

Copper Colonialism

British miner Vedanta KCM
and the copper loot of Zambia

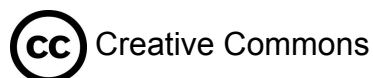
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Front cover pictures: Vedanta KCM's Nchanga mine, Chingola.
A copper truck leaves Zambia over the Victoria Falls Bridge.
Polluted water in Shimulala village, Chingola.
Vedanta Chairman Anil Agarwal and Zambian President Michael Sata meet in London.

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Copper from Cape to Cairo

The question as to who, and what, is responsible for African underdevelopment can be answered at two levels. Firstly, the answer is that the operation of the imperialist system bears major responsibility for African economic retardation by draining African wealth and by making it impossible to develop more rapidly the resources of the continent. Secondly, one has to deal with those who manipulated the system and those who are either agents or unwitting accomplices of the said system. The capitalists of Western Europe were the ones who actively extended their exploitation from inside Europe to cover the whole of Africa. In recent times, they were joined, and to some extent replaced, by the capitalists from the United States; and for many years now even the workers of those metropolitan countries have benefited from the exploitation and underdevelopment of Africa.

Walter Rodney, 1972, 'How Europe Underdeveloped Africa'.

Zambia has been exporting Copper for almost a century. In 1889 the British South African Company (BSAC) was given a Royal Charter, modelled on the East India Company, to exploit the mineral wealth of Southern Africa for Britain. The board of BSAC included Sir Cecil Rhodes, founder of the De Beers Mining Company, and pioneer colonialist after whom Southern and Northern Rhodesia (Zimbabwe and Zambia) were at that time named. Rhodes' signature project was to link the Cape to Cairo by railway, allowing minerals and natural resources to be easily extracted and exported to Europe.

BSAC administered Northern Rhodesia with paramilitary forces until 1924, when it was replaced with direct British rule, but continued to own Zambia's railways until 1947, and their mineral rights until 1964 when Zambia achieved independence.

Massive copper deposits were discovered in Northern Zambia in the 1920's and European prospectors and industrialists flooded into the country. Like today's multinational companies, they brought with them administrators, technicians and skilled labourers, but the life-threatening job of mining was reserved for Africans, who suffered appalling conditions, but had to earn an income in order to pay the 'hut tax' imposed throughout colonial rule. BSAC has been called a 'parasite' on Northern Rhodesia, paying very low royalty rates (which were even tax deductible) and allowing companies to pay taxes where their headquarters were based (mostly London) rather than in Zambia.¹



Caption: Cecil Rhodes: Cape-Cairo railway project. Founder of the De Beers Mining Company, one of the first diamond companies, Rhodes was also the owner of the British South Africa Company, which carved out Rhodesia for itself. He wanted to "paint the map [British] red", and once famously declared: "all of these stars... these vast worlds that remain out of reach. If I could, I would annex other planets".

10 December 1892 edition of Punch.

¹ A.D. Roberts, 1982, 'Notes towards a financial history of copper mining in Northern Rhodesia'. *Canadian Journal of African Studies*. Vol 16, no 2, 1982: 347-359.

In the 1930's and 40's a rising tide of African nationalism led to strikes and protests in the mines, and the formation of the Northern Rhodesian African Congress – the first African political party in Zambia - in 1948. As a response to these uprisings, the 1955 Public Order Act was instated by the British colonial rule, to maintain their administrative and economic power, ensuring that extractive colonialism was not interrupted. The Act (similar to Section 144 in India) prevented meetings, protests, and political flags or uniforms, criminalising all forms of resistance. The Public Order Act remains in Zambian law today, and current President Michael Sata has been widely criticised for breaking an historical 'selective use' policy, and using the colonial law extensively to prevent any dissenting gatherings or protests.

Zambia achieved independence in 1964, and joined the IMF in 1965. First President Kenneth Kaunda nationalised the mining companies and briefly oversaw an economic boom as high copper prices brought prosperity to the nation. The Intergovernmental Council of Copper Exporting Countries (CIPEC) was created in Lusaka in 1967 with major copper producing nations Zaire, Peru and Chile as a copper cartel to increase national revenues from mining. But CIPEC did not succeed, copper prices fell dramatically in the late 1970's, and Zambia's sanctions on white-ruled Rhodesia (Zimbabwe) endangered their trade routes for copper exports to South African ports.

In the 1980's Kaunda was forced to ask for international aid, and in 1983 the first official Structural Adjustment Programme was imposed by the World Bank and IMF, leading to food riots, student demonstrations and civil unrest, as government spending was slashed, price controls were removed and poverty increased. Kaunda's government rejected the World Bank/IMF's programme briefly in 1987, and saw economic growth return, but were forced to remove all protective measures again only a year later under pressure from the Paris Club (a group of rich country leaders) who were withholding bi-lateral aid².

Since then Zambia has undergone one of the most far reaching liberalisation and privatisation programmes in Africa, and simultaneously has become poorer and poorer. Today, in a country half the size of Europe, covered in fertile soils and forests, with a population of only 13 million, life expectancy is only 37, and 20 percent of the population claim 68.67 percent of the total income³. A core plank of the World Bank and IMF's conditions was the break up and privatisation of national mining company ZCCM. They facilitated secret Development Agreements between the Zambian Government and mining conglomerates, which reduced royalty rates, environmental regulations, electricity prices, corporate tax and workers' wage and welfare packages. The agreements are guaranteed for between 15 and 20 years, and can only be changed via a process akin to changing the national constitution.



A copper truck crosses the Victoria Falls bridge into Zimbabwe.

Cecil Rhodes' bridge over the Victoria Falls gorge continues to fulfil its intended purpose, as trucks and trains carrying copper stream over the border to Zimbabwe, heading for South African ports. From there it is allegedly mainly exported to Switzerland, but only a fraction of it arrives at its declared destination, suggesting that the majority is sold on the high seas to China – the world's biggest importer of the metal. (More on this in later sections)

2 World Development Movement, 2004, '*Condemned to Debt*'.

3 Central Statistical Office of Zambia, 2012, *Living Conditions Monitoring Survey report 2006 and 2010*.

The legacy of extractive colonialism and recent far reaching neo-liberal economic policies (which can be clearly seen as neo-colonialism), is a Zambian state which has been corrupted, bankrupted, disenfranchised and dis-informed⁴. Lack of resources and political conflicts of interest, alongside a concerted effort by mining companies to hide data and manage perceptions, leave the Zambian state with virtually no information on the ownership, operations or production of the mining companies. There is no independent data on the volumes of copper or other minerals they are producing or exporting, or where it is going. On top of this, weak laws (negotiated by the World Bank and IMF programmes), and ill-resourced regulatory bodies mean that tax evasion, fraud, illegal mining, environmental damage and human rights abuses are rarely penalised even if they are known. Most strikingly, two Chinese managers who shot 13 Zambian workers at Collum mine in October 2010, had charges against them dropped a few months later⁵.

Meanwhile agencies such as the Zambia Development Agency (previously the Zambia Privatisation Agency) continue to advertise Zambia's ongoing achievements in economic liberalisation in an attempt to attract more Foreign Direct Investment. The 14th Zambia Review, prepared for the UN World Tourism Organisation 2013 General Assembly in Victoria Falls, to attract investment from attending delegates, notes that mining companies can enjoy lower corporate tax rates than other companies (at 30%) and that 57.3 billion Kwacha (\$10 million) of the 2013 budget has been allocated to the development of Multi-facility Economic Zones (MFEZs) (in which tax and other legal exemptions apply). The review openly states that:

*'Investors face no restriction on the amount of interest, profit, dividends, management fees, technical fees and royalties that they are allowed to repatriate. Income earned by foreign nationals may also be externalised without difficulty.'*⁶

These kind of policies are leaving Zambia with very little revenue or benefit from the extensive and rapid mining taking place. The highest unemployment rates are in the Copperbelt and in the capital Lusaka, at 24.5% and 22.3% respectively⁷, mostly affecting youth, and prostitution is the only way of earning for many wives of jobless miners in the region⁸.

This report uses the best available sources from within and out-with the industry to inform and widen the debate around copper mining in Zambia, focusing on the activities of Konkola Copper Mines (KCM), a subsidiary of Vedanta Resources. It aims to expose the interests behind Vedanta, their environmental and human rights abuses, and their loot of copper and other minerals from the Zambian people. More generally, we look at who really controls the Zambian economy and national policies – from international institutions and shareholder patterns, to donor agencies and NGOs. Due to high levels of opacity (opaqueness) we are missing vital information such as KCM's annual reports, and accurate figures on copper production and exports, despite visiting every government and private institution we could in an attempt to find them. Lacking this crucial information, this report is based on international financial data and first hand interviews as well as other studies and documents.

4 D. Acemoglu, S. Johnson, and J. Robinson, 2001, 'The Colonial Origins of Comparative Development', *American Economic Review*, 91, 1369-1401.

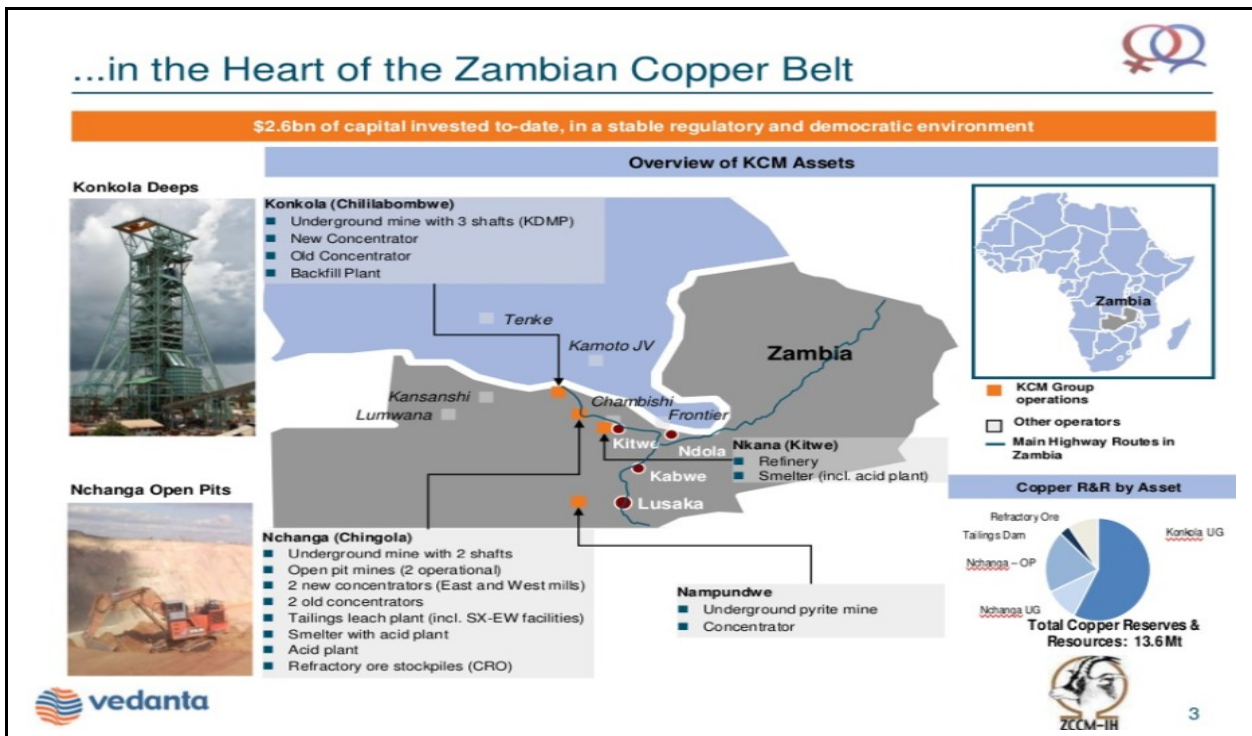
5 Barry Bearak, April 4, 2011, 'Zambia Drops Case of Shooting by Chinese Mine Bosses', *New York Times*.

6 *Zambia Review, 14th Edition*, 2013. Ministry of Commerce, Trade and Industry. Directory Publishers of Zambia Ltd. p.24.

7 Central Statistical Office of Zambia, 2012, *Living Conditions Monitoring Survey report 2006 and 2010*.

8 *IRIN News*, 26th Feb 2009. 'ZAMBIA: Copper-mining downturn sees upturn in sex trade' at <http://www.irinnews.org/report/83161/zambia-copper-mining-downturn-sees-upturn-in-sex-trade>

Who are Vedanta-KCM?



Vedanta's assets in Zambia: 13.6 Million Tonnes of Copper. From Vedanta presentation on KCM, 2012.

Konkola Copper Mines (KCM) was the largest and most copper rich asset sold off as part of the break up of national mining company ZCCM. It was originally sold to Anglo American plc for \$90 million in 2002, who have been in Zambia since the 1930s, and had been managing the mine for ZCCM prior to official privatisation. In 2001 they had secured a \$81 million loan from the UK Department for International Development (DfID) to refurbish the Nkana smelter (begging questions about why the UK's aid budget was being used for private gain)⁹. But only a few months after privatisation Anglo American claimed the mine was unprofitable and pulled out their shares again. This raises stark questions about why and how Anglo acquired the mine. The former head of Anglo in Zambia, Anderson Mazoka, later claimed it was to 'lock up resources in Zambia'¹⁰, but Mazoka was also sponsored by Anglo to start a political party to oust President Chiluba, which was unsuccessful and may have led to his poisoning in 2001,¹¹ another potential reason given for Anglo's hasty withdrawal. In reality this is yet another opaque mystery in Zambia's copper history.

A 51% share in KCM was sold to Vedanta Resources for just \$25 million, paid in cash, and \$23 million in deferred payments, in 2004¹². The deal was facilitated by Clifford Chance and Standard Chartered Bank¹³ (one of the main bookrunners and lenders to Vedanta Resources). Within three months Vedanta had already recouperated its initial investment, making \$26 million. The banks also helped Vedanta secretly negotiate a call option allowing them the right

⁹ Freedom of Information Requests to DfID filed by Simon Chase (ACTSA), reported in Aby Diamond et al, 2007, 'Undermining Development: Copper Mining in Zambia', SCIAF, Christian Aid and ACTSA.

¹⁰ Khadija Sharife, 2011, 'Copper in Zambia: Charity for multinationals', *Pambazuka News*, . 2011-06-02, Issue [532](http://pambazuka.org/en/category/features/73742) <http://pambazuka.org/en/category/features/73742>

¹¹ News 24 archives , 26th May 2006, *Opposition leader 'poisoned'* , <http://www.news24.com/Africa/News/Opposition-leader-poisoned-20060526>

¹² Andrew Sardanis, 2007, *A Venture in Africa: The Challenges of African Business*. IB Tauris, London.

