while. In fact in the last few weeks, we have seen gold exceeding the US\$1,200 mark. The fact that gold prices have managed to rally even when the dollar has been firm suggests underlying sentiment must be particularly firm. Given that so many hard currencies have turned into fiat currencies, it would not be unreasonable to expect gold prices to continue rising relative to all currencies whose economies are swamped in

debt and are likely to have massive budget deficits stretching for years to come.

With this positive outlook for gold and given our resource base and production potential, it is imperative for us as a nation to speedily create an environment that will enable us to ride the crest of this positive trend and bring lasting benefits to our economy before the markets take a turn.

PLATINUM

Platinum and palladium production increased by 25% in 2009 when compared with 2008. The mines operated at full capacity and producers were commissioning new capacity during the year. At Zimplats, a new concentrator was commissioned while at Unki construction of the concentrator was in progress and should be ready for commissioning during the fourth quarter of 2010. Zimplats has just announced plans for the next phase of mine expansion which is a positive development. There are three other platinum projects which are at feasibility stage and are expected to add to higher production in the years to come. Prospects for the growth of this sector over the next three years are bright and exciting.

Platinum prices increased from US\$926/oz at the beginning of 2009 and ended the year at US\$1416/oz, an increase of 53%. Like Platinum, Palladium prices rose almost continuously during 2009 from an opening fix of US\$185 to a closing fix of US\$393/oz, an increase of 112%.

Your Excellency, the developments which have taken place in the PGM sector in Zimbabwe over the last several years bear testimony to what can happen if positive global market trends are matched with the right investment climate and fiscal policies on the local level to promote the mining industry. While all other mineral production levels were declining, PGM production was increasing as investors capitalised on the positive global markets trends and the positive fiscal and investment environment which your Government had put in place for the sector. We would urge Government to work closely with the industry to ensure that the general investment climate is improved to ensure that the minerals are mined to optimize returns availed by current positive global trends.

CHROME

Chrome ore production declined from 442 884mt in 2008 to 193 673mt in 2009, a decline of 56%. The decline was attributable to the low demand for ferroalloys, a major component in stainless steel production. Stainless steel production declined as a result of the global economic crisis that started in late 2008 and continued for most of 2009. Most of the chrome mining operations were on care and maintenance for the greater part of 2009.

Ferrochrome production declined from 145 430mt in 2008 to 72 223mt in 2009, a decline of 50%. Consequently, both Zimasco and Zimalloys had to shut their furnaces. Production resumed at Zimasco in April 2009 and recently, Zimasco announced that five of its furnaces were now operating at full capacity in response to improved demand particularly in China. Zimalloys has managed to raise over US\$40m to recapitalise the mining and smelting operations. This is a positive move and should bode well for the chrome industry going forward.

The fluctuations in the fortunes of the chrome and ferrochrome producers are evidence of how dependent our local industry is on global trends. It therefore places great responsibility on us as a nation to create appropriate policies that will enable our producers to respond to these fluctuations with speed and ease; to easily access risk capital, which is long-term in nature, to carry out exploration and mine development during periods of high prices. When we fail to take advantage of the high cycle to carry out major

capital expenditure, it will come back to haunt us in future years with recovery taking place over extended periods of time, which is detrimental to the well being of the industry and the country as a whole.

COAL

Coal production declined by 2% in 2009 to 1.7m mt. Capacity utilisation averaged 20% during the year. Capitalisation of the coal operations is in progress and we expect production to improve once the process of recapitalisation is completed. It is important that the problems bedevilling NRZ, ZESA and ZISCO, all of which have a direct bearing on our ability to optimally exploit our coal resources, be resolved as coal is a critical input in the whole economy.

NICKEL

Primary nickel operations remain under care and maintenance and the resumption of operations is dependent on the company securing additional capital. All nickel production for 2009 came as a by product from PGM production. Production at 4 873mt was 24% below the 2008 production level of 6 354mt.

