Approved For Release 2006/04/19 : CIA-RDP85T00875R001700050007-8

CIA/OER/IM 73-9

Confidential

DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Zambia: Effect on Copper Exports of Closing of Route Through Rhodesia

Confidential

ER IM 73-9
January 1973

Copy No. 63

25X1

Approved For Release 2006/04/19 : CIA-RDP85T00875R001700050007-8

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
January 1973

INTELLIGENCE MEMORANDUM

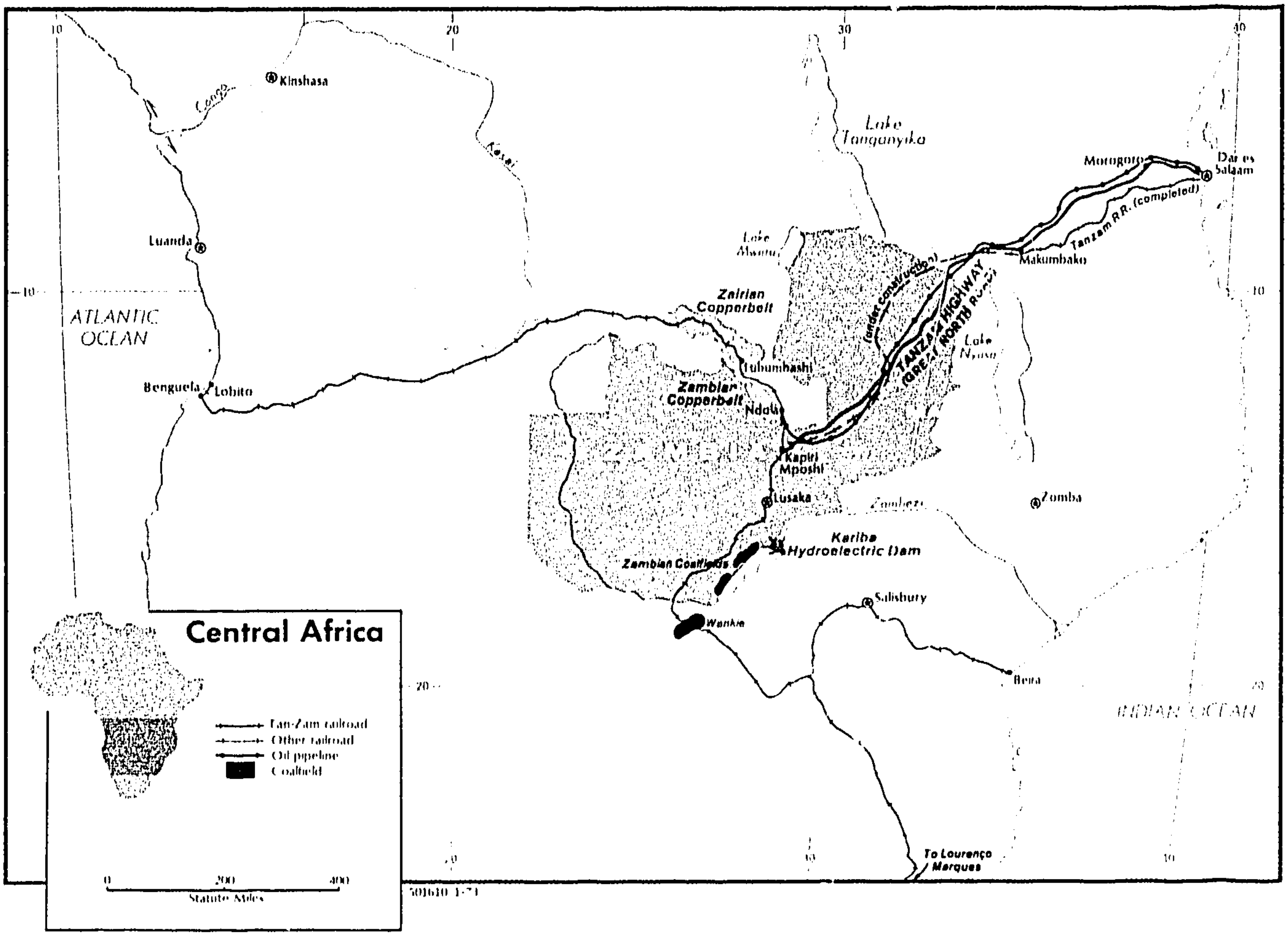
ZAMBIA: EFFECT ON COPPER EXPORTS OF CLOSING OF ROUTE THROUGH RHODESIA

SUMMARY AND CONCLUSIONS

1. On 10 January the Rhodesian route that handles about 50% of Zambia's copper exports of 55,000 metric tons a month was shut down. Although there is no absolute physical barrier to the movement of all this copper through two alternative routes – overland by road or road/rail to the Tanzanian port of Dar es Salaam, or overland by rail through Zaire to the Angolan port of Lobito, which handled 30% and 20% of Zambia's copper exports, respectively – political and managerial problems would have to be resolved before the entire displaced tonnage could move. A full resumption of copper shipments would require cooperation from China, whose equipment and resources are now being used on the Tanzam Railroad. Even if Zambia ships all its copper, however, it has no chance of being able to avoid a sharp drop in the volume of its imports because of inadequate transport capacity.

2. As for the first alternative route, for the longer term the truck fleet of 500 units now employed on the 1,100-mile Tanzam Highway (the Great North Road) to Dar es Salaam (see the map) could be augmented by rounding up an additional 500 trucks on contract and by re-directing the use of part of the 1,000 trucks now estimated to be engaged in the Chinese-sponsored Tanzam Railroad project. Furthermore, the 437-mile completed portion of the Tanzam Railroad might be used as a supplement to the road, which is in especially battered condition in that particular stretch. The port of Dar es Salaam does not pose a physical barrier to the export of additional copper in the amounts under consideration.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.



3. The political problem of making appropriate arrangements with the Chinese on the Tanzam route would be small compared with the managerial and administrative problems of:

- Stepping up the efficiency of the existing road operation without incurring the excesses almost typical of the less developed countries – for example, the overloading of trucks and the failure to control fuel supplies;