¹³ Zambia Copper Investments, 11th October 2004. 'The recommended introduction of Vedanta Resources plc as a strategic equity partner in Konkola Copper Mines plc'. Circular to Shareholders.

to purchase Zambia Copper Investments' 28.4% share¹⁴, which they exercised in November 2005 (a year after their initial purchase), giving them the 79.4% monopoly they currently hold on KCM, while the Zambian government - via ZCCM-IH (their mining investment wing), own the remaining 20.6%. The Competition Commission was even rendered irrelevant by the Zambian government to allow Vedanta such a large majority share¹⁵.

Andrew Sardanis, a politically connected businessman in Zambia, details the irregularities of the sale of KCM to Vedanta in his 2007 book *A Venture in Africa: The Challenges of African Business*. On top of the \$25 million, Vedanta was to compensate the existing shareholders (Zambia Copper Investments – a Bermuda [tax haven] based, part Zambian government owned entity, and ZCCM-IH) for their share losses. But while ZCI received \$23.2 million in deferred payments (for the dilution of its shareholding from 58% to 28.4%), ZCCM-IH was not offered the corresponding \$16.8 million for its share dilution from 42% to 20.6%. Instead, Vedanta made a deal with the Zambian Government (GRZ) that \$16.8 million in debt owed by ZCCM-IH to the GRZ would be cancelled. Vedanta was supposed to pay this amount to the GRZ, but there is no evidence that the payment was ever received, or asked for.¹⁶

The price negotiated for the buyout of ZCI's remaining shares is not reported, but analysts at the time valued it between \$250 million and \$550 million, putting Vedanta's original 51% share at between \$455 and \$910 million, nine to eighteen times what Vedanta paid! This means the Zambian exchequer lost between \$155 and \$340 million in from the sale of 21.4% of ZCCM-IH's shares alone. In response, ZCI's 33% French shareholders (grouped into a company called Sicovam SA) called the deal 'the most outrageous and scandalous ever seen in Africa for decades'.¹⁷

In addition to all this Vedanta was allowed to carry forward all losses incurred 'up to and including 31 December 2003' – before it even owned shares in KCM. These amounted to \$635,897,000, meaning Vedanta would not have expected to pay tax until the year 2024 at the market conditions of the time¹⁸. In the following years Vedanta made record profits – for example \$301 million in financial year 2006/7 alone¹⁹, but very little change was seen in the Zambian national revenue from this mining boom.

Vedanta abandoned the DfID refurbished Nkana smelter in 2008 and built their own high tech smelter at Nchanga instead. Construction started on the project in February 2006, but the Environmental Impact Assessment (EIA) was only submitted in April 2006.²⁰

The pattern of buying massively undervalued state-owned entities, and operating them without adequate permission is Vedanta's speciality. In Chhattisgarh, India, they bought BALCO's bauxite refinery, smelter and mines for \$89 million in 2001 when it was worth around \$800 million²¹. Vedanta Chairman Anil Agarwal is currently under investigation by the Central Bureau of Investigations in India over the original disinvestment of 51% of Hindustan Zinc Ltd (HZL) to Vedanta for only \$72 million²², claiming the deal was considerably undervalued, and may have

14 Clifford Chance, Nov 5th 2004, Vedanta Call Option Deed. Leaked and available at <http://minewatchzambia.blogspot.co.uk/>

15 Khadija Sharife, 2011, 'Copper in Zambia: Charity for multinationals', *Pambazuka News*, 2011-06-02, Issue [532](http://pambazuka.org/en/category/features/73742) <http://pambazuka.org/en/category/features/73742>

16 Andrew Sardanis, 2007, *A Venture in Africa: The Challenges of African Business*. IB Tauris, London.

17 Andrew Sardanis, 2007, *A Venture in Africa: The Challenges of African Business*. IB Tauris, London. p.247

18 Andrew Sardanis, 2007, *A Venture in Africa: The Challenges of African Business*. IB Tauris, London.

19 Zambia Copper Investments (2007) *Annual Report*, 2007 p 1

20 KCM, *EIA for the new smelter complex in Nchanga*, 2006, cited in Aby Diamond et al, 'Undermining Development: Copper Mining in Zambia', Oct 2007, SCIAF, Christian Aid and ACTSA.

21 *Frontline*, 2001, 'Lessons from the Balco fiasco', Volume 18 - Issue 05, Mar. 03 - 16. <http://www.frontline.in/static/html/fl1805/18051090.htm>

22 *Economic Times of India*, Oct 8, 2013. 'CBI to initiate preliminary enquiry into disinvestment of HZL'

lost the exchequer hundreds of millions of dollars in revenue²³. Vedanta subsidiary Sterlite's copper smelter in Tuticorin, Tamil Nadu, has been built and expanded without various permissions. Local activist researcher Nityanand Jayaraman's article *Vedanta-Sterlite – Dangerous by Design*²⁴ summarises these illegalities and could be a useful resource for Zambians to understand the operating patterns of the company which owns the majority of their copper.

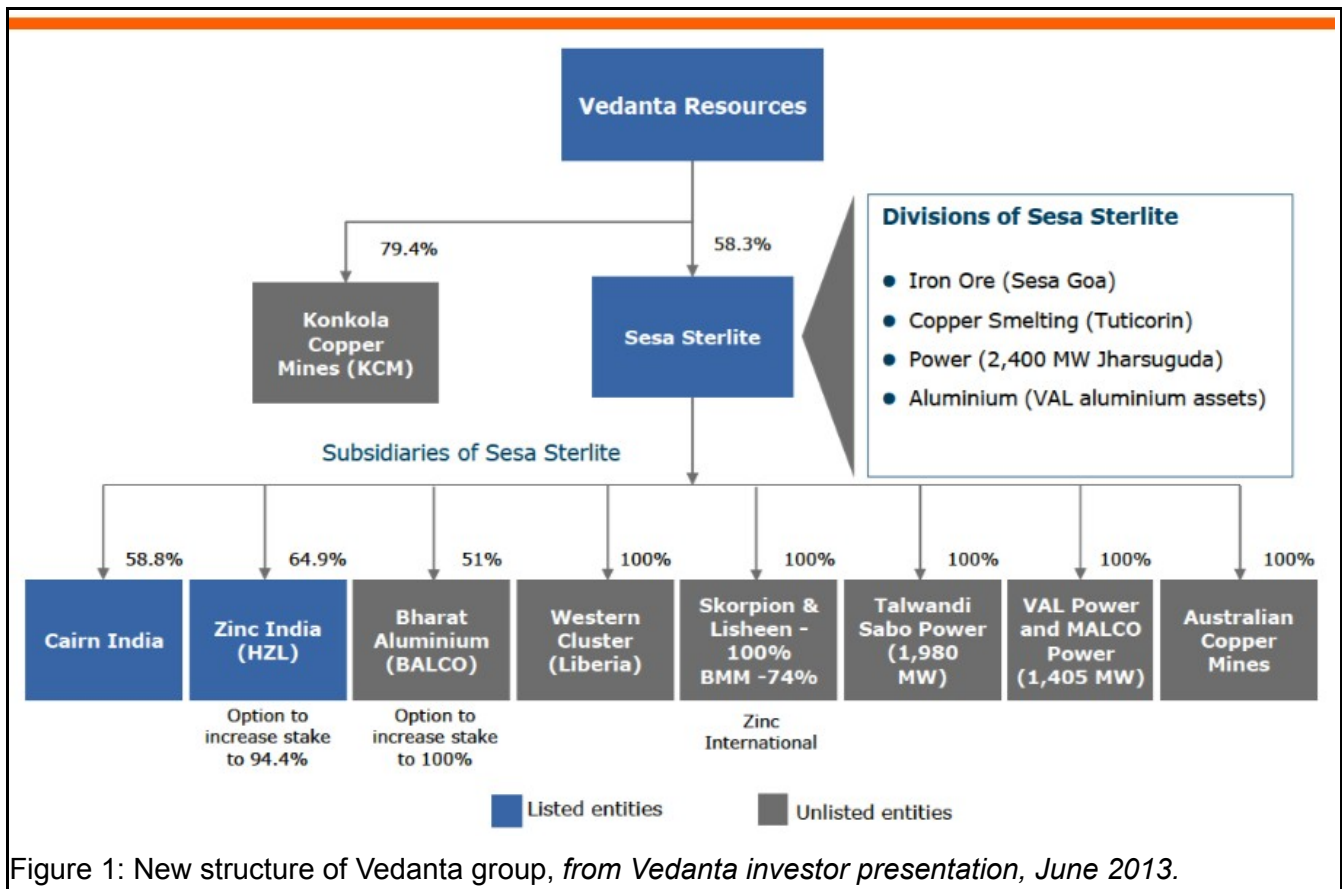


Figure 1: New structure of Vedanta group, from Vedanta investor presentation, June 2013.

KCM is a subsidiary of British FTSE 250 mining company Vedanta Resources. Under a recent restructuring of Vedanta, KCM is now one of only two major subsidiaries. The other subsidiary Sesa Sterlite has eight subsidiaries of its own. Sesa Sterlite has been called a 'corporate rubbish bin' by analysts who suggest its purpose is to soak up debt and risk from loss making and high debt companies like Vedanta Aluminium and Cairn India (oil)²⁵. One of the reasons KCM was kept separate from the other subsidiaries is because it is a high earning venture, making 12.19% of revenue for the Vedanta group in 2012 according to Global Data analyst reports.²⁶ The re-structuring saved Vedanta \$200 million in tax costs.²⁷

Vedanta Resources was a FTSE 100 company until December this year, when their share price dropped to an all time low of 775p (from a 52 week high of 1,335p). In response Chairman Anil

http://articles.economictimes.indiatimes.com/2013-10-08/news/42829279_1_hzl-sterlite-opportunities-preliminary-enquiry
²³ *Economic Times of India*, Dec 23, 2013. 'Hindustan Zinc Ltd disinvestment: CBI registers PE against Vedanta Chairman Anil Agarwal'.

²⁴ Nityanand Jayaraman, March 28, 2013. 'Vedanta-Sterlite – Dangerous by Design.', *Kafila*.

<http://kafila.org/2013/03/28/vedanta-sterlite-dangerous-by-design-nityanand-jayaraman/>

²⁵ Paul Whitfield, Feb 27, 2012, 'Vedanta reshuffle creates corporate rubbish bin', *The Deal*. <http://www.thedeal.com/content/restructuring/vedanta-reshuffle-creates-corporate-rubbish-bin.php#ixzz2osuGMZma>

²⁶ GlobalData, Vedanta Resources plc (VED) - Financial and Strategic Analysis Review, 18th July 2013.

²⁷ Denise Wee, 19 September 2013, 'Vedanta tackles unwieldy corporate structure'. *Finance Asia*.

<http://www.financeasia.com/News/357556.vedanta-tackles-unwieldy-corporate-structure.aspx>

Agarwal played his usual trick of buying as many shares as possible – a total of 5.2 million²⁸²⁹, but it was too late. This leaves Anil Agarwal owning 67% of the company, via his holding company Volcan Investments Ltd, based in the Bahamas - a UK controlled tax haven. This means he pays a minimum of tax, in Britain, or anywhere else he operates.

Vedanta, which has operations across India and Africa, has been named 'the world's most hated mining company' by The Independent newspaper in Britain³⁰, while even the former Director of the Confederation of British Industries, Richard Lambert, has recently suggested Vedanta is bringing shame on the FTSE 100 by 'challenging the canons of corporate governance'³¹. As Vedanta's share prices crashed this winter, the Business Standard of India published an article naming people's resistance and environmental issues at their operations, government regulations, and high debt as Vedanta's major woes affecting their Indian operations³². People's movements have cropped up in response to illegalities, human rights abuses, pollution and workers rights issues at almost all of Vedanta's plants. Most strikingly Vedanta lost \$10 billion this summer when it failed to gain permission to mine bauxite in the Niyamgiri mountains in Odisha, India, due to ten years of resistance by the inhabiting tribal groups and farmers. Vedanta had built its refinery, and expanded it six fold to 6 million tonnes per year capacity, before it received permission to mine, so certain was Agarwal that he would get the bauxite despite the inhabitant's disagreement^{33,34}.

When Vedanta bought KCM they inherited many of the concessions negotiated by Anglo American in 2000, some of which had even required new legislation or changes to existing legislation³⁵. These are legalised in Vedanta's secret Development Agreements negotiated by Clifford Chance with the Zambian Government which are fixed until 2018. These agreements were leaked to NGO researchers and can be found online³⁶. The deal guarantees them a royalty rate of only 0.6%, and allows them to deduct 100% of capital allowance from their investments. The Development Agreements also radically reduced levels of environmental regulation and environmental liabilities which the mining industry had claimed 'could result in very large claims'. Vedanta were exempted from tax on dividends, interest, royalties and management fees. They are also exempt from rural electricity tax³⁷, which is useful for KCM since they use around 13% of Zambia's electricity. Vedanta KCM are currently searching for new coal to power a captive plant so that they can avoid a price hike when their agreement ends³⁸.