Nickel prices continued to firm throughout the year rising from US\$10 000/mt at the beginning of the year to US\$17 518/mt at the end of the year, an increase of more than 75%. Again, this positive development needs to be harnessed by creating an environment supportive of immediate investment in this sector.

DIAMONDS

Diamond production was adversely affected by the low demand as a result of the global financial crisis. Indeed, even beyond our borders, mines were closed, sold or put on care and maintenance. Global prices have since recovered to their pre 2008 levels mainly driven by strong demand in China and India.

Your Excellency, the resolution of the current ownership wrangle around the Marange diamond fields is urgently required. The issue is negatively affecting the reputation of the country as an investment destination for mining. Most local mining companies are presently engaging the world capital markets looking for investment capital and this matter has tended to produce a negative view of our country which is highly undesirable. We take no sides in this matter but would urge both parties to resolve the matter amicably. We would also wish to emphasize that it is important for Zimbabwe to remain within the Kimberly Process Certification System as this is of utmost importance to the nation in the long run. We know that the Ministry of Mines and Mining Development has been working hard to ensure that as a country we comply with the KPCS system and we commend the Minister and his staff for the work they have been doing in this regard.

ASBESTOS

The asbestos mines remain under pressure due to undercapitalisation. Production declined from 11 489mt in 2008 to 4 970mt in 2009, a decline of 57%. The Far East remains a viable market for asbestos and it is critical that the asbestos mines be recapitalised sooner rather than later to ensure that the country benefits from this resource.

IRON ORE

The situation for iron ore production remains grim. It's ironic at a time when the prices for iron ore are at record levels, there is no activity in this area. Demand for iron ore particularly in China is forecast to continue growing. Most of the iron ore mineral rights are in the hands of ZISCO, but this company has been unable to carry out exploration and development of these mineral rights in the last several years. We would urge the Government to resolve this situation so that work can begin on these mineral rights for the benefit of the nation.

Your Excellency, ZISCO is a company which is of strategic importance to almost all industries in Zimbabwe. Its tragic that this asset is dying in our sights when it could play a pivotal role in the development of our country.

INDUSTRY ISSUES

Let me now turn to the issues affecting the industry today.

Indigenisation and Economic Empowerment

The most topical issue in the country today is indigenisation and economic empowerment. As I have already said, the Chamber and its members support the concept and believe that its objectives can be achieved in a way which will result in a win - win situation for both the country and the investors. We have given proposals on how empowerment can be achieved in the industry and broadly, these include the following:

- Equity of at least 15% as a minimum which means it is possible to have even up to 100% equity being locally owned. At the Mining Indaba held in September 2009, both Ministers Kasukuwere and Mangoma confirmed that companies could use listing on the ZSE as a way of achieving indigenisation. We like this a lot as it gives ordinary people the chance to buy a shareholding in these companies directly or through the pension funds.
- Credits in equity equivalents which include local procurement, CSI, support to the small scale mining sector, skills development, starting new businesses and any other socially and economically desirable activities.

The Indigenisation and Economic Empowerment regulations gazetted in January 2010 also recognise this approach. Section 5(4)(c) states that in return for achieving certain socially and economically desirable objectives, a business may be allowed to have indigenous ownership at a lower percentage than 51%.

In coming up with our proposals, the Chamber considered the aspirations of the country and the needs of the investors. We believe we can achieve more economic empowerment if our industry is growing. A growing industry generates more cash which allows more individuals to participate meaningfully in the natural resources of the country. Today, our biggest need as an industry is to attract capital to carry out exploration and development. As you are well aware, this industry is capital intensive and very risky particularly at the exploration and early production stages. As a nation we still need to build a risk capital base for deployment to the risky mining sector.