- Providing the necessary management and manpower to increase the physical flow through the port facilities at Dar es Salaam.

4. As for the second alternative route through Zaire and Angola, the political atmosphere is a deterrent to its use. Zambia's President Kaunda wants to avoid exporting more copper through Portuguese territory. On the management side, the Zaire-Lobito railroad line could carry large additional tonnage only if managerial efficiency is higher than usual and if extra rail cars are provided.

5. The prospects for carrying a substantial additional tonnage over the alternative routes (over and beyond small increments) thus depend on the favorable resolution of a number of intertwined political and economic considerations. We do not believe that these problems are likely to be resolved in a matter of weeks. In the short run, we estimate that only 40% (11,000 tons) of the 27,000 tons of copper formerly transiting Rhodesia each month will reach maritime ports via alternative routes. Of equal importance, little of the approximately 65% – some 70,000 tons a month – of total imports formerly received via Rhodesia can be shifted to other routes for at least several months.

6. So far the shutdown of Zambia's copper shipments through Rhodesia has had little effect on the world copper market, which indicates a general belief that normal deliveries will soon be restored. The most important economic effect will be the cumulatively serious impact on Zambia itself – on its foreign exchange reserves and on its imports of machinery and materials necessary to keep the domestic economy operating. If the shutdown persists, Rhodesia also will be feeling the cumulative loss of transit fees at a time of foreign exchange stringency. Because both nations overreacted in the situation, political pressure for settlement is being added to the mutual economic interest in restoring the status quo ante. Already, a movement toward accommodation is apparent.

DISCUSSION

Recapitulation of Events

7. Zambia and Rhodesia are engaged in their most serious confrontation since Rhodesia's Unilateral Declaration of Independence (UDI) from the United Kingdom in November 1965. A recent upsurge in terrorist attacks by Zambia-based Rhodesian guerrillas prompted Salisbury's decision on 9 January to close its border with Zambia to all but copper movements until Lusaka brought such incidents to a halt.