28 Jane Tindall, Dec 19th 2013, 'Vedanta share price: Chairman buys 1.7 million shares.' *Invezz*.
<http://invezz.com/news/equities/7703-vedanta-share-price-chairman-buys-1-point-7-million-shares>

29 *Director Dealings*, 24th Dec 2013. 'Vedanta Resources Chairman Buys 35 Million Shares'
http://www.lse.co.uk/AllNews.asp?code=3t2e441a&headline=DIRECTOR_DEALINGS_Vedanta_Resources_Chairman_Buys_35_Million_Shares

30 Alistair Dawber, 29th July 2010. 'Vedanta Resources: the world's most hated company?', *The Independent*.

31 Vedanta was described in the British Parliament by MP Lisa Nandy as 'one of the companies that have been found guilty of gross violations of human rights'. Ms Nandy quoted Richard Lambert the former Director General of the CBI: 'It never occurred to those of us who helped to launch the FTSE 100 index 27 years ago that one day it would be providing a cloak of respectability and lots of passive investors for companies that challenge the canons of corporate governance such as Vedanta...' <http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm120522/debtext/120522-0002.htm>

32 Mansi Taneja & Shine Jacob, Dec 16th 2013. 'Anil Agarwal's many struggles in India'. *Business Standard*.
http://www.business-standard.com/article/companies/anil-agarwal-s-many-struggles-in-india-113121601234_1.html

33 Madhusree Mukerjee, 26th August 2013, 'Pristine Tribe Saves Sacred Mountain From Mining', *Huffington Post*.
http://www.huffingtonpost.com/madhusree-mukerjee/pristine-tribe-saves-sacred_b_3809496.html

34 Saurabh Chaturvedi, Jan 12th 2014, 'India Rejects Plan to Mine Bauxite in Niyamgiri Hills'. *Wall Street Journal*,
<http://online.wsj.com/news/articles/SB10001424052702303819704579316121946926340>

35 John Lungu and C Mulenga, 2005. 'Corporate Social Responsibility practices in the extractive industry in Zambia.

36 See <http://minewatchzambia.blogspot.co.uk/>

37 Clifford Chance. The Government of the Republic of Zambia and Konkola Copper Mines plc. Amended and restated Development Agreement. Leaked at <http://minewatchzambia.blogspot.co.uk/>

38 Matthew Hill, *Bloomberg News*, Jul 17, 2013. 'Vedanta's Zambian Unit Plans Coal Power Plant to Reduce Costs.'
<http://www.bloomberg.com/news/2013-07-17/vedanta-s-zambian-unit-plans-coal-power-plant-to-reduce-costs.html>

Copper - the elephant in the room

'..The production and sales figures [for copper] announced are indeed impressive but what puzzled me was the Governor's carefully phrased 'estimate copper export earnings'. It made me think that these 'earnings' were perhaps never received in the country and I am asking for clarification. Were the 'estimated export earnings' actually received or are they likely to be received and when? If not, how much was received and what happens to the rest? Are the new mining companies allowed to keep them abroad and if so how do they account for them? Does the Government monitor the foreign accounts of these companies and does it make sure that the country gets its fair share? The Nation needs answers to these questions.'

Kenneth Kaunda (Zambia's first President), The Post Zambia newspaper, 2005.

The copper elephant

Zambia produces a sixteenth of the world's copper, at almost 1 million tonnes in 2012 (according to data reported by mining companies to the Bank of Zambia)³⁹. It has the world's richest copper deposits (alongside Congo), and is the eighth largest copper producing country in the world⁴⁰. Copper is Zambia's most important export, making up 75% of its export revenue. However, despite all this, copper mining only contributes 2% to Zambia's domestic revenue!⁴¹

Why is it that when copper prices are around \$7,300 per tonne, and demand from China is increasing annually, Zambia is one of the world's poorest nations with external debts of 32% of GDP? As Kenneth Kaunda, Zambia's first African President, points out in the quote above, the profits from mining are gushing out of the country, and the Zambian Government and regulatory bodies remain painfully short of information on where this revenue, or even the copper itself, is going.

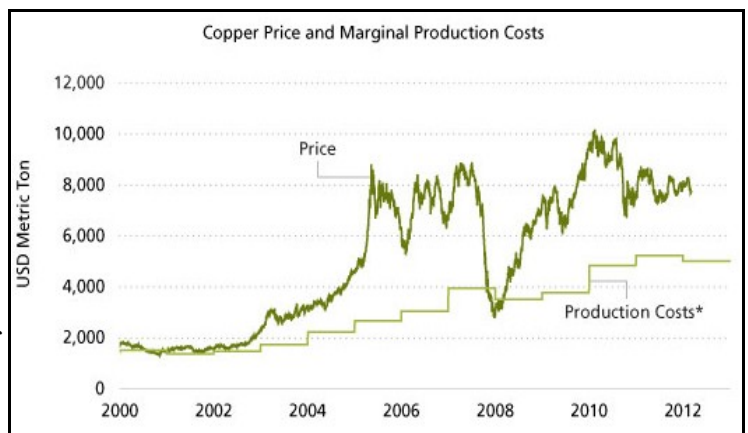


Figure 2: The profit margin on copper is far higher than other metals. So why aren't Zambians seeing the benefit? (Source: Bloomberg, Wood Mackenzie, AllianceBertstein)

This dearth of information makes copper the 'elephant in the room' in Zambia. There is no monitoring of production volumes at the mines, or exports at ports of exit. Instead all figures come from the company's own reporting, which historical cases show is often deliberately distorted⁴². Politicians, trade unions, academics and journalists debate endlessly over the percentage of royalty or windfall tax the nation should be receiving. But without accurate information on the volumes of extraction or the profit made by mining companies, how can the Government make an informed decision on

³⁹ Bank of Zambia, *Mineral Production and Export*, 2012.

⁴⁰ International Copper Study Group (ICSG), 2012.

⁴¹ *Lusaka Times*, July 22, 2011, 'Mining Sector contributing less than 2% of domestic revenue-ZCTU'.

⁴² e.g. Sherpa versus Mopani, April 2012. *Specific Instance regarding Glencore International AG and First Quantum Minerals Ltd. and their alleged violations of the OECD guidelines for multinational enterprises via the activities of Mopani Copper Mines Plc. in Zambia.*

mining policy?

We went from pillar to post looking for a copy of Zambia's biggest miner Vedanta-KCM's annual report, believing the vital figures on production and profit it contains should be public information. But despite visiting the Central Statistical Office, the Bank of Zambia, the Deputy Minister of Mines, the Lusaka Stock Exchange, and ZCCM-IH (20.6% shareholder of KCM), none was available. This section looks at the opaque nature of copper mining in Zambia, and uses global financial statistics and parallel case studies to examine copper material flows and financial flows from Zambia, evaluating the potential for the Zambian people to truly profit from their extensive resource.

Making sense of copper material flows

According to the Central Statistical Office of Zambia (CSO) copper and cobalt products worth \$5.9 billion were exported from the country in 2010⁴³, while the Bank of Zambia (BoZ) puts the value of metal exports in 2010 at \$6.07 billion⁴⁴. In the same year, according to the Government of Zambia's reports to the Extractive Industries Transparency Initiative (EITI) only \$552 million was received in tax revenue from mining, or \$688 million if PAYE (tax deducted from workers' pay) is included⁴⁵, a tenth of the estimated value of the exports.

But this is not the whole story. Why are the CSO and BoZ figures so different? The CSO takes its figures from the mining company's declarations, while the Bank of Zambia uses its own formulas to estimate production and export volumes. In 2010 CSO report 767,008 tonnes of copper produced, while BoZ report 852,566 – a difference of 85,000 tonnes. In 2012 CSO report 721,446 tonnes, and BoZ 824,922 tonnes, a difference of 103,000 tonnes^{46,47}. So there is no clarity within Zambia on the actual levels of production or export of metal.

It is likely that the real figures are considerably higher for several reasons; illegal mining operations extracting ore under the radar, and deliberate under-declaring of production and export volumes by companies. Research conducted by the ISS in Zambia in 2010 found the mining industry extensively affected by theft, corrupt business practices, tax evasion and smuggling⁴⁸.

A 2011 detailed investigation into the operations of Mopani Copper Mines (a subsidiary of Glencore International) by a group of international NGOs *'revealed cobalt extraction rates twice inferior to other producers of the same area - a difference deemed unlikely by the auditors and which indicates that some of the ore extracted by Mopani could remain undeclared.'*⁴⁹

It is likely that cobalt, a metal with a value three times higher than copper, is considerably under-declared. Statutory instrument 89 in Zambian law permits the export of unprocessed ore, and the export of waste products is also permitted. One financial journalist we spoke to in

43 Central Statistical Office, *Traditional Exports 2003 – 2012*. Supplied on request to researchers. (The figures are \$6.9 bn in 2011 and \$6.5 bn in 2012)

44 Caleb Fundanga, Governor of Bank of Zambia, 2011, *Macroeconomic trends in relation to the attainment of MDGs*. Bank of Zambia website.

45 Zambia 2010 EITI report.

46 Central Statistical Office, *Graph of Total Copper Production 2000-2012*.

47 Bank of Zambia, *Statistics Fortnightly: fortnight ending Nov 15 2013*. Volume 20, no22.

48 A. Mafuleka, 2010, *Organised Crime in Southern Africa: the case of Zambia* (unpublished report). Subsequently incorporated into a review of organised crime compiled by A Huebschle, 2010, *Organised Crime in Southern Africa: First Annual Review*, Institute for Security Studies pp. 59-61

49 Sherpa versus Mopani, April 2012. *Specific Instance regarding Glencore International AG and First Quantum Minerals Ltd. and their alleged violations of the OECD guidelines for multinational enterprises via the activities of Mopani Copper Mines Plc. in Zambia*.

Lusaka alleged that cobalt, silver and other minerals are exported undeclared in ores and waste products. KCM allegedly export waste known as 'slimes', which may contain other minerals for processing outside Zambia. In India Vedanta's subsidiary Sesa Goa are accused of exporting 150 million tonnes of iron ore from Goa in 2010/11 while only declaring 7.6 million, their agreed export allowance.⁵⁰ It would not be unreasonable to assume such a company would be prone to misdeclaring its exports elsewhere. Revelations about Vedanta's illegal mining in Goa and Karnataka were originally made after community surveys of numbers of trucks leaving their mines were carried out. Simple surveys such as this could equally be used in Zambia to determine the accuracy of company reporting on production and export.⁵¹⁵²

Opaque profit

KCM and other mining companies in Zambia don't publish their profits, even though the Zambian taxpayer has a share in most of them via ZCCM-IH. However Vedanta's 2013 annual report claims KCM produced 216,000 tonnes of copper in 2013. In the same year costs of production were valued at 255.1 US cents/lb, putting the total cost of production that year at \$1.2 billion, which would constitute a profit of \$362 million (at a current copper price of \$7,300).⁵³

Production at Vedanta subsidiaries

(thousands of metric tonnes)	2013	2012	2011	2010	2009
Copper total	569	526	521	507	446
Sterlite (India)	353	326	304	334	313
KCM (Zambia)	216	200	217	173	133

However, Vedanta has declared that they are making very little profit at KCM, justifying the retrenchment of 2000 workers which they announced in May 2013, and which KCM vice-president for human capital David Kaunda, told the Mine Workers Union of Zambia was due to "a very unsustainable cost of production" with high pay rates, and electricity prices.⁵⁴ Vedanta regularly cite production rates of 8 tonnes per employee, but at the 2013 production levels stated in their annual report, with 18,000 employees, the real figure would be 12 tonnes/employee. In fact 11,000 of KCM's employees are

Cash costs of production

US cents/lb	2013	2012	2011	2010	2009
Copper - Sterlite	8.7	0	4	10.4	3.1
Copper - KCM	225.1	236.8	197.5	184.4	258.4

Figure 3: Production and costs at Vedanta subsidiaries. Adapted from Vedanta's annual report 2013

casual or contract labour and may be working part time, as well as for considerably lower pay than full time labourers⁵⁵. The 225.1 cents/lb (or \$4,962 per tonne) cost of production Vedanta cite in 2013 is actually not far from the global average of between \$3200 and \$5000 (according to one analyst). With copper prices consistently above \$7000 per ton this provides a huge profit margin on copper compared to other metals.⁵⁶

50 Rajeev Kumar, 15th Nov 2013, 'Vedanta, a major player in Goa's illegal mining syndicate.', *Gulail*. <http://gulail.com/vedanta-a-major-player-in-goas-illegal-mining-syndicate/>

51 *Rediff news*, December 08, 2012, 'Detailed report: Story of BRAZEN illegal mining in Goa'. <http://www.rediff.com/news/report/detailed-report-story-of-brazen-illegal-mining-in-go/20121208.htm>

52 Sudipto Mondal, June 17, 2013. 'Karnataka lost Rs 1 lakh cr from 2006-2010', *The Hindu*. <http://www.thehindu.com/news/national/karnataka/karnataka-lost-rs-1-lakh-cr-from-20062010/article4820758.ece>

53 Vedanta Annual Report 2013

54 Misheck Wangwe and Darius Kapembwa, 25th May 2013, 'Govt rejects KCM's plan to sack 2,000 workers', *Zambia Post*. http://www.postzambia.com/post-read_article.php?articleId=33189

55 Christian Aid's report claims that sub-contracted labourers are paid just £37 per month instead of £150 they require for a living wage. Aby Diamond et al, October 2007, *Undermining Development: Copper in Zambia*. ACTSA, SCIAF and Christian Aid.

56 Jonathan Ruff, March 12, 2013. 'Feared Copper "Flood" More Likely a Trickle', *AllianceBernstein* <http://blog.alliancebernstein.com/index.php/2013/03/12/feared-copper-flood/>

Vedanta's own figures should be treated with suspicion. If they only produce 8 tonne/employee compared to a global average of 150 tonne/employee, as they have often stated, how are they still making a \$362 million profit? Either they are paying the workers very little, making large margins on other concessions, or misdeclaring their production. Deputy Minister of Mines Richard Musukwa suggested to the researchers of this report that Vedanta have been doing a lot of in-house trading by bringing in Indian companies as contractors.

Analysts reports from Global Data reveal that KCM made 12.19% of revenue for the entire Vedanta group in 2012⁵⁷ so they are certainly not doing too badly.

The widespread use of 'transfer mis-pricing' means that many mining companies under-declare their profits within Zambia to reduce tax. Transfer pricing is heavily linked to the use of tax havens, which is very common among mining conglomerates. For example, mining companies can sell their copper to a holding company which is one of their own subsidiaries, based in a tax haven like the British Virgin Islands or the Bahamas, at below market price, recording low or zero profits in Zambia. The holding company then sells it on to the buyer at a high value, recording high profits at their holding company, which are barely taxed. A leaked report authored by Grant Thornton at the request of the Zambia Revenue Agency (ZRA) demonstrated how the Glencore's Mopani Copper Mines (MCM) used this type of transfer mis-pricing, as well as overestimated operating costs and underestimated production volumes, to declare no profits, and cheat Zambia's exchequer out of millions of dollars, while making a fortune.⁵⁸

A 2010 Economic Commission for Africa report on *Tracking and Certification of Mineral Output in Southern Africa* states:

There are also concerns about such practices as transfer pricing by large-scale mining conglomerates taking advantage of intra-group agreements involving the holding companies based in low tax jurisdictions and the subsidiaries based in the region. Transfer pricing abuses take various forms, including over- or under-invoicing of exports and imports, overloading of costs onto the subsidiary, service contracts and intra-group loans. Through such agreements, the holding companies are able to transfer income and allocate costs in a hidden manner that unfairly favours them. These malpractices reduce revenue which would have accrued to the producing States, thus exacerbating poverty amidst a rich natural resources heritage – the so-called 'paradox of plenty!'⁵⁹

57 GlobalData, Vedanta Resources plc (VED) - Financial and Strategic Analysis Review, 18th July 2013.

58 Grant Thornton, 2010, *Pilot audit report – Mopani Copper Mines Plc: International expert team report to the Commissioner Domestic Taxes, Zambia Revenue Authorities.*

59 Economic Commission for Africa, 2010, *Tracking and Certification of Mineral Output in Southern Africa.* p.vii

The problem with rent-seeking

Under pressure from the World Bank, IMF and other donors, Zambian authorities have reduced taxation on mining companies to a minimum to 'attract investment'. The corporate tax rate for mining companies is set at 30% (compared to 33% for other companies)⁶⁰, though many mining companies, such as KCM, have agreed rates of 25%. KCM's agreement allows them to deduct 100% of capital allowance from any investments made – such as prospecting, buildings and equipment, and losses from bad years may be carried over into good years.⁶¹

This is very similar to the agreement for Mopani Copper Mines, and other major miners in Zambia and can leave the exchequer with virtually no tax revenue at all from companies making enormous profits. For example KCM declared profits of \$301 million in 2006/7⁶², though they extracted \$1 billion worth of ore, and only paid royalties of \$6.1 million⁶³.