Your Excellency, the mining sector has the largest impact on national foreign currency earnings, job creation, infrastructural development, tax revenues and long term positive social impact. A number of towns, education and health facilities have been developed on the basis of the development of the industry. In recent years, the sector has been in decline and its contribution in some areas has gone down as well. What we need is an empowerment policy which balances the need for the development of the industry to ensure contribution to development and the need for local participation in the mining activities.

To my colleagues in the mining industry, I urge you to move on and start implementing empowerment initiatives as we don't have to wait for legislation to start carrying out most of the initiatives which make commercial sense anywhere. There are numerous examples of empowerment initiatives which have already successfully taken place in the industry. Anglo American started this process way back in the 80s when they sold a controlling stake in Hwange Colliery and in the 90s they sold off Clay Products and 20% of Bindura nickel to the Government. In the last decade, they sold off operations like



President Robert Mugabe (right) admiring appreciations from the Chamber of Mines of Zimbabwe with Mr Victor Gapare.

Zimbabwe Alloys, Bindura Nickel, Amzim Gold, Iron Duke, National foods, Willdale, Southampton, First Merchant Bank which is the forerunner to Banc ABC to indigenous players.

Rio Tinto did a lot of work in the communities through their Rio Tinto Foundation building dams, irrigation schemes, farmer training and skills development. These are initiatives which have empowered a broader community base. Rio Tinto also spun out Rio Zim into a separate company which is effectively locally owned.

We are a positive industry and will continue to engage with Government and all stakeholders until a win - win solution is found.

Finalisation of amendments to the Mines and Minerals Act

The industry has cooperated with the Ministry of Mines and Mining Development to finalise these amendments. We have agreed on virtually all the changes which needed to be made to improve the administration of the Mining law. We would urge that the revised Act based on what has been agreed be finalised as soon as possible. As long as it remains outstanding, investors will continue to ascribe a higher risk to our country as they won't know what the final position will be.

Mineral Rights

Your Excellency, our investigations suggest that over 50% of all mineral rights in Zimbabwe are in the hands of local Zimbabweans and state controlled organisations. Why have these persons not been able to develop these mineral rights when in fact in 2008 worldwide, the exploration expenditure was US\$13.2billion? Our view is that they have not been able to get access to long term risk capital rather than just the speculative element alone. For sure, there are some people who have acquired these mineral rights for speculative purposes but in a way that's part of the mining game. Our belief is that these mineral rights should form the basis of an empowerment programme in the mining industry for those blessed to be holding them. Owners of mineral rights should use these rights as their contribution in joint ventures with foreign investors who should bring capital to develop the mineral rights. I would urge those holding such mineral rights to be creative and start engaging international capital to achieve development of the mineral rights. Accept to share the risk with others and you will be well rewarded and protected.

One of the presentations to be done today will cover financing exploration and mine development. During the course of this year, the Chamber will hold a one day workshop to educate those holding undeveloped mineral rights the various options they have in raising

finance to develop their mineral rights.

When reviewing the ownership of mineral rights, consideration should be taken of an overall mineral development policy. It should be recognised that there are some orebodies and minerals that don't lend themselves to small scale mining due to the sheer magnitude of capital involved and the complexity of the exploration, mining and processing involved. An example which comes to mind is platinum and coal. At the same time it's a fact that there are some orebodies which are small enough for small low capital operations. The gold mining industry is an example where there are some small orebodies which could be mined more effectively by small scale miners. What we need is a programme to develop the small scale mining sector and Your Excellency, Chamber members have committed themselves as part of the indigenisation and empowerment programme to come up with a programme to graduate these small scale miners into formal miners who will contribute to the fiscus.

