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FIRST REPORT

**OF THE PORTFOLIO COMMITTEE ON INDUSTRY AND COMMERCE ON THE
AGREEMENT SIGNED BETWEEN THE GOVERNMENT OF ZIMBABWE AND ESSAR
AFRICA HOLDINGS LIMITED REGARDING NEW ZIMBABWE STEEL LIMITED**

FOURTH SESSION – SEVENTH PARLIAMENT

Presented To Parliament in 2012

Announced: Tuesday, 6th September 2011

That the Committee consists of the following:

Hon. Chiota P, Hon. Hove S, Hon. Kanzama F, Hon. Madubeko J, Hon. Madzimure W, Hon. Mharadza T, Hon. Mutomba W, Hon. Ncube S, Hon. Nyaude B, Hon. Sithole A
Hon. Mutomba W to be Chairperson

ORDERED IN TERMS OF STANDING ORDER NO. 159:

- 1) At the commencement of every session, there shall be committee designated according to such government policy areas as the Standing Rules and Orders Committee may deem fit.
- 2) It shall be the function of such committees to examine government policies, which fall under or relate to the designated theme or themes, and other matters falling under their jurisdictions as the Standing Rules and Orders Committee may determine.
- 3) The members of such committees shall be appointed by the Standing Rules and Orders Committee, from one or both Houses of Parliament, and such appointments shall take into account the expressed interests or expertise of Members and Senators and the political and ender composition of the Parliament.
- 4) Each select committee shall be known by the theme determined for it by the Standing Rules and Orders Committee.

TERMS OF REFERENCE OF PORTFOLIO COMMITTEES STANDING ORDER NO. 160

Subject to these Standing Orders, a portfolio committee shall-

- a) Consider and deal with all Bills and Statutory Instruments or other matters which are referred to it by or under a resolution of the House or by the Speaker;
- b) Consider or deal with an appropriation or money bill or any aspect of an appropriation or money bill referred to it by these Standing Orders or by or under resolution of this House;
- c) Monitor, investigate, enquire into and make recommendations relating to any aspect of the legislative programme, budget, policy or any other matter it may consider relevant to the government department falling within the category of affairs assigned to it, and may for that purpose consult and liaise with such a department; and
- d) Consider or deal with all international treaties, conventions and agreements relevant to it, which are from time to time negotiated, entered into or agreed upon.

1.0 INTRODUCTION

The Portfolio Committee on Industry and Commerce conducted an inquiry into the Agreement signed between the Government and Essar Africa Holdings Limited (2011) regarding the Zimbabwe Iron and Steel Company (ZISCO), now New Zimbabwe Steel Limited. At its peak ZISCO produced one million tonnes of steel per annum and employed about four thousand people. Thus, concerned about the delay in the resumption of operations at this strategic entity in the revival of the country's economy, the Committee was compelled to conduct the inquiry.

2.0 OBJECTIVES

The objectives of the Committee's inquiry were as follows:

- a) to find out what was stalling the conclusion of the Agreement
- b) to have an appreciation of the provisions of the Agreement
- c) to come up with recommendations for the commencement of operations at New Zimbabwe Steel Limited

3.0 METHODOLOGY

3.1 The Committee held oral evidence sessions with the following:

- a) Ministry of Industry and Commerce
- b) Essar Africa Holdings Limited
- c) Ministry of Mines and Mining Development
- d) New Zimbabwe Steel Workers' representatives

3.2 The Committee also considered the Agreement signed between the Government of Zimbabwe and Essar Africa Holdings Limited to create New Zimbabwe Steel Limited and New Zimbabwe Minerals.

4.0 FINDINGS

4.1 MINISTRY OF INDUSTRY AND COMMERCE

4.1.1 The Committee received oral evidence from the Ministry of Industry and Commerce on the tender for ZISCO that has since been awarded to Essar Africa Holdings, on the 17th of March 2011 and found out the following:

4.1.2 The new bidding process for the tender of ZISCO culminated in the signing of an agreement between the Government of Zimbabwe and Essar Africa Holdings Limited of Mauritius in March 2011.

4.1.3 The Agreement provides for a shares ownership structure of 54: 35:11 percent for Essar Africa Holdings Limited, the Government of Zimbabwe and Minority shareholders respectively. In addition to that, Essar Africa Holdings Limited is required to inject an initial amount of \$US 750 million in fresh capital towards the revival of ZISCO. Essar Africa Holdings Limited is going to take over the Government of Zimbabwe's ZISCO related (internal and external) debt obligations amounting to approximately \$US 340 million.

4.1.4 The Minister of Industry and Commerce highlighted to the Committee that Essar Africa Holdings Limited had to finalise negotiations with relevant government ministries over enablers, such as water, electricity and a railway line before the conclusion of the Agreement.