KCM's Development Agreement only requires it to pay 0.6% in royalties, fixed until 2018, and they have even argued that this is too high⁶⁴. Royalties are calculated as a percentage of the market value of minerals 'less the cost of smelting, refining and insurance, handling and transport from the mining area to the point of export or delivery within Zambia'⁶⁵, leaving much room for manipulation of figures by companies. KCM bragged in a presentation to investors that PAYE (Pay As You Earn) deductions from worker's wages make up nearly 50% of their tax contributions to the Zambian Government. In the same presentation, in 2007, they note that they are not paying income tax since they are waiting until 'carry-forward losses are exhausted.'⁶⁶ And Vedanta's 2013 Annual Report notes that:

*The Group has US\$1,263.4 million of unutilised tax losses at KCM (2012: US\$1,301.7 million) which expire in the period 2014 to 2022. These unutilised tax losses have been recognised as a deferred tax asset, as they will unwind as the accelerated capital allowances unwind, thereby generating economic benefits for the Company.*⁶⁷

As we noted earlier, these losses were inherited from Anglo American, the previous mine owner.

In an interview with the researchers of this report, Dr Mattheus Mpande, former Deputy Minister of Mines, and Professor at the University of Zambia, named three problems with Zambia's mining policies; rent seeking behaviour, labour aristocracy, and populist views. We will refer to the latter two later in this report, and will look at the former now. Mpande argued, and we agree, that royalties and taxation should not be seen as the primary method of revenue generation from copper mining. Instead, he suggested that increasing value addition and 'backward linkages' in Zambia should be the main focus⁶⁸. This means raising the value of copper before it is exported by processing it into coils, pipes, wires etc, after which the product can be sold at a far higher price.

60 *Lusaka Times*, July 22, 2011, 'Mining Sector contributing less than 2% of domestic revenue-ZCTU'.

61 Sherpa versus Mopani, April 2012. *Specific Instance regarding Glencore International AG and First Quantum Minerals Ltd. and their alleged violations of the OECD guidelines for multinational enterprises via the activities of Mopani Copper Mines Plc. in Zambia.*

62 Zambia Copper Investments, *Annual Report*, 2007

63 Banktrack, April 2011, *Dodgy deal: Konkola Copper Mines.*

64 Zambian Eye, November 10, 2013, *Govt reps sitting on KCM board in dark about laying off over 1500 workers – Minister.* <http://zambianeye.com/archives/16270>

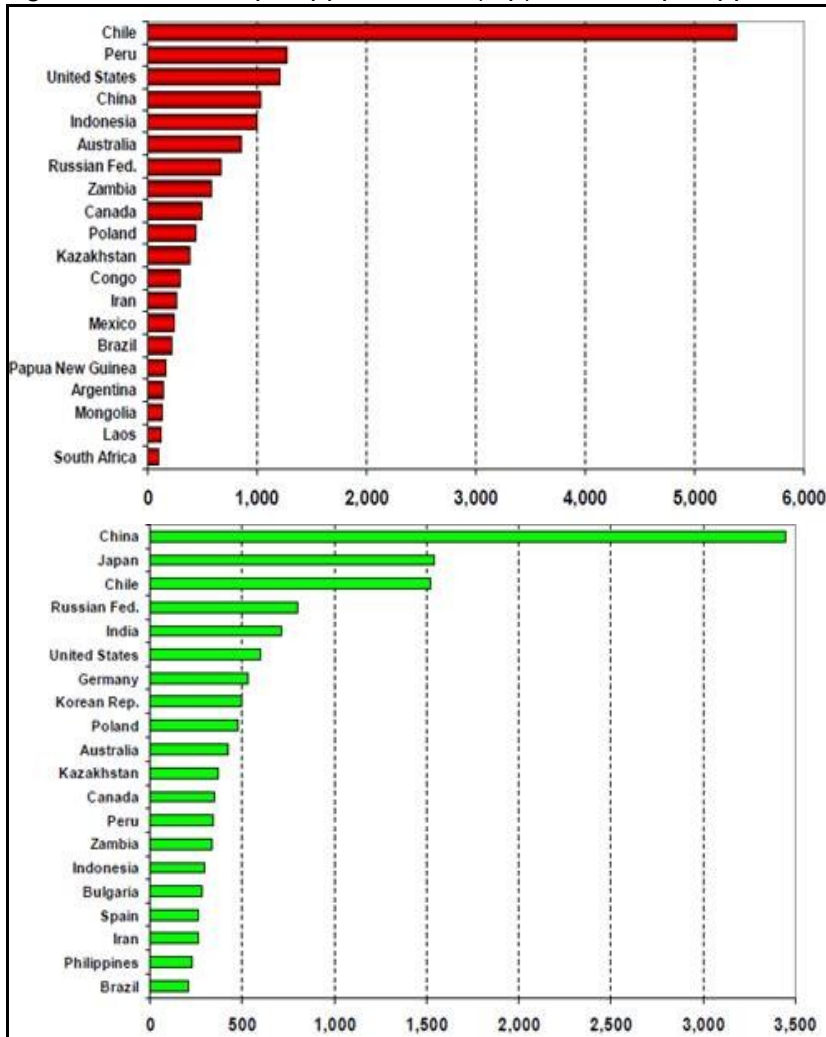
65 *Lusaka Times*, July 22, 2011, 'Mining Sector contributing less than 2% of domestic revenue-ZCTU'.

66 KCM, a presentation for investors on Vedanta and KCM, 2007; – the presentation states that PAYE totalled up to US\$35 million out of a total of US\$75-80 million. - quoted in Aby Diamond et al, October 2007, *Undermining Development: Copper in Zambia.* ACTSA, SCIAF and Christian Aid.

67 Vedanta Resources, *Annual Report* 2013

68 Interview with Mattheus Mpande, UNZA, 5th December 2013.

Figure 4: World's top copper miners (top) versus top copper refiners (bottom) (ICGS).



Zambia is the world's eighth largest copper producer, but the fourteenth largest producer of refined copper. The top refiners of copper are rich countries who benefit from the value addition.

Beyond that, we suggest
Zambian authorities should re-examine the concept of royalties all together, and look at charging private companies a realistic price for the ore they extract. Royalty itself is a colonial concept, which originally meant 'a percentage of profit gained from a service rendered to the state'. The relevance of royalty was challenged by Indian courts in 1993-4 during a dispute over low royalty and other rental rates for granite mining.⁶⁹ Major international campaigns such as Tax Justice Network and the Extractive Industries Transparency Initiative have played into this 'rent seeking' ideology, lobbying for minor increases in tax revenues, and ignoring more profound issues around the ownership and valuation of mineral resources at the outset.

Zambia did abandon royalty rates in 1966, following independence, and introduce an export tax to reduce the leakage of copper

profits overseas. This helped enable the country's copper boom in the next decade.⁷⁰ Today copper prices are again high, with a profit margin of at least \$2000 per tonne (difference between production cost and price of copper – see figure 2) but Zambians are seeing very little benefit.

The real price of copper

Since private mining companies are not carrying out a 'service' for the state, but rather extracting resources for their own profit, royalty rates may not be an appropriate form of resource tax. Instead it would be useful for the Zambian government to evaluate the real value of its copper and other mineral resources, and consider charging for extraction accordingly. This means demanding, or independently seeking, information on the real cost of production, and the real profit attained by companies.

According to KCM's own reports, their assets in Zambia comprise 13.6 million tonnes of

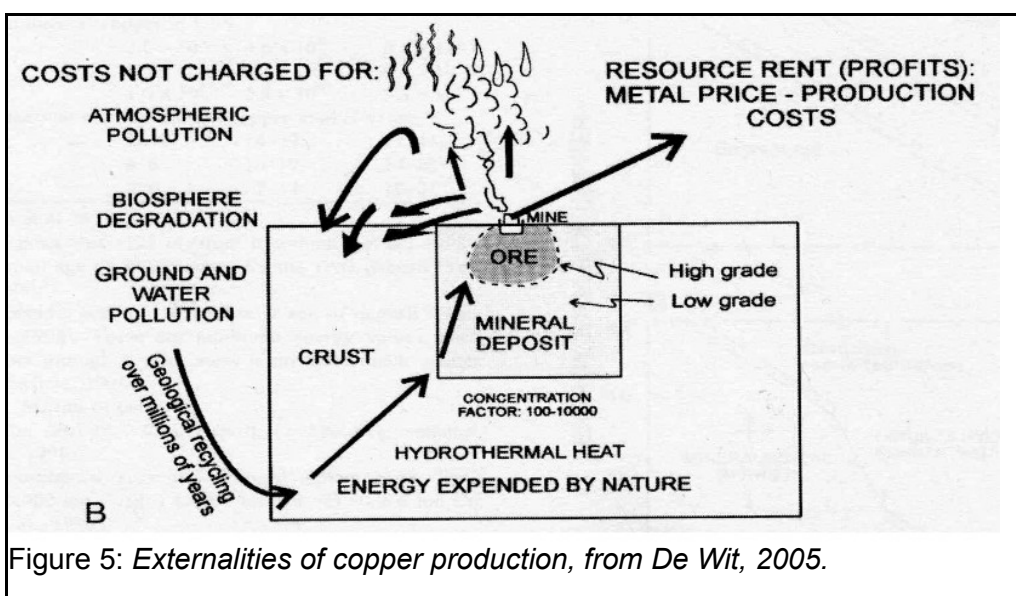
⁶⁹ *Taxes of mines and minerals – Karnataka State at NIC*, 18 Aug 1999. www.kar.nic.in/finance/trc/ch08.pdf

⁷⁰ A.D. Roberts, 1982, 'Notes towards a financial history of copper mining in Northern Rhodesia'. *Canadian Journal of African Studies*. Vol 16, no 2, 1982: 347-359.

copper⁷¹. At current rates of \$7,300/tonne this would be worth \$99 billion. This value belongs to the Zambian people.

Shortly after taking office this year President Mahama of Ghana stated his dismay about the meagre returns the country sees from its natural resources. He declared that exports of unprocessed ore and other resources should be stopped, and value should be added to these products in Ghana. The Public Accounts Committee also made statements expressing shock at the volume of earnings from Ghana's gold mines which were kept in foreign offshore accounts⁷². Head of Policy Monitoring and Evaluation in the President's office, Dr Tony Aidoo, made a very profound statement to the press:

Dr Aidoo told the Accra-based Radio Gold that he would rather the minerals remained untapped in the ground so that local mining techniques, even if primitive, could be employed to exploit them. If that meant only 5% of the minerals were exploited, he said, it would be far better for the country than the current situation where Ghanaians themselves did not benefit from God-given resources⁷³.



The cost of mining to the Zambian and Ghanaian economies goes far beyond loss of profit from taxation or export value. The real price of copper includes the pollution of water and air caused by mining and transportation, the cost of decommissioning mines and smelters, health effects on local populations, and the depletion of the finite resource, which will

not be available to future generations. These are known as 'externalities' – real costs which will be borne by people and governments at present and in the future, but which are not included in the market price of a resource. Ecological economist Maarten De Wit values the real cost of copper (including externalities) at \$33,000 per tonne, four to five times the current market price.⁷⁴ The price is high because copper is one of the most material intense metals to produce – creating 500 tons of waste, and using 260 tons of water for each ton of primary copper.⁷⁵ Understanding the real ecological price of copper is important for resource rich states, since when their resource is depleted, they will continue to pay for the externalities for years to come. This sort of calculation should be included in the cost benefit analyses when new mines are proposed or deals struck with companies.

71 Konkola Copper Mines, presentation to investors, November 2012. www.slideshare.net/VedantaGroup/kcmapresentation-november2012

72 Dr Tony Aidoo, head of policy monitoring and evaluation in President Mahama's office in Femi Akomolafe, December 2013, 'Ghana: Fury over offshore accounts', *New African*.

73 Dr Tony Aidoo, head of policy monitoring and evaluation in President Mahama's office in Femi Akomolafe, December 2013, 'Ghana: Fury over offshore accounts', *New African*.

74 Maarten J. de Wit, 2005, 'Valuing copper mined from ore deposits', *Ecological Economics*, Volume 55, Issue 3, 15 November 2005, Pages 437–443

75 Michael Ritthoff, Holger Rohn, Christa Liedtke. 2002. *Calculating MIPS: Resource Productivity of Products and Services*. (Wuppertal Spezial no. 27e) The Wuppertal Institute for Climate, Environment and Energy

Material flows – where does the copper go?

Perhaps the most stark case of opacity in Zambia's copper story relates to the final destination of its copper exports. On paper the majority ends up in Switzerland (a major tax haven where Glencore International is based)⁷⁶. Figure 6 shows Zambia's main export markets in 2008/9 when the dominance of Switzerland was more striking than today, with the most recent graph inset. The increase in imports to China can be attributed to the influx of Chinese state owned mining companies now exporting copper from Zambia.