Electricity and Power

Your Excellency, one of the biggest challenges facing the industry today is the availability of electricity. ZESA is currently generating just about 1000MW against a demand of 2000MW. Zimbabwe cannot industrialise on a base of 1000MW of power. The mining industry cannot contribute effectively if the power problem is not sorted out soon. The whole Southern African region faces a critical shortage of power and Zimbabwe is in a particularly acute situation. As you know, the mining sector is a major consumer of power and in 2007 and 2008, some mining companies were already importing power by paying Carborra Basa directly. Mining companies have been working with ZESA to revive the small thermal power stations and discussions are in progress to this effect. Further, some mining companies have in the past entered into direct deals with ZESA where they have financed some capital expenditure and amortised their contributions through electricity consumption.

Going forward, we believe the solution lies in building new power stations and recapitalising ZESA and its subsidiaries. There has been a lot of talk about power projects but there hasn't been any investment at all. In the 90's, ZPC was spun off other ZESA assets as it was believed that the generation assets could attract investors. However, this has not happened and we urge the Government to be bold and let ZESA get new shareholders.

Recapitalising the mining industry

Your Excellency, mining is an industry which survives on continuous recapitalisation. Due to the problems of the last several years, the industry has not recapitalised. We missed the mineral boom of the last decade but we have an opportunity as demand for minerals continues to be firm driven by hot Asian economic growth. Virtually all Zimbabwean mines need recapitalisation. If as a nation we are to benefit from the vast mineral resources we are endowed with, we have to come up with a strategy to recapitalise the industry and build on economies of scale.

While Zimbabwe may host some potentially exciting mineral deposits, a long history of uncertainty in security and economic outlook has precluded the levels of modern exploration investment that other geologically comparable destinations have seen. As a result deposits have been brought into production at minimum threshold levels, soon after discovery, and have never been methodically and exhaustively explored or optimised, leading to a proliferation of smaller mines that are generally under-capitalised. The resultant fragmented ownership of property now puts further constraint on exploration investment.

The latest Fraser Report on mining companies and jurisdictions ranked Zimbabwe 69 out of 72 mining jurisdictions. The report highlights areas where investors and miners think we are not doing

well and include the following:

- Uncertainty regarding administration, interpretation and enforcement of existing regulations
- Uncertainty regarding enforcement of environmental regulations
- Regulatory duplication and uncertainty
- Taxation corruption, theft of properties sanctioned by the state
- Uncertainty regarding social and community development conditions – linked to indigenisation
- Political instability
- Poor infrastructure – electricity, rail, telecommunications, water etc
- Poor geological database
- Labour laws – too restrictive



Honourable Obert Mpofu, The Minister of Mines and Mining Development at the 71st AGM of the Chamber of Mines of Zimbabwe.

There is no doubt some of the issues raised in the report are not necessarily correct but are just a perception of our country arising out of misinformation and maybe malice. However, perception is reality and it is our job to create the right perception going forward. We have to create and make ourselves a better investment destination by improving the perception the world has of us. The Chamber has been working very hard in this respect and we remain committed to ensure that the right perception of our country goes out there.

Mineral Development Policy

Your Excellency, this year the Chamber will be working with the Ministry of Mines and Mining Development to come up with a mineral development policy. This policy will look at the major minerals we are blessed with and come up with a development policy for each. We will look at beneficiation in the context of the overall industrialisation policy of the country bearing in mind that in most cases the value addition process is a very different business from mining requiring a totally different skills set and investment strategy. In some cases, we will need to expand mine production first before we get to build value adding processes. A good example is platinum which requires a certain minimum volume to justify a refinery.

Contribution of Mining to the Economy

There is a general perception in some quarters that the mining industry is not contributing enough to the development of the country. From the discussions that the Chamber has had with various

stakeholders including Government Ministers, it is clear that we need to sit down and evaluate our industry's present contributions to the economy and thereafter discuss further areas where the industry can make more meaningful contributions.

It is clear in our minds that there is misinformation on this matter. What most people have not taken into consideration is the fact that the effects of increasingly onerous and capricious regulations, higher levels of taxation and other policies that interfere with market conditions are rarely felt immediately as they are more likely to deter companies looking for new projects than they are to shut down existing operations.