8. In early December, Rhodesian officials reported skirmishes with a guerrilla band and uncovered a sizable arms cache. Just before Christmas,

terrorists raided two farms in the first attack on whites since early 1970 and followed with a series of land mine incidents in late December and early January. In a statement of 10 January in which he reiterated his support for African liberation movements, President Kaunda announced that he was shifting Zambia's copper exports away from Rhodesia and freezing payment on all imports from Rhodesia, South Africa, and Mozambique until they are actually delivered. Among these imports were mining equipment from South Africa and industrial materials necessary for continued operation of Zambian mines. Copper had been exempt from Salisbury's border closure, presumably because of the more than US $20 million in transit fees annually paid to Rhodesia, which currently is short of foreign exchange.

Significance of Copper

9. Copper is the foundation of Zambia's economy. Mining and processing of the metal account for more than one-half of total government revenues, more than 90% of foreign exchange earnings, and almost 40% of gross domestic product (GDP). Outside of the copper industry the economy is underdeveloped, relying on imports to supply a major share of domestic needs of all kinds except for basic foods in good harvest years. Imports continue at a high level despite efforts to increase the number of import-substitution industries and to cut back consumption of luxury goods.

10. Production of copper in 1971 reached 633,000 tons valued at $630 million and was 394,000 tons in the first seven months of 1972. Almost half of the copper exports have been shipped by rail through Rhodesia and the ports of Beira and Lourenco Marques in Mozambique; perhaps 20% has exited the Angolan port of Lobito via Zaire, with the remaining 30% being trucked over the Tanzam Highway to the port of Dar es Salaam.

11. A decline in Zambian output and in world copper prices led to a serious reversal of Zambia's economic fortunes in the early 1970s. Copper production was cut by about 8% by the flooding of the country's second largest mine at Mufulira in September 1970; restoration will not be complete until mid-1974. A general weakening of the world market has dropped the price of copper from almost $0.80 per pound in early 1970 to around $0.50 per pound at present, reducing Zambia's merchandise trade surplus in 1971 to $125 million, less than one-fourth that for 1969. Foreign exchange reserves have fallen to about one-fourth of 1970's record high of $562 million. Government revenues also dropped substantially, as most public funds are derived from taxes on profits of the mining sector. The budgetary deficit was $271 million in 1971 and was probably even greater in 1972. Deterioration of the budget position has forced Zambia to slash

investment spending from the level envisioned in its Second National Development Plan (1972-76). Rural development programs will probably be most affected by the cutback.

Efforts to Reduce Dependence

12. President Kaunda may now test the viability of his seven-year program to wean Zambia away from economic dependence on Rhodesia. Almost immediately after UDI in 1965, Lusaka embarked on a campaign to break all economic relations with the Smith government. British colonial policy had gone far toward integrating the economies of Rhodesia and Zambia, however, and Zambia soon encountered a host of transport and supply problems. The copper industry depended almost entirely on electricity from the Kariba power complex, jointly owned with Rhodesia, and on coal from Rhodesia's Wankie coalfield. Furthermore, the rail line through Rhodesia at that time was the only transport route capable of handling Zambia's annual foreign trade traffic of more than 3.5 million tons.

13. Zambia has spent several hundred million dollars to reduce this dependence, in the meantime relying on Rhodesia's rail system to carry most of its goods into and out of the country. Three hydroelectric projects have been undertaken to reduce the need for power from the Kariba complex, but Kariba still accounts for a large share of Zambia's electricity needs. The Tanzam Highway, formerly the Great North Road, has been upgraded into a dual-lane all-weather road. However, an older 100-mile segment immediately west of Dar es Salaam has badly deteriorated. Oil requirements – the most critical problem faced by Kaunda after UDI – are now met by a pipeline from the Tanzanian coast. The country's copper industry now uses only domestic coal; yet imported raw materials are needed to improve the quality of this coal.

Overland Route to Dar es Salaam

14. Zambia has available two principal alternative transportation routes for shipping copper that formerly transited Rhodesia: (a) the Tanzam Highway, which currently handles 30% of Zambia's copper tonnage; and (b) the rail route through Zaire to the Angolan port of Lobito, which currently handles 20%. The alternative favored by Lusaka is the 1,133-mile Tanzam Highway. This highway connnects the Tanzanian port of Dar es Salaam with the town of Kapiri Mposhi on the Zambian rail line to Lusaka and the copper fields. The road is fully paved from the railhead in Zambia to Dar es Salaam, but, as mentioned above, the easternmost section between Morogoro and the coast – a distance of about 100 miles – is in poor condition and could adversely affect the movement of traffic. An American

firm – Nello Teer of Durham, North Carolina – is under contract to upgrade this portion, but the completion date is at least 18 months away.