Figure 6: Direction of Zambia's exports in 2008-9 and 2012-13 (inset)

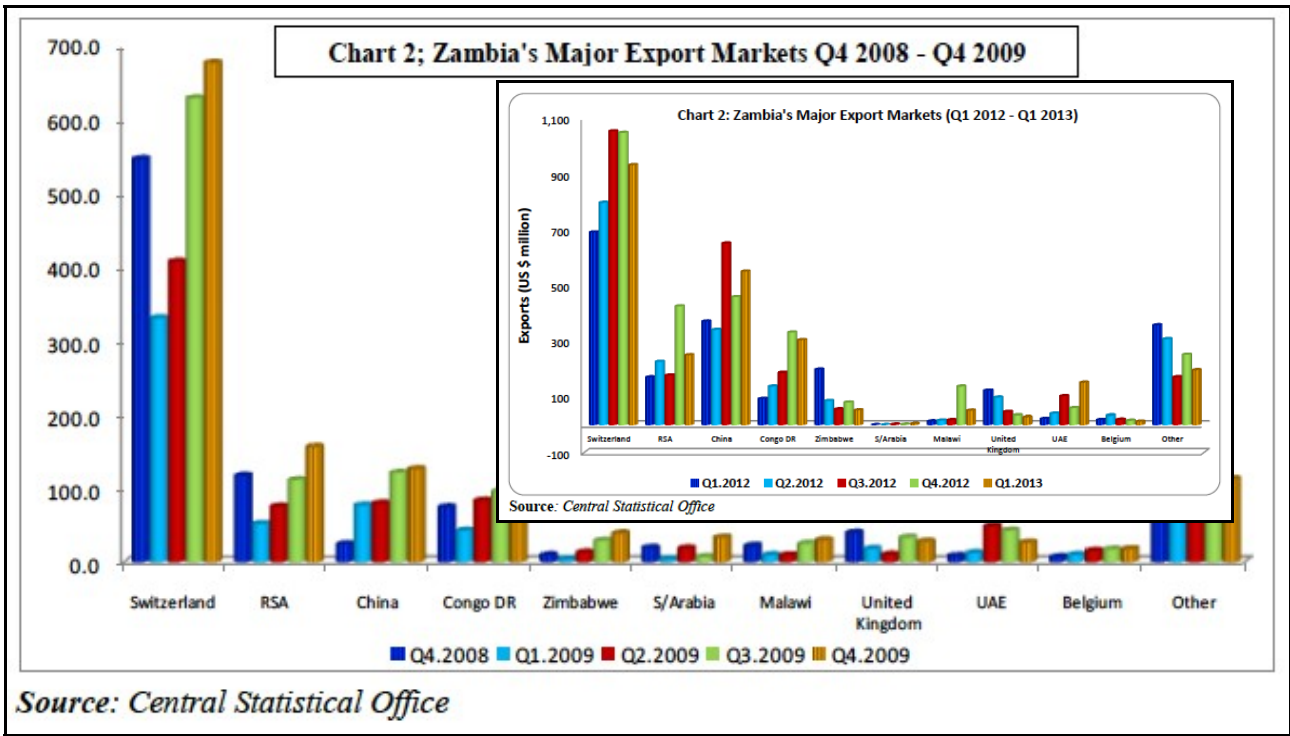
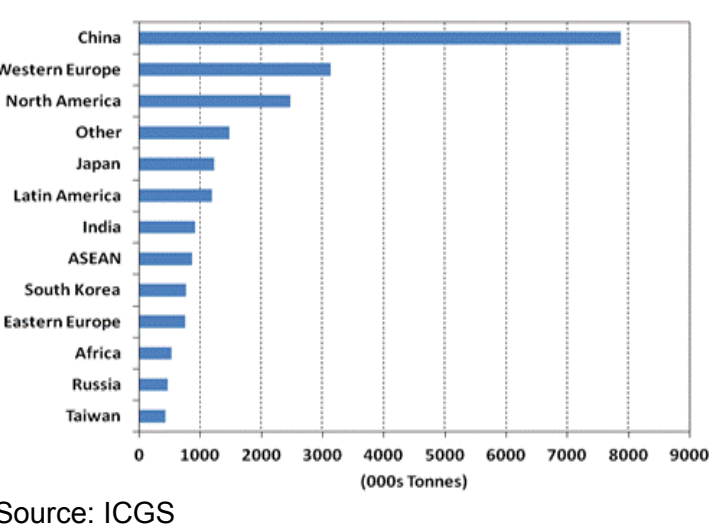


Figure 7: World copper consumption in 2009



Though Zambia is the world's eighth biggest copper miner, it doesn't even register on the list of copper consumers. China currently consumes 40% of global copper, and this is predicted to rise to 84% by 2014⁷⁷. So how can the majority of Zambia's copper end up in Switzerland? The obvious truth is that it doesn't. A 2010 Christian Aid report found that in 2008 half of Zambia's copper exports were destined for Switzerland as they left Zambian customs, but the Swiss import authority claims most of it didn't arrive. The report also found vast differences between the price paid by Swiss agencies for Zambian copper, and the price attained for exporting this again from Switzerland. They claim the Zambian Government could have increased its

76 Central Statistical Office, cited from Bank of Zambia, *Zambia direction of trade report, Q1 2013*. <http://www.boz.zm/%28S%28uc3ksc55shnjf1455srhrlv4%29%29/GeneralContent.aspx?site=69>

77 Standard Bank, February 21, 2012, *An Analysis of China's Copper Demand*.

revenue from mining six times if these prices had been realised in Zambia⁷⁸. (see figure 8)

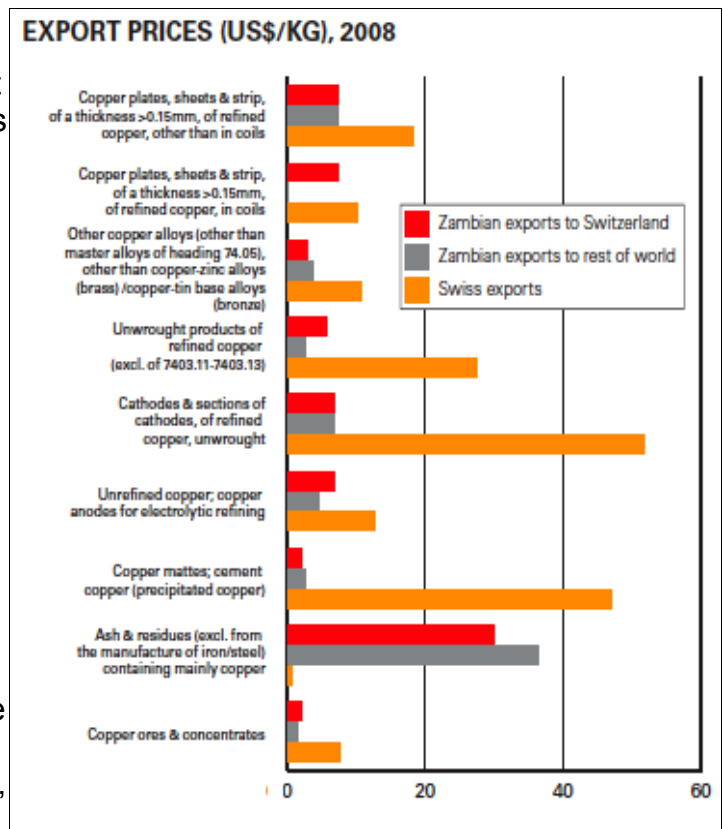
Copper leaves Zambia on trucks and trains bound for ports in Dar es Salaam (Tanzania) or South Africa, but very little is known by the Zambian authority about what happens next. The Bank of Zambia notes its lack of information when it states:

*Large metal traders (e.g. Glencore International AG), headquartered in Switzerland, purchase copper and cobalt from Zambian mining companies off gate and sell the commodity to other foreign markets. Most Zambian companies are not fully aware of the final destination of the copper purchased by these companies.*⁷⁹

Selling 'off gate' means that the cost of, and responsibility for, freight is picked up by the buyer. So where do KCM's exports go and what is their real value? In an affidavit to the Zambian High Court (as part of a court battle over tax owed) in November this year, KCM claimed it sells its copper cathode exports to traders including Traxys SA, Marubeni Corp and Ambrian Metals Ltd., and is not privy to who the final buyers are or where they are located.⁸⁰

The fact is that most metal is traded on the high seas – a colonial tradition which is almost totally de-regulated, and unaccountable⁸¹. For example the contribution of shipping to pollution and climate change has only recently been established when it was revealed that sixteen mega ships alone produce the same amount of sulphur as all the world's cars. Global shipping is overseen by the International Maritime Organisation (IMO), a key United Nations body based in London, which has refused to take part in carbon reduction and other regulatory programmes.⁸²

Figure 8 Difference between copper export prices in Zambia and Switzerland.



78 Christian Aid, May 2010, *Blowing the Whistle: The time's up for financial secrecy*.

79 Bank of Zambia, Direction of Trade report, Q1 2013.

80 Matthew Hill, Nov 6 2013, 'Vedanta's Zambia Unit Sues Tax Authority Over \$586 Million Bill', *Bloomberg*.
<http://www.bloomberg.com/news/2013-11-06/vedanta-s-zambia-unit-sues-tax-authority-over-586-million-bill.html>

81 Sletmo, G.K., 2001, 'The End of National Shipping Policy? A Historical Perspective on Shipping Policy in a Global Economy', *International Journal of Maritime Economics*, Volume 3, Number 4, 1 December 2001, pp. 333-350(18).

82 Fred Pearce, 21 November 2009. 'How 16 ships create as much pollution as all the cars in the world'. *The Daily Mail newspaper*.

Vedanta's perception management in Zambia:

Like other places where they operate in India, Vedanta have put considerable emphasis on Public Relations (PR) since acquiring KCM in Zambia. PR is used to emphasise and exaggerate their Corporate Social Responsibility (CSR) programmes, and create positive perceptions of the company for politicians, investors and community members. However, behind the shiny images of happy African children, Vedanta's rhetoric of alleviating poverty through mining is usually very hollow. The reality for communities around Vedanta's operations around the world, and in Zambia, is far from positive, as pollution, workers rights violations and tax evasion leave little local benefit.

Shortly after acquiring KCM Vedanta employed 'image builder' Augustine Seyuba – a former journalist, to create confidence in the company locally. They sponsored the Zambian super-league and took on several local clinics and schools previously run by ZCCM and Anglo American, and promoted these developments in newspaper adverts and billboards. However they did not promote the fact that they also gave back one of the hospitals previously run by Anglo to the government, and that, according to a local activist - *'the standards of health care and service delivery have drastically dropped with chronic shortages of even basic medication where even clients are compelled to buy some of the medicines from drug stores in town'*⁸³. Another report notes that: *'in a speech to officially launch the football league sponsorship, and in the presence of the Republican President, the KCM Chief Executive Officer (CEO) could not hide the intentions of the company when he asked the government to extend the tax holiday/exemptions the company has been enjoying ever since KCM was set up (2000).'*⁸⁴

Augustine Seyuba is now Permanent Secretary in Zambia's North Western province, an upcoming mining area, showing the dangerous and common revolving door from journalism to PR to politics. KCM's current PR head - Joy Sata, is another former journalist, and their head of Communications – Shapi Shacinda, is a former Reuters correspondent.



Anil Agarwal tries to paint himself as one of India's top philanthropists.

In India Vedanta has come under attack for its misleading PR campaigns. A major national campaign in India called 'mining happiness' had to be scrapped after celebrity participants pulled out due to concerns about Vedanta's ethics. Activists formed a parallel campaign called 'faking happiness' which pointed out the truth about Vedanta's mining practices such as land grabbing, toxic waste dumping and harassment of villagers who opposed their projects⁸⁵.

Vedanta are currently running another major PR campaign in India called 'Our Girls, Our Pride' which paints them as women's rights advocates. This has also been opposed by women's groups who have called it a sham, noting the many women and girls made homeless, fatherless and destitute by Vedanta, as well as those who have led social movements against their operations⁸⁶.

83 Email from Vincent Lengwe, Director of Copperbelt Trade and Development Forum, Luanshya. 6th January 2013.

84 John Lungu and C Mulenga, 2005. *'Corporate Social Responsibility practices in the extractive industry in Zambia'*.

85 Faking happiness campaign. <http://fakinghappinesscampaign.blogspot.co.uk/>

86 <http://www.kractivist.org/open-letter-to-priyanka-chopra-on-ndtv-vedanta-our-girls-our-pride-campaign-vaw/> and <http://www.foilvedanta.org/articles/1275/>

Vedanta's perception management in Zambia has also involved spreading some serious misconceptions right up to the highest levels of Zambian politics. The most common myth is that Vedanta is an Indian company, when in fact they are registered on the London Stock Exchange and headquartered in London. Though the majority of their operations are in India, and majority owner Anil Agarwal is Indian by birth, Indian shareholders hold less than 1% of the company, and Vedanta are answerable to British company law.

We were shocked to discover the prevalence of this misconception in Zambia. Deputy General Secretary of the Mine Workers Union of Zambia - Leonard Phiri, told us *"The belief we have had is that KCM is an Indian company and it has not been making profit."* He went on to respond to the news that Vedanta was in fact British, and was making large profits in Zambia saying;

*"They can't take care of safety measures, they can't talk about their future plans for KCM, or where they expect to go to after this.. they can't follow mining regulations, they have huge indebtedness due to outsourcing companies that were not being paid money. All these things have been made clear to the people in the country,..and it has really been looked at in a negative light by the Zambian community and the Zambian state, where the government now has to look for a team to monitor its operations so they can see if they can salvage the company from its current doldrums, which is a very very sad state of affairs. And, if it is owned by the British, as you are saying, I would not expect this, because the British have a history of running entities in a professional manner, respecting the indigenous laws of the country they are operating from, and motivating the workers of the country. This is not the case with KCM."*⁸⁷

Creating a perception that they are not making profit is important to Vedanta in Zambia as they can use this to bargain for reduced taxes and other costs. Vedanta recently claimed they could not pay an alleged \$586 million in unpaid tax as it would compromise their ability to pay workers⁸⁸. A journalist told us that since Vedanta's reputation was seriously compromised by their attempt to fire 2000 workers this year, they have been taking out front page newspaper ads saying they are prospecting for oil and gas in Zambia, though there is no evidence that they have made any such developments.

This sort of perception management is also used by Vedanta to create investor confidence. For example, while claiming they are cash strapped in Zambia, Vedanta will tell investors that KCM is highly profitable. This enables them to secure loans or increase share uptake. Most famously, Vedanta created the perception that they had permission to mine the Niyamgiri Hills in Orissa, India, for bauxite, which was reported in the UK's Financial Times in 2004, assisting them with investment and loans for the project.⁸⁹ In fact permission was never granted, ultimately costing them \$10 billion from an unrealised investment⁹⁰.