The industry does not operate in isolation to the rest of the economy; over the years the industry has been consuming capital due to the economic environment that existed. All the capital expenditure that was not done during those years cannot be wished away; it has to be done for the industry to recover and start making a contribution. In a way the nation consumed the capital in advance as most of the forex which funded Government activities came out of the surrender which the industry had to do in line with the law at that time.

Our belief is that the industry's contribution to Zimbabwe over the years has been immense and in line with Government's aspirations of improving the welfare of the ordinary citizens of the nation. To be reminded, one has to look at the traditional mining towns, education and health facilities which have been established by the industry over many years. Maybe we just have not sold ourselves very well when we have done all these activities which have changed society.

If the industry is to contribute more meaningfully, we have to build mines with critical mass which will benefit from economies of scale. As long as we do not establish an environment which favours development of large and small mines, the industry may not contribute significantly to the fiscus. We are part of this country and are part of the solution. Let us work together to find solutions to our problems.

A presentation on this matter will be done by my colleague, Joseph Mvurecha later today and he will cover this area adequately.

Skills and Labour Issues

The industry has lost a lot of skills in the last decade. The skills base which had been developed in this country since 1980 were second to none and today, if you go anywhere in the world, Zimbabweans are running major undertakings. This is good in a way as these migrants are gaining valuable experience. However, we need to make plans to get these Zimbabweans back as our economy takes off.

Our training institutions need to be supported so that they can start churning out skills again. In this regard, the Chamber is a major sponsor of the School of Mines and as part of the indigenisation and empowerment programme: mining companies have undertaken to make skills development a major priority. These are the skills which must one day become the entrepreneurs who reinvent Zimbabwean industry and society.

One of the issues we have to address on the labour side is the mismatch between expectations and the reality of company performance. We have seen in the last few weeks employees in the mining sector taking unlawful industrial action, which is unhelpful for an industry which is struggling to find its feet. The wage demand of US\$495 per month for the industry is untenable. You have to remember, the mining industry provides accommodation, lights, water, health and transport for employees at an average cost of US\$250 per month per employee. Going forward, we have



MR Victor Gapare addressing delegates at the 71st AGM of the Chamber of Mines of Zimbabwe.

to realise that increases in wages and salaries can only come out of improvements in productivity.

Policy Research and Analysis

Your Excellency, the skills flight has also resulted in a dearth of skills in policy research and analysis in both the private and public sectors. Together with colleagues in the Business Council of Zimbabwe, we are in the process of establishing an economic research unit. It will focus on providing independent research and analysis of the highest order which should guide stakeholders including Government and business in policy decisions. The Chamber has been given the task of spearheading this initiative within BCZ and we look forward to playing our part in this important initiative.

Ladies and Gentlemen, to conclude, we have a tough road ahead of us but if we use our collective determination to pull out of our problems, we will succeed in rebuilding the mining industry for sustainable development, growth, development and empowerment. We cannot guarantee that we will always agree on how we should solve our problems, but the important point is that we must engage each other. Martin Luther King Jr said and I quote "OUR LIVES BEGIN TO END THE DAY WE BECOME SILENT ABOUT THINGS THAT MATTER". What we in the mining industry commit ourselves to is be open to discussion on any issues and we look forward to engaging you all in a lively debate during the day today and in future.

Let me thank you all for being here today. My special thanks go to His Excellency, President Mugabe who will open this AGM today. I would like to acknowledge the support of the following people and organisations:

- The Minister of Mines and Mining Development,
- The Deputy Minister of Mines and Mining Development,
- The Permanent Secretary and Ministry staff,
- Other Ministers and Permanent Secretaries who are attending this AGM,
- Our platinum sponsors, Stanbic and Tetrad and all other sponsors,
- The presenters,
- the Office Bearers and members of the Chamber,
- The staff of the Secretariat,
- And all of you who are here today.

Thank you.

VICTOR R. GAPARE

President

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