4.1.5 The Committee was informed that the Government of Zimbabwe was set to benefit from the Agreement through the resumption of operations at the steel plant, which would provide raw

materials for the local manufacturing industry. About three thousand jobs of the employees at ZISCO were to be saved and the benefits would cascade to the families of the employees. Furthermore, the outstanding ZISCO debt would be resolved. The Ministry also reported that Essar Africa Holdings Limited had pledged US\$ 5 million towards the Small and Medium Enterprises Development Fund and another US\$ 5 million towards the Women and Youths Fund.

4.2 The Committee held another oral evidence session with the Minister of Industry and Commerce on the 28th of May 2012 and found out the following:

4.2.1 Essar Africa Holdings Limited has signed memoranda of understanding with the following government ministries:

- a) Ministry of Finance over taxes and customs duties
- b) Ministry of Economic Planning and Investment Promotion over investment incentives
- c) Ministry of Water Resources Development and Management over water
- d) Ministry of Energy and Power Development over electricity
- e) Ministry of Transport and Infrastructural Development over the railway line between Hwange and Redcliff

4.2.2 The Minister of Industry and Commerce informed the Committee that the Ministry of Mines and Mining Development had not transferred the Buchwa Mine, Ripple Creek and Mwanesi iron ore mining rights to Essar Africa Holdings as at 28 May 2012. This was the major delaying factor to the conclusion of the agreement and the reason behind the salary freeze for the New Zimbabwe Steel Limited workers. The first official communication by the Ministry of Industry and Commerce to the Ministry of Mines and Mining Development over the transfer of the mining claims took place on the 6th of June 2011. The Minister of Industry and Commerce further explained to the Committee that the Mwanesi claims is partly a reserved mining area, while ownership of the other part is being contested by Roderick Mumbire in the courts. The Committee also learnt that the Mwanesi claims, with between 64 and 74 percent iron content is required to blend the low grade Ripple Creek iron ore for the production of steel. The Minister also highlighted that the Mwanesi claims had not been evaluated, while the Buchwa deposits are depleted.

4.2.3 The Minister of Industry and Commerce reported that Cabinet had resolved that the Minister of Mines and Mining Development should transfer the Buchwa, Ripple Creek and the twenty, undisputed Mwanesi mining claims to Essar Africa Holdings Limited, while awaiting the pending court judgment for the Roderick Mumbire claims.

4.2.4 Essar Africa Holdings Limited would fulfill its side of the contract after the conclusion of the agreement and transfer of ownership by the Government of Zimbabwe. The New Zimbabwe Steel Limited Board will also, effectively takeover from the old ZISCO board after the conclusion of the deal.

ESSAR AFRICA HOLDINGS LIMITED

4.3 The Committee received oral evidence from Essar Africa Holdings Limited officials on the 23rd November 2011 and found out the following:

4.3.1 Essar Africa Holdings Limited has not started operations at New Zimbabwe Steel Limited and is awaiting the official exchange and transfer of shares by the Government of Zimbabwe. The delay can be attributed to the audit of mineral claims included in the original ZISCO by the Ministry of Mines and Mining Development.

4.3.2 Essar Africa Holdings Limited has granted a US\$ 6 million advance for workers' salaries to

ZISCO from May to October 2011. However, due to speculation and uncertainty over the Government's position on the agreement, the salary advance has since been suspended. In addition to that, Essar Africa Holdings Limited has agreed to settle the ZISCO external debt. The Government of Zimbabwe has granted Essar a tax holiday in the initial period of its operations, meanwhile the government would be getting revenue from its shareholding and from royalties.

4.3.3 The Government of Zimbabwe and Essar Africa Holdings limited have reached an agreement on the beneficiation of the low quality, vast iron ore (less than 50% iron content) reserves in the country. Twenty percent iron ore reserves ownership is to be retained by the Government. The Agreement provides that Essar Africa Holdings Limited would test and explore the feasibility of beneficiation of local iron ore for a period of one and half years. Essar Africa Holdings Limited would also carry out feasibility studies of transporting beneficiated iron ore by rail and pipeline for export purposes. The Government has advised Essar Africa Holdings Limited to utilise both modes of transport as a railway line would be utilised by local miners to export their products, while telecommunication infrastructure can be put in the pipeline which do away with the need to roll fibre optic network around the country. Essar Africa Holdings Limited plans to build a large beneficiation plant in Chivhu, an investment estimated to be around US\$4.5 billion, only after the completion of the feasibility studies, which is projected to be after a period of six years. The beneficiation project would be supported by a power plant to be located near the Hwange, Entumbane or Sengwe mining fields.

4.3.4 Essar Africa Holdings intends to bring a small number of experts into Zimbabwe to train staff in the initial stages of operations and would to a large extent make use of local skills. Operations at the plant would take up all the four thousand ZISCO employees. The investor will also bring technology which is not locally available.