87 Interview with Leonarh Phiri, Mine Workers Union of Zambia, 9th December 2013.

88 Matthew Hill, Nov 6, 2013, 'Vedanta's Zambia Unit Sues Tax Authority Over \$586 Million Bill', *Bloomberg News*.
<http://www.bloomberg.com/news/2013-11-06/vedanta-s-zambia-unit-sues-tax-authority-over-586-million-bill.html>

89 Kunal Bose, November 3rd 2004, 'India: Investor interest grows as nation shows its mettle', *Financial Times*.

90 Saurabh Chaturvedi, Jan 12th 2014, 'India Rejects Plan to Mine Bauxite in Niyamgiri Hills', *Wall Street Journal*.
<http://online.wsj.com/news/articles/SB10001424052702303819704579316121946926340>

The truth about Vedanta in Zambia:

Water pollution

We visited communities living around Vedanta-KCM's mines and refineries in the Copperbelt. Helen and Shimulala communities are located near KCM's Nchanga mine in Chingola. They are home to 400 people. Pollution from KCM's tailings dam number 2 (known as TD2) has contaminated their water supply as well as the Mushishima stream which runs nearby. Local residents told us that KCM drilled them a borehole after the stream became contaminated but when they took samples it was also polluted with copper sulphate. They allege that a water tank subsequently delivered by the company also contained contaminated water. With no clean water source in their village residents now walk to a shallow well they have dug in marsh to fetch dirty water. They fear this may also be polluted.



KCM's contaminated borehole in Helen village, and a woman drawing water from a shallow and dirty well which is their only water source.

KCM's press releases praise their contribution to local communities by releasing 50,000 fingerlings into Mushishima stream this summer.⁹¹ But residents say although they eat fish from the stream, they are worried that they may also be contaminated.

In 2006 KCM released raw effluent from their pollution control dam into the Mushishima stream, which runs directly into the river Kafue, the water source for 40% of Zambia's population. The result was some of the worst contamination Zambia has ever seen, with chemical concentrations of 10 x acceptable levels of copper, 770 x manganese and 100 x cobalt in the river Kafue, turning it a strange blue green colour.⁹² One local resident told a journalist:

*"We are scared. In fact even this water they are bringing in tanks is not enough. Now we are dead because of KCM. We may have problems in the future. We do not know what is in our bodies. We drank because we were thirsty. But the taste was bitter. It was like chloroquine. Most people are sick. Most people can't even stand up. If we try to put chlorine, the water becomes black. If we boil it, it becomes brown."*⁹³

Water companies in Kitwe and Chingola sued KCM for their negligence, which had damaged their water processing plants, and Vedanta compensated them out of court. But they refused to

91 *Daily Mail*, June 6 2013, 'KCM restocks Mushishima stream with 50,000 fingerlings'. <http://daily-mail.co.zm/blog/2013/06/06/kcm-restocks-mushishima-stream-with-50000-fingerlings/>

92 *Times of Zambia*, November 8 2006. 'KCM pollutes Kafue River'.

93 *Sunday Post*, Lusaka, November 19 2006, 'KCM Pollution Victims Speak Out'. Cited in Fraser, A and Lungu, J., 2006, *For Whom the Windfalls: Winners and losers in the privatisation of Zambia's copper mines*.

settle any compensation with the thousands of people affected by drinking the water. Following the failure of the Environmental Council of Zambia (ECZ, now ZEMA) to prosecute the company, Lusaka based lawyer Kelvin Bwalya took a public interest litigation against KCM on behalf of 2000 affected people. In a landmark ruling High Court judge Phillip Musonda ordered KCM to pay a total of \$2 million to the families, saying he wanted to make an example of KCM for their 'gross recklessness'. He also stated that;

*“The courts have a duty to protect poor communities from the powerful and politically connected. I agree with the plaintiff’s pleadings that KCM was shielded from criminal prosecution by political connections and financial influence, which put them beyond the pale of criminal justice.”*⁹⁴

However, Vedanta subsequently challenged this decision, claiming they were not responsible for the contamination. Until now the case has not been heard and the residents are yet to be compensated. Mr Bwalya told us about the long term effects of the incident where local people are still experiencing miscarriages, and premature and deformed births.⁹⁵ The likely long term impacts of the spill may include lung and heart problems, respiratory diseases and liver and kidney damage. Exposure to manganese can cause 'manganism' a disease of the central nervous system affecting psychic and neurological functions. Brain damage effects in the local population may only show up in future generations.⁹⁶



Polluted water runs from a borehole in Shimulala.



The Mushishima stream, contaminated by KCM.

In 2010 KCM contaminated the river again, in another major incident which left thousands poisoned once again. They were found guilty by Zambian courts on four counts, including 'wilfully failing to report an act or incident of pollution of the environment'.⁹⁷ One of the victims, who was admitted to hospital with the rest of his family following the spill told the press that KCM was a serial offender, and had repeatedly polluted the Kafue river with sulphuric acid as well as committing several major incidents. He claimed KCM was '*polluting the environment with impunity because the mining company was highly favoured by the government*'.⁹⁸

94 Newton Sibanda, December 12, 2011. *Zambia: High Court orders Konkola Copper Mines to pay 2 million USD for polluting River Mushishima.*

95 Interview with Kelvin Bwalya, 18th December 2013.

96 Dobson, AW et al, 2004. 'Manganese neurotoxicity'. Mar; 1012:115-28.

97 *Steel Guru*, 28 November 2010, 'Konkola Copper fined KCM USD 4000 for polluting water in Kafue River.'

98 Kabanda Chulu, 03 Dec. 2010, 'KCM pollution victim speaks out', *The Post newspaper*. http://www.postzambia.com/post-read_article.php?articleId=16411

Air pollution

We met residents living near KCM's Nkana refinery in Kitwe who claimed ambient air pollution is a constant problem, and that miners and other local residents suffer from diseases such as TB caused by airborne contaminants (as well as the high rate of industrial accidents in the mines and plant). A recent academic study evidenced the damage done by sulphur dioxide pollution around the Nkana plant, which caused die-back in trees and killed vegetable gardens in the community, as well as affecting residents' health.⁹⁹ In December KCM's Nchanga smelter released so much sulphur dioxide that their PR head Joy Sata warned residents to stay in their homes. Though the incident was caused by a power failure at a government facility, KCM's back up power source failed to kick in, causing the unique incident at their plant.¹⁰⁰



Street vendors cover their faces from SO₂ in Tuticorin, and the protests which followed.

At Vedanta's other copper smelting subsidiary – Sterlite, in Tamil Nadu, India, a major sulphur dioxide release which hospitalised hundreds of residents brought more than 5000 people into the streets this March, in a 'bandh' which closed the town of Tuticorin.¹⁰¹ The smelter was temporarily closed as a result, but was reopened a few months later. The Sterlite plant has one of the highest rates of workers deaths, with sixteen dying between 2007 and 2011.¹⁰² Many of these were recorded by the police as suicides. In 1997 a toxic gas leak at the plant hospitalised 100 people sparking an indefinite hunger strike by a local politician and a 'siege on Sterlite' that led to 1643 arrests.

Workers rights

Another of Vedanta's patterns to be played out at KCM is the minimisation of full time employees in favour of cheaper and less unionised contract labour. Of KCM's 18,000 employees an estimated 11,000 are contract labour. A Christian Aid report claims that sub-contracted labourers at KCM are paid just £37 per month instead of £150 they require for a living wage.¹⁰³ Skilled, and even semi-skilled labour is often supplied by imported Indian

99 Ncube, E., C. Banda, and J. Mundike, 2012, "Air pollution on the Copperbelt province of Zambia: Its sulphur dioxide effects on vegetation and possibly humans", *Journal of Natural and Environmental Sciences*, Vol. 3, No. 1, pp. 34-41

100 Nicholas Bariyo, Dec 14, 2013, 'Outage damages Zambia's largest copper smelter', *Wall Street Journal*.
<http://www.marketwatch.com/story/outage-damages-zambias-largest-copper-smelter-2013-12-14>

101 *Hindu newspaper*, April 8th 2013, Bandh affects normal life in Tuticorin'.
http://www.thehindubusinessline.com/companies/bandh-affects-normal-life-in-tuticorin/article4594085.ece?ref=wl_opinion

102 Nityanand Jayaraman, March 28, 2013. 'Vedanta-Sterlite – Dangerous by Design.' *Kafila*,
<http://kafila.org/2013/03/28/vedanta-sterlite-dangerous-by-design-nityanand-jayaraman/>

103 Aby Diamond et al, October 2007, *Undermining Development: Copper in Zambia*. ACTSA, SCIAF and Christian Aid.

Kafue. Mr Mwila said that residents should 'take KCM on' because they made \$2.6 million every day and could easily afford to compensate residents. KCM subsequently fired him for *'unprofessional conduct that might directly or indirectly tarnish the company's image'*. Judge Makangu agreed that Mr Mwila was exercising his freedom of expression and added that *"The defendant has not shown that the plaintiff told a lie that the company was earning profits of that magnitude daily."*¹¹²

As previously mentioned Vedanta are also in a legal battle with the Zambian government over a \$586 million tax bill, charged by the Revenue Authority after an audit revealed KCM did not have receipts from the final destination of many of its exports. Meanwhile Vedanta has bragged in investor presentations that 50% of their tax contributions in Zambia are via workers' Pay As You Earn (PAYE).¹¹³



Copper concentrate bound for one of Zambia's ports of exit on a truck

112 Mwila Chansa-Ntambi, 17th June 2012, 'Court penalises KCM for unlawful dismissal', *The Post Newspaper*.
http://www.postzambia.com/post-read_article.php?articleId=27994

113 KCM, a presentation for investors on Vedanta and KCM, 2007; – the presentation states that PAYE totalled up to US\$35 million out of a total of US\$75-80 million. - quoted in Aby Diamond et al, October 2007, *Undermining Development: Copper in Zambia*. ACTSA, SCIAF and Christian Aid.

Who owns Zambia?

Other studies have dealt with Zambia's lack of sovereignty over its own 'development' due to the restrictive conditions placed on it by World Bank and IMF loans and 'aid'. These conditions have forced cuts to government spending and the privatisation of almost all of Zambia's parastatal entities over the last three decades, making Zambia a celebrated model of economic liberalisation, but simultaneously exacerbating levels of poverty and deprivation.¹¹⁴ We will not deal with the well publicised impacts of the World Bank and IMF here, but instead attempt to shed light on several of the lesser known interests behind these agencies and the multinational companies they have ushered in.

Shareholder interests

A glance at the top shareholders of the largest mining companies in Zambia is very revealing (see figure 9). Common shareholders in Vedanta Resources, First Quantum Minerals and Glencore International are Blackrock, Standard Life, Capital Group and the Government of Singapore.

Figure 9: Some of the top shareholders of Zambia's main mining companies as of 30th Dec 2013.¹¹⁵

Vedanta Resources	%	Glencore International	%	First Quantum	%
Volcan investments	66.93	Glencore Xstrata plc	50	Unlisted shareholders	10
Blackrock Inc	5.62	Qatar Investment Authority	8.15	Blackrock Inc	9.54
Standard Life plc	5.11	Blackrock Inc	6.43	Capital Group companies Inc	7.17
Blackrock Investment Management (UK) Ltd	4.41	Government of Norway	2.3	Affiliated managers group Inc	4.82
Blackrock global funds – world mining fund	3	Capital group companies Inc	1.04	Prudential plc	3.39
Chase nominees (on behalf of GIC private ltd)	2.99	Standard Life plc	0.46	Carmignac Gestion	3.1
GIC private ltd	2.99	Government of Singapore	0.43	JP Morgan chase & co	2.38

Blackrock is the world's biggest asset management company, in charge of \$4.1 trillion of assets (including much of Zambia's copper via its shares). It is bigger than any bank, insurance company or government fund, and is the majority shareholder in half of the world's 30 largest companies. It was set up by Larry Fink - a Washington insider who was named as a potential treasury secretary in the US.¹¹⁶

Blackrock, JP Morgan and Goldman Sachs are currently working together in an attempt to buy up 80% of available copper on behalf of investors, and hold it in warehouses. This will create a copper futures market enabling speculation, futures trading, and backing of new loans and funds. In 2010 JP Morgan bought more than half of the available warehoused copper in a few weeks, leading to a spike in copper prices. Manufacturers and copper wholesalers warned the Securities and Exchange Commission (SEC) that such a monopoly on copper would squeeze

114 Lishala C. Situmbeko and Jack Jones Zulu, April 2004, *Zambia: Condemned to debt*. World Development Movement.

115 Global Data, Orbis company reports, 30th Dec 2013.

116 *The Economist*, Dec 7th 2013. 'BlackRock: The monolith and the markets'

<http://www.economist.com/news/briefing/21591164-getting-15-trillion-assets-single-risk-management-system-huge-achievement>

the market and send prices skyrocketing but under pressure from Blackrock and the banks the SEC approved their proposal.¹¹⁷ The aluminium futures market set up by Goldman Sachs, on which the copper takeover is modelled, is estimated to have cost consumers billions of dollars in price hikes, as market manipulations sent prices soaring.¹¹⁸ Blackrock also owns 7.91% of Freeport McMoran Copper and Gold Inc, the world's largest publicly traded copper producer, making it a major power in the copper industry.

Another key shareholder in Zambia's copper - Capital Group, based in Los Angeles, is one of the world's largest investment managers, controlling around \$1 trillion in assets.

It is worth noting that the Government of Norway have a large share in Glencore International, the controllers of Mopani Copper Mines (one of the largest and most contentious and tax avoiding miners in Zambia). While NORAD, the Norwegian government's development programme, funds programmes in anti-corruption and auditing of mining companies which are billed as helping to reduce the loot by mining companies, the Norwegian government simultaneously profits from the same loot, in dividends and payouts. For example NORAD is currently funding the Zambian Revenue Authority to set up a special Mining unit to monitor company profits and increase revenue, an act which, if successful would significantly reduce their own profits from Glencore shares.¹¹⁹ The Norwegian Government's significant influence on Zambia via shareholding and aid should be closely monitored.

Neo-colonialism and the UK Department for International Development

As a former British colony it is not surprising that the UK government continues to have significant interests in, and influence on, Zambia. The UK's Commonwealth Development Corporation (previously the Colonial Development Corporation and now known as CDC group) owned 7.5% of KCM when it was controlled by Anglo American, and had previously set up the Kafue Consortium to try to buy key mines during the privatisation of ZCCM¹²⁰. CDC is wholly owned by the UK government and overseen by the Department for International Development (DfID).

DfID also helped maximise Anglo American's profit from KCM while they themselves owned shares in it, by using \$81 million of UK taxpayers money to fund the upgrading of KCM's Nkana smelter.¹²¹ Later, DfID helped rescue Anglo from its failure to manage KCM via its contentious initiative *Business Partners for Development* (BPD). BPD was set up with the World Bank in 1998 and abandoned in 2002 following considerable criticism. The initiative aimed to provide *'long-term benefits to the business sector and at the same time meet the social objectives of civil society and the state by helping to create stable social and financial environments'*. It carried out projects bringing business, civil society and governments together, describing partnerships with NGOs and government agencies as 'fundamental' in order to primarily *'reduce disputes as obstacles to social investment, and doing so in such a way that they do not re-emerge'*.¹²² BPD has been heavily criticised for working in the interests of business not communities, leading it to re-brand itself 'Building Partners for Development' (removing the word 'business'). Evidence has now shown that many of their projects never came to fruition,

117 *The New York Times*, July 21st 2013, 'Next up Copper.'

