Zambia's copper mines hope to emerge from the present crisis in better shape

By Nathan Chishimba

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There's a well-known saying in the banking business which goes something like this: if you owe the bank $100, it's your problem; if you owe the bank $1bn, it's the bank's problem.

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Similarly, if a single country consumes 10% of the world's copper production, it's not a problem; but if a single country consumes 45% of the world's copper, then it's a big problem. Why? Because if that country should suddenly run into economic difficulty and cut back on its copper consumption, then the world's copper mines would face a serious and sudden drop in their business.

That, simplistically speaking, is exactly what has happened in the world copper market in the past five years. China is the world's largest consumer of copper, accounting for some 45% of world production. Barely ten years earlier (2004), China's consumption was only 21% of world production; and ten years before that (1994), it was a mere 8% of world production.

Giant industrial glutton

So over the course of the past 15 years or so, particularly since the turn of the century in 2000, China has been like a giant industrial glutton, literally gobbling up much of the world's copper. Its voracious appetite has been caused by the country's spectacular economic growth, fuelled by the market reforms initiated in 1979 by the Chinese leader, Deng Xiaoping. Concerned with the depth of poverty in then communist China, Deng astonished the world by permitting free-market practices and the profit principle to operate in the country.

He said: "It doesn't matter if the cat is black or white, so long as it catches mice." This deliberate and strategic policy decision unleashed the spirit of enterprise of the Chinese people, attracted billions in foreign investment and made the country a magnet for the world's leading manufacturers and industrial companies. Since 1980, the country's economy has grown more than 30 times, and China has lifted more than 700 million people out of poverty - a feat unequalled in history.

Today, China is the world's largest manufacturer, the world's largest exporter, the world's largest car market, the world's largest retail market, the world's largest user of the internet and the world's leading producer of industrial patents.

Key consumer

This decades-long growth spurt meant the country became a key consumer of industrial minerals like copper and steel. That's because copper is used in all the areas that one would associate with a growing economy: construction, power transmission, industrial machinery and transportation (cars, trains, planes). Copper wiring and plumbing is also an integral part of household appliances, heating and cooling systems, and telecommunication devices such as cell phones.

Businesses expand to meet demand, and the world's major mining companies, from Zambia to Chile, expanded production and invested in new mines to be able to supply China's appetite for copper. Zambia's newly privatised mining industry caught this wave in about 2000, and expanded massively over the next decade, investing more than $10bn, trebling employment in the mining industry to around 70,000, and boosting copper production nearly threefold to around 800,000 tons.

But about five years ago, in 2011, growth in the Chinese economy began to slow, resulting in a contraction in demand for copper, steel and other industrial metals. After years of double-digit annual economic growth, which reached levels of 14%, the country's growth rate slowed to around 7%. That's still spectacular, but the fall was enough to cause a prolonged decrease in demand in copper consumption.

Declining profitability

The resulting oversupply of copper on the market as a result of all that mining investment during the boom years means the price has fallen steadily, from a high of nearly $10,000 a ton in 2011 to around $4,600 today. From Peru and Zambia to Australia and the United States, copper mines have felt the effect on their operations - shrinking revenue, rising costs and declining profitability. The world's copper mines have been rocked by retrenchments, layoffs and mines being put on care and maintenance.

The current period of crisis is being used by the world's copper mines to review the efficiency of their operations, cut their costs, and in many cases automate aspects of their operations to produce copper more cheaply. We in Zambia are in the same boat, and hope to emerge from the present crisis in better shape. It's the world's strong, competitive copper mines which will be the least immune to future price shocks.

Nobody doubts that the upturn will come, as it always has in the past; but at this stage, no one is prepared to say when. The bottom line is that China has not stopped buying our copper; it is still buying increasing quantities of the metal - but just not at the same phenomenal rates as before. For now.

ABOUT THE AUTHOR

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