15. The availability of additional trucks and drivers for hauling copper on the Tanzam Highway is the main short-run constraint on Lusaka's ability to ship out additional copper. The largely government-owned Zambian-Tanzanian Road Service, Ltd. (ZTRS)[1] has been trucking about 16,000 tons of Zambian copper to Dar es Salaam each month. ZTRS has a fleet of about 500 trucks, some of which are currently employed in the emergency distribution of foodstuffs to the drought-stricken interior. ZTRS officials claim that they can contract for another 500 trucks from various areas of East Africa. This would give them a combined fleet of some 1,000 vehicles with 30-ton capacities, which could carry current shipments and accommodate the estimated 27,000 tons of copper per month that had been going across Rhodesia, allowing for 40% of the fleet being out of service at any one time. This proportion of the truck fleet out of service is easily explained by the poor road condition east of Morogoro and customary overloading.

16. A minimum of two months, however, is probably needed to seek out the additional 500 trucks. Delays may be encountered because of existing service contracts and emergency requirements for the trucking of relief supplies to drought areas not only in Zambia but also in neighboring countries. Consequently, Lusaka in the next few weeks can rely on only those trucks currently held by ZTRS which could be freed immediately for transporting copper. If the company can call upon all of its 500 trucks, and if an out-of-service rate of 40% is reasonably accurate, ZTRS could accommodate a total of around 25,000 tons of copper a month, an increase of about 9,000 tons from its current rate. This would leave – in the short run – some 18,000 tons a month to be exported by other means.

17. Long-run prospects for trucking all of Zambia's displaced copper to Dar es Salaam are clouded by the uncertainty of obtaining the 500 additional vehicles and the questionable ability of ZTRS's management to cope with a massive increase in both the volume of goods to be hauled and the number of vehicles to be kept operating. These factors would probably limit the long-term increase in copper shipments through Tanzania unless more efficient outside assistance is obtained.

1. ZTRS was incorporated in May 1966 with an authorized capital of $5.6 million. The Zambian and Tanzanian governments each own 35%, while the managers of the company, an affiliate of Fiat, have 30%.

Enter the Chinese?

18. A potential source of assistance is the extensive Chinese transport resources currently employed in constructing the Tanzam Railroad. So far, there is no indication that diversion of Chinese trucks and drivers has been sought or offered. Peking has nearly 1,000 trucks in Tanzania with capacities ranging generally from 3 to 7 tons. These trucks currently carry materials and supplies from Dar es Salaam to various construction sites several hundred miles inland and could carry copper on the return trip to either Makumbako, where it could be transloaded onto the completed portion of the railroad, or all the way to Dar es Salaam. Railroad officials estimate the rail line could transport monthly 36,000 tons of copper and would bypass the worst part of the Tanzam Highway east of Morogoro. Negotiations for use of the railroad and/or Chinese trucks would have to be on a government-to-government basis. A possible stumbling block could be Peking's reluctance to place its equipment under ZTRS control, which Lusaka may want to do. The Chinese are almost certainly aware of the high casualty rate of ZTRS trucks and delays caused by poor management. More important, the Chinese are striving to win world prestige by completing the railroad ahead of schedule – possibly by the end of this year – and would be reluctant to cooperate to an extent that would slow construction work. Should an agreement be reached between Zambia and China, the overland route to Dar es Salaam would probably be able in the long run to handle all of Lusaka's displaced copper exports.

The Port of Dar es Salaam

19. The eastern terminus of both the Tanzam Highway and the Tanzam Railroad is the Tanzanian port of Dar es Salaam. The port has undergone an extensive expansion program and handled more than 2.5 million tons during 1972. Port officials state that a recent decline in Zambian trade – primarily imports – transiting Dar es Salaam has created an excess capacity of 20,000 tons a month. Because copper bars and sheets are a simple problem in handling at a port, the harbor master believes existing facilities could accommodate the 27,000 tons formerly going out via Rhodesia and Mozambique. Refined copper needs no special storage facilities and can be left in the open with no damage.