118 David Kocieniewski, July 20, 2013. 'The House Edge: A Shuffle of Aluminum, but to Banks, Pure Gold', *New York Times*. http://www.nytimes.com/2013/07/21/business/a-shuffle-of-aluminum-but-to-banks-pure-gold.html?_r=0

119 OECD, *Synthesis report: Between high expectations and reality: An evaluation of budget support in Zambia (2005-2010)*. (see p 131) www.oecd.org/countries/zambia/49210553.pdf

120 Joe Kaunda, 10 June 1998. 'Africa: Kafue Consortium finally abandons ZCCM's mines bid', *the Post Newspaper*.

121 Response to FoI's to DfID by ACTSA in 2007.

122 Business Partners for Development, Natural Resources Cluster Project Proposal. Disclosure 1c. FoI response from DfID, April 27, 2010

were short lived, or were even abandoned after the industrial project began, effectively being used to reduce dissent and pave the way for multinational corporations in the third world.¹²³

BPD brought together CARE International, United States Agency for International Development (USAID) and the World Bank with various governmental bodies, civil society organisations and businesses to create a local plan to mitigate for Anglo American's disastrous pull out from KCM in 2000 by 'reducing dependency' on the mining company. This included 'retrenchment training' for thousands of miners. It is notable that the list of participants does not include any community group, only NGOs who may not be accountable to the needs of the people (see next chapter).¹²⁴

**Diamond Jubilee
COMMONWEALTH
ECONOMIC FORUM**

Shaping Capitalism for Global Prosperity
and Sustainable Growth

11:00 - 11:30
Special Address by HF Michael Sata, President of the Republic of Zambia:
"A New Vision for Sustainable and Inclusive Growth in Africa"
Chair: Dr Mohan Kaul, Co-Chair, Commonwealth Business Council

11:30 - 13:00
Special Session on Investing in Zambia
Chair: Hon Robert Siringu, Minister of Commerce, Trade and Industry, Zambia
Andrew Chipwenda, Director-General, Zambia Development Agency
Carl Irwin, Executive Director, Zambeef Products Plc
Jeyakumar Janakaraj, Chief Executive Officer, Konkola Copper Mines plc

13:00 - 14:30
Concluding Lunch hosted by Konkola Copper Mines plc

18:00 - 22:00
African Business Awards in association with African Business
Grosvenor House Hotel (by invitation only)

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Sata and Agarwal meet at the St James Crowne Plaza Hotel, London, on 5th June 2012.

In June 2012 Zambian President Michael Sata was keynote speaker at the Commonwealth Economic Forum jubilee dinner in London. The conference was part sponsored by Konkola Copper Mines (as well as Zambeef) and contained a session on 'Investing in Zambia' with a speech from then CEO of KCM, Jeyakumar Janakaraj alongside Zambian parliamentarians.¹²⁵ Another speaker at the conference was Tom Albanese, the then Rio Tinto CEO, who is also poised to be the next CEO of Vedanta, whom he joined as Chairman of its subsidiary *Vedanta Resources Holdings Ltd* in September 2013.¹²⁶ The dinner was co-facilitated by the City of London Corporation, the shady heart of the UK finance industry, and manager of the UK's multiple tax havens. The importance of these lobbying networks should not be underestimated. High profile events like this give multinationals direct access to policy makers and can secure deals with UK government support. The day before the event Sata held a closed door meeting with Anil Agarwal (Vedanta majority owner and Chair) in London. The other keynote address was to be given by Mahinda Rajapaksa, authoritarian President of Sri Lanka - another head of state in which Vedanta has significant interests via its oil and gas subsidiary Cairn India, and whom Agarwal is also likely to have met with. Rajapaksa was ultimately unable to speak at the

123 Richard Whittel, January 28, 2010. *Dodgy Development: False Promises*. Corporate watch.
<http://www.corporatewatch.org/?lid=3661>

124 BPD *Engagement with the KCM Project, Zambia. Exploratory Stakeholder Workshop*, October 2000.

125 Brochure for *Diamond Jubilee Commonwealth Economic Forum: Shaping capitalism for global prosperity and sustainable growth*. June 6-7, 2012. Mansion House, London.

126 *Economic Times of India*, Dec 31, 2013. 'Vedanta looking for new CEO; extends M S Mehta's term till March'.
http://articles.economictimes.indiatimes.com/2013-12-31/news/45739672_1_last-week-vedanta-tom-albanese-vedanta-resources

event due to protests highlighting his role in Tamil 'genocide'.¹²⁷

At the same time DfID remains a key provider of 'aid' to the Zambian government, including supporting its electoral process, and funding the Central Statistical Office and anti-corruption strategies. Like the earlier example of Norway, the UK government's stated aims of its 'development aid' to Zambia are often in direct conflict with the interests of UK financial policy and UK registered companies, begging questions on how the UK government is really using its influence in Zambia.

In fact Britain has been a central force in opposing policies which would have brought greater prosperity to Zambians through mining. In 1962 the UN General Assembly passed Resolution 1803 on *The Declaration on the Permanent Sovereignty of Natural Resources* (known as PSNR) which established the right of nations to use natural resources for their own development by nationalisation or raising taxes. The policy, which was originally initiated by UN General Secretary Dag Hammarskjöld, was staunchly opposed by Britain, along with other Western powers and South Africa, who saw it as a threat to 'neo-colonialism'.^{128,129} It is poignant that Dag Hammarskjöld died in the Zambian Copperbelt, in what is now believed to be an MI6/CIA assassination¹³⁰, taking with him his vision of a New International Economic Order (UN General Assembly Resolution 3201, 1974)¹³¹ which aimed to bring economic justice to Third World nations.

Of course there are many other major forces controlling Zambia's land, resources and policies. Multinational agribusinesses such as Cargill and AB Sugar (previously British Sugar) are buying up rich swathes of land, undermining food security for Zambians in their vast and fertile country¹³². China's influence on Zambia is often bemoaned by its newspapers and politicians and there is much published criticism. Though Chinese human rights standards in many of their mines and other industries have indeed been despicable, Zambians should be careful of 'China bashing', and keep their eye on all of the multinationals. In fact Chinese investments often come with less strings attached than European or American 'development' projects.¹³³ The Tazara railway built by Chinese labour in the 1970's to reduce Zambia's dependency on white ruled Zimbabwe is a notable example.¹³⁴

Finally, the next chapter will deal with the enormous influence of international NGOs and donor agencies on Zambian politics and society, and their role in the neo-liberal project in Zambia.

127 Shiv Malik and Alexandra Topping, 6th June 2012, 'Sri Lankan president cancels speech in London over protest fears'. *The Guardian newspaper*. <http://www.theguardian.com/world/2012/jun/06/sri-lankan-president-london-protest>

128 Butler, Larry, 2008, 'Mining, nationalism and decolonization in Zambia: Interpreting Business Responses to Political Change', 1945-1964. *Archiv fuer Sozialgeschichte*, 48. pp. 317-332.

129 UN Resolution 1803, 1962. Voter pattern: [Yes: 87, No: 2, Abstentions: 12, Non-Voting: 9, Total voting membership: 110](http://www.un.org/en/ga/search/view_doc.asp?symbol=A/RES/1803(XVII)&Lang=E&Area=RESOLUTION)

130 Julian Borger and Georgina Smith, 17 August 2011, 'Dag Hammarskjöld: evidence suggests UN chief's plane was shot down'. *The Guardian Newspaper*. <http://www.theguardian.com/world/2011/aug/17/dag-hammarskjold-un-secretary-general-crash>

131 UN resolution 3201 (S-VI). Declaration on the Establishment of a New International Economic Order. Adopted 1st May 1974. <http://www.un-documents.net/s6r3201.htm>

132 Nebert Mulenga, 2nd Nov 2012, *Foreign farmers undermine food security in Zambia*, Inter Press Service.

133 Mohan, Giles, 2013, 'Beyond the enclave: towards a critical political economy of China and Africa.' *Development and Change*, 44(6) pp. 1255-1272.

134 The Tazara railway which linked the Zambian copperbelt to Tanzanian ports was the third largest aid project to Africa at that time, after the Aswan Dam in Egypt and the Volta (Akosombo) Dam in Ghana. The latter two, which were Western financed, had considerable negative environmental, economic and social impacts and have remained very contentious, while the Tazara railway has been a relative success. Howard French, 13th April 2010, 'The Next Empire', *Atlantic Magazine*. <http://www.theatlantic.com/magazine/archive/2010/05/the-next-empire/308018/>

NGOs and civil society - parasites of the poor?

According to the Central Statistical Office of Zambia, NGOs and churches employed 37,519 people in 2012,¹³⁵ while mining employed 74,000 (according to the Zambia Development Agency).¹³⁶ Walking around Lusaka, offices of International NGOs, usually behind gated compounds, are a regular sight. Conversely, we were surprised to find that, despite the injustices suffered by local communities in the Copperbelt, there were virtually no grassroots people's movements on the ground. In India and Latin America, it has been largely these mass movements (such as at Niyamgiri) that have secured major victories for people's rights to land, workers' rights and even fair taxation, changing the politics and policies of nations. One recent article notes how in India *'activists and concerned citizens have managed to foster contentious agency and a judicial and political system that allows grassroots-level democratic steering of ecology in greater depth than in other countries'*. This has created *'a legacy of mass movement based emancipation from colonialism, and sustained culture of questioning and political activism'*.¹³⁷

Zambia's NGOs are the recipients of large amounts of foreign donor aid and funding, but are they making a significant difference for people in mining areas, and are they accountable to Zambia's affected communities? It is our experience in India and elsewhere, that NGOs often have the effect of suppressing, or co-opting grassroots actions, and hence do not create the significant long-lasting change that originates from mass movements. Interestingly, where strong grassroots movements exist in India and Latin America NGOs are often scarce, suggesting an inverse relationship between the two groups. This chapter looks at three ways in which Zambia's NGO culture may be more harmful than beneficial to the country.

In whose interest?

Many people we met in mining affected communities in Zambia complained to us that international NGOs had come to their communities, done surveys, carried out workshops, or gathered evidence for reports, never to be seen again. They mostly felt that they were being used by these organisations to help them get more funding or tick boxes. Small NGOs in the Copperbelt who had partnered with larger ones (usually in Lusaka) also complained that the Lusaka NGOs were out of touch with people's issues, but received the majority of funding due to their connections to international donors. One man working for a small Chingola based organisation told us how this NGO culture had affected their relationship with the local communities:

"a lot of NGOs came here in Chingola and used us. They come here and collect information and they go just like that. Now the community is hating us".¹³⁸

NGOs are primarily accountable to their funders, who are usually foreign government aid agencies, or international NGOs (who are in turn funded by government bodies and/or donor agencies), rather than the people they claim to work for or with.

There are several problems with this. Firstly, projects approved by funders are often 'delivered' to communities by centralised NGO offices, rather than originating from their priorities or needs. One community worker described her experience in an online article when the village she worked in was suddenly *'filled with DfID Land Cruisers and people from the district whom she*

135 Central Statistical Office, September 2013. *Zambia labour force survey report 2012*.

136 Zambia Development Agency, Zambia Mining Sector Profile, June 2013.

137 Markus Kroger, June 19th 2013. 'Mining boom, resistance and the future: India's global position', *Shabka*.
<http://www.shabka.org/2013/06/19/mining-boom-resistance-and-the-future-indias-global-position/>

138 Interview with anonymous worker in Chingola, 6th Dec 2013.

*had not met before. Apparently this was the 'delivery' of DfID's gender-based violence programme. The DfID team swooped in, gave everyone free Coca-Cola and a text to keep about GBV, and then swooped out again.'*¹³⁹

Secondly, it can lead to a 'box ticking' approach, where NGOs appear to be doing the minimum necessary to engage the participation of communities for funding reports. One activist we spoke to alleged that Action Aid employees had bought community members beer in exchange for giving statements against a mining company.¹⁴⁰

Thirdly, in many cases, as we examined earlier, large donor agencies (whether governmental or private) have their own commercial or national interests which influence the agenda of NGOs and limit their capacity to represent communities. The head of a large Lusaka based international NGO told us how DfID had warned her not to put too much pressure on British companies operating in Zambia. She had replied that DfID funded the UK branch, and not the Zambian unit.¹⁴¹

We have covered the case of Business Partners for Development (BPD) projects involving CARE international and other local NGOs previously. Behind the rhetoric of local capacity building, BPD's KCM project was largely in the interests of Anglo American and its shareholders. Whether the participating NGOs were aware of this or not, they are complicit in what was essentially a CSR project aimed at preventing dissent at mass lay-offs and rescuing the image of an a multinational mining company. Writing about NGOs in Zimbabwe, Diane Jeater claims that *'very often, there is a belief that the aid agendas serve external commercial interests more than local human needs'*, leading her to the conclusion that NGOs are *'parasites on the poor'*.¹⁴²

Whose politics?

Earlier in this report we touched on the minimal impact of tax justice and royalty based campaigns in Zambia. The aims and values of these campaigns are often more related to donor interests and world-views than an informed questioning of mining economies or people's grassroots perspectives. The most obvious example of this is the Extractive Industries Transparency Initiative (EITI), promoted by almost all the Zambian NGOs without question. EITI was initiated by British Prime Minister, Tony Blair, and Development Minister, Clare Short (now its head) in 2002 as a joint project with the World Bank. It aims to increase transparency by asking signatory companies to publish their tax and royalty contributions, and signatory states to disclose what they receive, revealing any discrepancies.

