

Mining in a post-Covid DRC will be "survival of the fittest"

While some mining operations in the Democratic Republic of Congo (DRC) have been able to continue production despite Covid-19 lockdown restrictions, experts agree that the country's mining industry faces a tough post-pandemic period, although this also provides opportunities for investors.



Kamoakakula Copper Project

"I need to commend the entire mining industry in the DRC which has shown unprecedented solidarity to government and local communities during this pandemic. We see in the DRC mining operators coming together and contributing in all sorts of ways, including taking extraordinary measures to keep operations going under a strict lockdown configuration and protecting the health of their employees and not retrenching people as the government has asked," said Louis Watum, president of the DRC's Chamber of Mines and Ivanhoe Mines' MD of DRC Operations, in a webinar with several other of the country's mining stakeholders.

He said the company was making good progress on its Kamoakakula Copper Project in the Kolwezi district: "if you want to see a real brave new world, come to Kamoakakula. As I'm speaking, we have 4,500 workers working under strict lockdown, they have not seen their families for weeks and they are working underground and on the surface. They are pushing for Kamoakakula to get into production and tell a great story next year. We are still on target, we showed a lot of resilience and courage, so it is very good for the country and the economy and all the stakeholders."

Remote location an asset

Alphamin Resources and Pangea Director Boris Kamstra also lauded the staff of the Alphamin Bisie tin mine in North Kivu that was still fully operational, although he admitted that the remote location was a benefit to the operation during the pandemic.

“Being isolated and not having large numbers of people around us, does give us a degree of immunisation. Now, naturally we do have to have people moving in and out. One of the most difficult areas has been the movement of expatriate labourers. So, we’ve got a team onsite – we were firmly believers in their superhuman abilities before this event – and they have now proven how much they are actually able to keep it going. Some of these guys have been there over two months and are overdue for a rotation, yet they continue to produce at our budgeted level.”

However, Louison Kiyombo, partner in tax and legal at KPMG DRC warned that the country’s mining sector, at 20% the largest contributing sector to the state coffers, was already hampered by the Covid-19 pandemic. “A decrease in exports means a decrease in tax collection. When mining companies are obliged to cut costs it may end in job losses. We are seeing several SMEs pushed to postpone and even to close their operations which is dramatic to the employment and tax revenues.”

New mining code

While Amedeo Anniciello, CEO of Standard Bank DRC agrees that exports have slowed down, he said that Covid had not been the only factor to negatively impact the country’s mining industry.

“One is the impact of the imports of raw materials from China and the extent to which the Chinese economy has slowed down. That seems to have had less of an impact that we had originally anticipated. The consequence of which is that the mining companies continue to produce and export the copper and cobalt.

“So while we have seen some of the prices come down, we believe that the prices have stabilised at the lower end and we’ll start to see some recovery as China starts their recovery. I don’t think that there has been a huge impact on the mining industry in terms of Covid alone. I think there have been a number of other issues that have also impacted the mining industry, one of which was the new mining code last year and some of the mines have been trying to get to grips with what it means and how it will impact them.”

Ambassadors for the DRC

In response to a viewer question during the webinar regarding the DRC being viewed as a very risky mining destination, Kamstra also mentioned the new mining code and the negative effect it had on investor confidence. “I think what is very important is that the government understands that we have to be ambassadors for the DRC, and in our instance, for North Kivu, long before we can even talk to people about our specific projects. When the previous mining code with its stability clause, which gave investors a degree of comfort, was changed, we were put on the back foot. We stand together with the government, it is in our interest that the DRC flourishes and runs very smoothly. So this goes back to a greater need for a partnership and a great degree of trust amongst us.”

During the discussion, Louis Watum, who describes himself as “a DRC mineral resources fundamentalist” agreed that the government had some work to do to inspire more confidence: “I must say it takes two to tango, the DRC needs to come to the party as well. There is a strong appetite amongst investors looking for new ground for exploration in particular and also in beneficiation in country, adding value, because there is a big market for that. We can never say it enough, but we need to root out corruption in the Congo, we need more transparency in the Congo, particularly for getting permits for exploration and so forth. We need stability and certainty of regulatory framework. All these are must-haves if you want to attract big investors and really create wealth. So yes, the appetite is there, but the DRC needs to make it attractive for investors.”

Increase in M&A post-Covid-19

The webinar panel agreed that it was difficult to predict when the pandemic would be over and when all mining operations could resume. "What does this mean for the mining industry?" Watum asked, "I think it is going to be the survival of the fittest post-Covid19. And who is going to be the fittest? It is those that are well-funded, with deep pockets, with less debt and with very strong management. These are the ones who will survive this challenge. I therefore see an increase in M&A activities post-Covid-19, where the big players with a lot of cash and experience will be shopping around for opportunities that have lost a lot of value and have become affordable."

Kamstra admitted that they "had their radars out and were scratching around" for opportunities. "We are great bulls on the DRC and believe wholeheartedly in its potential and are reviewing a number of possible investments that we could make. There are people with some severely stressed balance sheets. I think if you are an explorer or a developing project and you are not fully funded at this point I think in post-Covid-19 it is going to be quite hard to acquire that capital and those would be the kind of opportunities that we look at."

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