20. Although the situation at Dar es Salaam probably is not as flexible as is being claimed, the port almost certainly could handle the estimated 9,000-ton short-run increase in copper exports. A substantially greater long-term increase probably could be handled with minimum difficulties. Current cargo-handling performance at Dar es Salaam indicates that 9,000 tons of copper could be loaded in approximately eight days using a single berth.

The Lobito Route

21. The second route available to Zambia for transporting copper is the railroad running from the Zambian copper region through the Zairian copperbelt to the Angolan port of Lobito. Because of his longstanding opposition to the Portuguese, President Kaunda will probably use this route no more than is absolutely necessary. The route has been carrying about 20% of Zambia's copper exports and 10% of the country's imports. Political differences aside, Zambia would encounter difficulties in switching the increased volume of trade onto the Lobito route. Its immediate excess capacity may already have been largely pre-empted for the movement of Zairian copper – some 9,000 tons a month – that formerly transited Zambia, Rhodesia, and Mozambique. If this is the case, Zambian shipments over this line could hardly be increased by more than a few thousand tons a month. A gradual buildup to a greater volume using Zambian and Zairian cars formerly used on the Rhodesia-Mozambique route is conceivable. But many of these cars – their number has not been reported – were in Rhodesia and Mozambique at the time of the border closure.

22. The presumed availability of these rail cars may have prompted some Zambian copper industry spokesmen to express their confidence that the Lobito route could immediately carry about half of the Zambian copper formerly shipped through Mozambique. Over the longer term, the Lobito route could be expanded to handle all of Zambia's copper exports that formerly used Rhodesia's rail system. It would take six months to a year after a decision to expand was made before the necessary equipment and technicians could be acquired. It would involve an investment of some $35 million to $50 million. Zaire and Angola would almost certainly require assurances that Zambia would continue to use the line long enough to justify the requisite financial outlay. With the Tanzam Railroad likely to be completed by 1975 or sooner, Kaunda is in no position to provide such assurances.

The Future for Copper Exports

23. During the next month or so, Lusaka may be able to transport only about 40% of the 27,000 tons of copper formerly transiting Rhodesia each month. At current copper prices, this could subtract about $20 million a month from Zambia's already low foreign exchange reserves, now less than $150 million. Beyond this short-run period, management deficiencies and equipment shortages probably will prevent Zambia from marketing all the copper it produces unless the Chinese make available some of the drivers and trucks currently servicing the Tanzam Railroad project.

Copper Exports Not the Only Problem

24. Kaunda must also find ways to satisfy his country's import needs. Since 1969, most non-essential imports have been substantially reduced as part of a concerted effort to increase foreign reserves. This has been necessary so that capital goods needed to build up Zambia's infrastructure, especially its transport system, can be imported without incurring a burdensome foreign debt. Higher living standards in urban areas are resulting in continued pressure to increase consumer imports. Moreover, foodstuffs must be brought in to supplement poor harvests caused by the current drought. In sum, the government will find it difficult to pare the present amount of imports without adversely affecting economic growth and consumption. Kaunda has already aroused controversy with the implementation of his one-party state in December 1972 and must be careful not to further antagonize Zambia's highly politicized urban population.

25. The handling of imports formerly brought in through Rhodesia – about 70,000 tons a month – will be far more of a problem than transporting outbound copper: (a) time-consuming arrangements must be made for increased port facilities at Dar es Salaam because the wide variety of imported goods cannot stand the rough-and-ready handling that suffices for copper; and (b) additional hauling equipment will have to be obtained, and the Chinese resources – so important in Zambia's hope to ship its copper abroad – cannot be made available without setting back construction work on the Tanzam Railroad.[2] A commercial airlift from South Africa may be in the offing. This emergency route probably would be restricted to essential industrial materials and spare parts for Zambia's mines. Stockpiles of some items such as lime and sulfuric acid – essential for copper refinement – are sufficient to cover only two months' requirements.

2. The Lobito route is not considered a reasonable short-run alternative for any sizable increase in imports. Unless arrangements were worked out with Zaire regarding the allocation of goods to be brought in, use of the Lobito route would be largely pre-empted by that part of Zaire's import requirements now denied access through Rhodesia – about 35,000 tons a month.