In a comprehensive critique of the EITI by Khadija Sharife for Al Jazeera, she asks how the UK can be so concerned about fair taxation when they host more than half of the world's tax havens, where many multinationals have shell subsidiaries which allow them to legally avoid paying tax in Zambia. The EITI, she points out, *'does not focus on what multinationals ought to have paid, only what they have paid, and it never investigates the means through which corporations were able to circumvent taxation'*, leaving it *'off the mark by billions'*.¹⁴³ Hence, the millions of dollars of funding spent on EITI not only fail to address the real source of tax

139 Diana Jeater, 5th August 2011. 'Zimbabwe: International NGOs and aid agencies – Parasites of the Poor?', *Pambazuka News*, Issue 554. <http://www.pambazuka.org/en/category/comment/75588/print>

140 Interview with anonymous activist 6/12/13.

141 Interview with anonymous NGO head 17/12/13.

142 Diana Jeater, 5th August 2011. 'Zimbabwe: International NGOs and aid agencies – Parasites of the Poor?', *Pambazuka News*, Issue 554. <http://www.pambazuka.org/en/category/comment/75588/print>

143 Khadija Sharife, 18 June 2011. 'Transparency' hides Zambia's lost billions', *Al Jazeera*. <http://www.aljazeera.com/indepth/opinion/2011/06/20116188244589715.html>

leakage, but simultaneously co-opt the debate and hide the UK's central role in cataclysmic levels of tax avoidance. As Sharife says;

*Each year, Africa loses a minimum of \$148bn - almost four times the sum of foreign aid it receives, to capital flight - of which 60 per cent is due to corporate mispricing. Clearly, the solution toward enabling African countries to recover their lost revenue and become economically independent, is to block revenue leakages, rather than provide further loans and grants characterised by conditionalities that undermine development.*¹⁴⁴

Political influence

One NGO country head for Zambia told us how working for 'civil society' can be a career path to a job in politics, via connections made through lobbying activities and international donor agencies:

*"Civil society figures also end up in politics, then they change. Some civil society people are actually working for the government and chamber of commerce, so they are really already government, yet they represent the civil society".*¹⁴⁵

One popular Independent MP, Patrick Mucheleka, was previously Executive Director of *Civil Society for Poverty Reduction*, a large NGO funded by the European Union, Action Aid, DfID, GIZ (German aid), Norwegian Church Aid, UNICEF, the Finnish Embassy, Diakonia and the World Bank.¹⁴⁶ What interests and ideologies will he bring to his job in politics?

We noted how easy it was for NGOs we met to get access to politicians and even cabinet ministers. The perspectives of civil society are clearly highly valued by Zambian policy makers, who they extensively consult with, but it should not be automatically assumed that they speak on behalf of the people. NGOs' significant influence on policy making could be seen as undemocratic, largely representing donor interests and effectively suppressing the authentic voice of communities.

A warning about right wing critiques of aid

The Lusaka born writer and banker Dambisa Moyo, author of *'Dead aid: Why Aid Is Not Working and How There is Another Way for Africa'*,¹⁴⁷ and other neo-liberal economists such as William Easterly have made widely circulated critiques of aid from a right wing perspective. They note that countries flooded with aid money have in many cases become poorer and not more developed, and suggest it should be replaced by Foreign Direct Investment (FDI) by multinational companies. This is in fact already happening, with FDI flows overtaking aid in Sub Saharan Africa since the 2008 recession, boosted considerably by Chinese industrial interests. Some reports claims China has invested \$2 billion in Zambia already.

Easterly claimed in 2003 that:

¹⁴⁴ *ibid*

¹⁴⁵ Interview with anonymous NGO head, Ndola, 5th Dec 2013.

¹⁴⁶ CSPR Annual Report 2012. Available at <http://www.csprzambia.org/index.php/resources/annual-reports?start=4>

¹⁴⁷ Dambisa Moyo, 2009, *Dead Aid: Why Aid Is Not Working and How There is Another Way for Africa*. New York: Farrar, Straus and Giroux

*If Zambia had converted all the aid it received since 1960 to investment and all of that investment to growth, it would have had a per capita GDP of about \$20,000 by the early 1990s. Instead, Zambia's per capita GDP in the early 1990s was lower than it had been in 1960, hovering under \$500.*¹⁴⁸

This simplistic argument fails to take account of the many ways, noted in this paper, in which Zambia has lost out from its attempts to attract FDI, not least the 'capital flight' of tax revenues owed by these companies, on top of weakened regulations, environmental damage and social issues. Dambisa Moyo, a Goldman Sachs banker, now sits on the boards of Barrick Gold and Barclays Bank – both infamous for their tax evasion and loot of the Third World, and has made her theories popular with the IMF, World Bank and Council on Foreign Relations among other neo-liberal institutions.¹⁴⁹

Though a reduction in aid may not be a bad thing, its replacement with investment by foreign multinationals with equally conflicting interests to the Zambian people is not a solution. As the Africa Progress Panel's 2013 report on Equity in Extractives states:

Viewed from a different perspective, foreign investment brings many challenges. Few African governments negotiating the terms of concessions and licences have the type of information they need to assess the extent of mineral reserves and the potential costs of extraction and marketing. By contrast, oil and mining companies have unrivalled access to commercial market information, geological analysis, technologies for exploration and extraction, financial resources, and export channels. While corporate revenues are not strictly comparable to GDP, the commercial activities of multinational natural resource companies dwarf the economies of the African countries that they operate in.

*Asymmetry in information is not the only problem. Foreign investors in Africa's extractive industries operate across jurisdictions and through enormously complex company structures. Petroleum and mining companies channel their financial and trade activity in Africa through local subsidiaries, affiliates and a web of offshore companies. The combination of complexity, different disclosure requirements and limited regulatory capacity is at the heart of many of the problems discussed in this report. It facilitates aggressive tax planning, tax evasion and corruption. It also leads in many cases to the undervaluation of Africa's natural resources – a practice that drains some of Africa's poorest nations of desperately needed revenues.*¹⁵⁰

The report also notes that 'returns on investment in Africa are high by the standards of other developing regions: 20 per cent compared with 12 per cent to 15 per cent in Asia and Latin America', a clear indication that exploitation is taking place, and that other policies are possible. What is truly needed in Zambia is political autonomy from all outside interests, strategic links with fellow resource rich nations and between their social movements, and sharing of information to enable a deep re-analysis of how to avoid the 'resource curse' and create a sustainable future.

148 William Easterly, 2003, 'Can Foreign Aid Buy Growth?', *Journal of Economic Perspectives*—Volume 17, Number 3. p.17

149 Dambisa Moyo biography at <http://www.dambisamoyo.com/biography/>

150 *Equity in Extractives: Stewarding Africa's natural resources for all*, Africa Progress Report 2013.
<http://www.africaprogresspanel.org/publications/policy-papers/africa-progress-report-2013/>

Conclusion and recommendations

Zambian politicians and newspapers often talk about foreign companies as 'investors' in their country, and companies themselves present their presence in Zambia as a benevolent effort to create jobs, even at their own loss. This misconception couldn't be further from the truth. Extractive industries come to Zambia to take advantage of low taxes and liberal policies which allow them to ruthlessly loot and exploit the natural resources, leaving behind corruption and environmental and social damage which their minimal tax contributions don't come close to compensating. Recent studies have revealed in unequivocal terms that Sub Saharan Africa is a 'global net creditor' of billions of dollars each year (mostly in 'illicit flight' of owed taxes, undeclared extraction and corrupted deals), and not a burden on the rest of the world as we are made to believe.¹⁵¹ This is extractivism, not investment, or aid.

The bottom line is that Zambia's copper based economy has a finite lifetime, with economists suggesting that Zambian copper will be exhausted between 2020 and 2100.¹⁵² The upper end may be unlikely, and we have shown how companies and even financial analysts can manipulate these figures to create investor confidence and enable speculation. At any rate there is limited time to reverse the trend of losing, rather than gaining from this precious resource, making it last, or planning for an economy without it. Vedanta claim their Zambian assets at KCM comprise 13.6 million tonnes of copper, which, at current copper prices would be worth \$99 billion. Is this resource benefitting the people of Zambia under Vedanta's management? If not, how can the Zambian people and its authorities radically re-examine the worth and potential of this enormous national asset? This report does not intend to give simple answers, but instead to raise some crucial questions and provide missing information to enable informed debate. The following recommendations are intended to help Zambians take steps towards re-assessing and redefining copper-based 'development' in their country.

Recommendations

Primarily, we suggest Zambia must break its current isolation and make links with other resource rich nations, sharing different approaches to policy and economy which genuinely benefit people in the long term. In particular, connections should be made between people's movements which have enacted deep and meaningful changes from the bottom up. By connecting our struggles and sharing research and tactics we can be more informed and better supported to dissent from unequal and exploitative extractive policies.

Lack of information is a key issue in Zambia. Learning from other global examples there are a variety of ways in which crucial research could be carried out, affecting informed policy change. A people's survey of trucks and/or trains leaving mines and smelters is an excellent way to estimate the true volume of production and exports. This was how Goa's illegal mining was initially discovered (see chapter 2), leading to a judicial inquiry into mining in Goa, and subsequently other Indian states, which revealed the massive scale of loot and tax evasion and facilitated an overhaul of mining policy.^{153,154} A similar process could be carried out in Zambia.

151 Mark Tran, 29 May 2013, 'Illicit financial flows have made Africa 'a net creditor to the world'.' *The Guardian*.
<http://www.theguardian.com/global-development/2013/may/29/illicit-financial-flows-africa-creditor>

152 Ventakesh Seshamani, Professor of Economics, University of Zambia, in: Alastair Fraser and Miles Larmer, Dec 2010, *Zambia, Mining, and Neoliberalism: Boom and Bust on the Globalized Copperbelt*, Palgrave Macmillan.

153 *Rediff news*, December 8th 2012, 'Detailed report: Story of BRAZEN illegal mining in Goa'.
<http://www.rediff.com/news/report/detailed-report-story-of-brazen-illegal-mining-in-go/20121208.htm>

154 *Economic Times of India*. Oct 15, 2013, 'Shah Commission submits final report on illegal mining'.
http://articles.economictimes.indiatimes.com/2013-10-15/news/43068388_1_final-report-illegal-mining-commission

Accurate information could contribute to developing a 'critical consciousness' in Zambia, which examines and questions new models of development, asking how they will serve people's needs. Critical consciousness is necessary to prevent Zambians from being wooed by the rhetoric of new brands of neo-liberalism, which represent little or no change from the old extractivist regime and are backed by the same interests. *Black Economic Empowerment* (BEE) in South Africa (led by the ANC's Cyril Ramaphosa – who now sits on the board of Lonmin),¹⁵⁵ the United Nations Environment Programme (UNEP)'s *Global Green New Deal* (formed following the 2008 financial crisis as a fair way to continue resource extraction from Africa in a 'clean and green' way), and *Africapitalism*TM coined by Nigerian businessman Tony Elumelu¹⁵⁶ are a few examples.

Finally, Zambia's NGO culture should be critically re-examined. The notion of 'civil society' should be expanded to include community groups, marginal trade unions and people's movements. The growth of these bodies, which are at the heart of true democracy, should be encouraged and valued. At a community level people should learn from hopeful global examples of social movements in India, Latin America and elsewhere, and begin a bottom up process of redefining 'progress' and 'development' which truly serves Zambia's people.

“...They should make public the tonnage they produce and the selling price they achieve, to enable us to determine that the Zambian companies and not their foreign affiliates are deriving the highest possible benefits from the market boom. They should report their profits and the amount of tax they paid; their cash reserves and where they are located; their dividends and their borrowings and their costs; their employment levels broken down between local and expatriate; their investment plans and their projections.

So that the Nation may be fully informed about what is happening to its most important resource. And so that these new Mining companies (and all foreign investors for that matter) can understand that they are a part of this Nation and not a caste apart.”

**Kenneth Kaunda (Zambia's first President),
The Post Zambia newspaper, 2005**

155 Greg Marinovich and Greg Nicolson, 24 Oct 2013, 'Marikana massacre: SAPS, Lonmin, Ramaphosa & time for blood. Miners' blood'. *Daily Maverick*. <http://www.dailymaverick.co.za/article/2013-10-24-marikana-massacre-saps-lonmin-ramaphosa-time-for-blood-miners-blood/#.Us5Os4VZ2Kx>

156 Earl Nurse and Jill Dougherty, November 12, 2013, *Tony Elumelu: The 'Africapitalist' who wants to power Africa*. CNN.

About Foil Vedanta Foil Vedanta are a London based grassroots international solidarity group. We carry out cutting edge research and link communities affected by Vedanta to create a global movement, giving them increased visibility and information, and holding the company and its backers to account in London, where it is registered. www.foilvedanta.org

About the authors

Samarendra Das is an independent scholar, bilingual author, filmmaker and political activist. He also co-authored *Out of This Earth: East India Adivasis and the Aluminium Cartel* (2010) with Dr. Felix Padel. His main documentary films, with Amarendra Das, are: *Wira Pdika or Earth Worm : Company Man* (2005), about mining in Orissa; *Ladaat Jaare or The Struggle* (2006), about forest rights in central India; and *Kandhamal 2008* (2011), about the communal violence that engulfed his home district in Odisha.

Miriam Rose is an activist and researcher on the mining and metals industry with years of experience working with Iceland's movement against large dams and the aluminium industry *Saving Iceland*, as well as in India. She was imprisoned for her actions against the aluminium industry in Iceland in 2008 and has published a number of articles on mining and metals production.

Coverage of Copper Colonialism in Zambia

Since its release this report has raised national level debate in Zambia and Vedanta's executives have visited the country more than four times to respond to its claims. Following a series of closed door meetings with ministers it was reported that a deal was reached with the Zambian government that no workers would be sacked and outstanding debts would be re-paid. However, KCM's annual reports, profits and tax declarations remain opaque and unavailable to the public and the debate on the reports revelations about copper mining in Zambia continue.

*Vedanta Resources' subsidiary Konkola Copper Mines public relations manager Joy Sata says the mining company does not want to discuss any aspect of the report as it is inaccurate and misleading. **The Post Zambia newspaper, 13th Feb 2014.***

*"We are keeping a careful eye on KCM. It seems a lot of money was taken out and the firm now has a lot of liabilities which are in excess of US\$1 billion. They have not paid loans to banks, they are owing a lot of money to companies. So there a lot of all these strange things happening," Vice-President Scott said. **Post Zambia, 15 Feb. 2014.***

*DIPAK Patel says Konkola Copper Mines should be made fully accountable for its conduct in Zambia. "Enough is enough," said Patel, who is former commerce minister. He said the findings in the "Vedanta KCM and the copper loot of Zambia" report deserved a considered and detailed response from the Zambian government. **Post Zambia, 18 Feb 2014.***

DR KALOMBO Mwansa says there is no mining company which currently can claim to be making losses. "They must be made to account, they must disclose what it is they are giving to the government other than saying they have put a road there or done this and that in terms of corporate social responsibility because corporate social responsibility cannot be a substitute for taxes.

*"KCM is saying that the report is inaccurate but they are not telling us how inaccurate it is. Let them produce their own figures because these people have produced figures," Dr Mwansa said. "KCM must come out and explain by giving us the figures of what is really inaccurate about the report." **Dr Kalombo Mwansa, former foreign affairs minister, Post Zambia, 23rd Feb 2014.***