MINISTRY OF MINES AND MINING DEVELOPMENT

4.4 The Committee received oral evidence from the Ministry of Mines and Mining Development on the 18th of June 2012 and found out the following:

4.4.1 The Ministry of Mines and Mining Development is ready to transfer the mining claims to Essar Africa Holdings Limited as per the Cabinet's approval and has officially communicated with the Ministry of Industry and Commerce on this position. The Ministry is awaiting Essar Africa Holdings Limited officials' approach for negotiations over the mining claims, a process to be guided by the Mines and Minerals Act, value of the iron ore claims and the non-exportation of raw materials policy. The Minister further informed the Committee that Essar Africa Holdings Limited can begin operations at New Zimbabwe Steel Limited with the Buchwa and Ripple Creek iron ore, with out any formalities.

4.4.2 The Minister informed the Committee that the Ripple Creek ore has a 53 percent iron content that would give a life of 32 years production at a level of 960 thousand tonnes of steel per annum. Buchwa has about 15 million tonnes of high grade ore and the 17 Mwanesi claims have an estimate of 25 million tonnes of high grade ore.

4.4.3 The Ministry of Mines and Mining Development was excluded from the negotiation process of the Essar agreement and the inauguration ceremony of the New Zimbabwe Steel Limited. The Committee learnt that the agreement was only brought before the Cabinet when difficulties arose over the fulfillment of some of the provisions.

4.4.4 The Mwanesi iron ore reserves are for future development and can not be transferred easily.

4.4.5 Essar Africa Holdings Limited does not dispute the valuation of the iron ore mining claims carried out by geologists from the Ministry of Mines and Mining Development

NEW ZIMBABWE STEEL WORKERS' REPRESENTATIVES

4.5 The Committee received oral evidence from the New Zimbabwe Steel Workers' Representatives on the 22nd of May 2012 and the following issues were highlighted:

- 4.5.1 Essar Africa Holdings Limited suspended the salaries of the three thousand New Zimbabwe Steel Limited workers on the 4th of May 2012 due to the inconclusive agreement signed between the Government and Essar Africa Holdings Limited. The suspension of salaries had multiple effects which include: the failure of employees to pay school fees for children, provide for their families and pay back borrowed loans. Furthermore, the community could no longer access the water and electricity which could be accessed when the plant was operational. On the work front ill employees were being turned away without sick leave benefits; pension benefits and the life group cover of the employees are no longer being paid.
- 4.5.2 The employees required a long term solution to the continuous disruption of their salaries and clarification on the progress made towards the conclusion of the agreement. They also indicated the need for a survival plan whilst the agreement is being finalised.
- 4.5.3 The workers representatives informed the Committee that they were not involved in the agreement but were only invited to the inauguration ceremony of New Zimbabwe Steel Limited and were assured that the agreement would be concluded within a period of two weeks.
- 4.5.4 The plant had run out of scrap metal which was being previously sold to cater for the workers' welfare.

5.0 COMMITTEE OBSERVATIONS

The Committee made the following observations:

- 5.1 There are a number of irregularities in the Agreement presented to the Committee, which include: absence of a cover / title page, absence of ZISCO management board chairperson's signature, reference to nonexistent ministries, among others.
- 5.2 There were differences in the presentations made by the Minister of Industry and Commerce and the Minister of Mines and Mining Development on the iron content of the Buchwa, Ripple Creek and Mwanesi claims.
- 5.3 The 80:20 percent shareholding between Essar Africa Holdings Limited and the Government of Zimbabwe respectively, in New Zimbabwe Minerals is grossly unfair.
- 5.4 The inauguration of New Zimbabwe Steel Limited was done before the conclusion of the agreement.
- 5.5 Two companies (New Zimbabwe Steel Limited and New Zimbabwe Minerals) were created out of ZISCO. The Minister of Industry and Commerce agreed to the creation of New Zimbabwe Minerals, a mining company, without consulting the Minister of Mines.
- 5.6 There is consistent disruption of workers' salaries which has been worsened by the inconclusive agreement between the Government and Essar Africa Holdings Limited.

6.0 RECOMMENDATIONS

The Portfolio Committee on Industry and Commerce recommends the following:

- 6.1 The Executive should make an effort to be involved in the drafting of agreements.
- 6.2 All iron ore extracted by Essar Africa Holdings Limited should be for operations at New Zimbabwe Steel Limited, not for export in its raw form.

- 6.3 Government Ministries should consult amongst themselves before entering into agreements to avoid inconsistencies.
- 6.4 There is need to review the shareholding structure of New Zimbabwe Steel Minerals.
- 6.5 The agreement needs to be reviewed by all the relevant parties to the agreement
- 6.6 In future draft agreements should be availed to Parliament for scrutiny before signing.
- 6.7 Workers' welfare should be prioritized in all agreements of a similar nature, in compliance with the labour laws of the country.

7.0 CONCLUSION

The Committee is disturbed that agreements of such high value are handled lackadaisically. Agreements should elicit contributions from all sectors and the country's interests should be an essential element of all agreements. The agreement should be reviewed to ensure that Zimbabweans benefit.