It's not only diamonds that sparkle

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While diamonds remain Namibia's key resource the country is also continuing to develop its other mineral extraction industries

Namibia enjoys an almost embarrassing array of natural resources, and also benefits from good transport and communications hubs. Mining and minerals are of central importance to the healthy functioning of the economy – accounting for more than 15 per cent of GDP, but more than 50 per cent of foreign exchange earnings. Although the majority of the population depends on subsistence agriculture and herding, Namibia has more than 200,000 skilled workers, as well as a small but well-trained professional and managerial class.

The Namibian economy grew by 4.2 per cent in 2010, following a 0.7 per cent contraction in 2009. Growth was due primarily to the rapid recovery in diamond and uranium mining activities (although also in part to credit extension). The sustained improvement in global demand for mineral products is expected to maintain GDP growth this year, with a slight rise to 4.8 per cent and 4.6 per cent the following year. Not in the same league as China, India or Brazil perhaps – but still not to be sniffed at when Europe and the USA continue to struggle to see growth reach a quarter of that figure.

While diamonds are the key resource – rich alluvial diamond deposits and increasingly sophisticated offshore mining operations make the country a primary source of gem-quality diamonds - Namibia is also continuing to develop its other mineral extraction industries. It is the world's fourth-largest producer of uranium (representing approximately 10 per cent of global uranium production) and also enjoys large quantities of zinc, copper, lead and manganese, with smaller amounts of gold. In short, it's sitting pretty as commodity prices rebound after the downturn of 2008. Copper mines that were mothballed are now being put back into production to exploit prices which have leapt from $1,377/mt in 2000 to a peak of $9,867/mt in 2010 (and are still above $9,000).

Devloping Namibia's natural resources

The diamond mining scene is dominated by Namdeb, a 50/50 joint venture between global giant De Beers and the Namibian Government. De Beers has also pioneered the exploitation of marine diamonds. While Namibia recovered more than 2 million carats of diamonds in 2008, it mined only 929,000 carats the following year – a 58 per cent drop in production reflecting decreased demand as the global economy struggled with the effects of the downturn. 2010 saw diamond mining rebound, with nearly 1.5 million carats recovered. The liberalisation of the prospecting scene and the opening up of the Sperrgebiet (or 'forbidden area') has encouraged other prospecting firms to become involved, and companies from Canada, the UK, China and Russia have been quick to examine the potential of the sector.

During the pre-independence era, large areas of the country, both inland and offshore, were leased for oil prospecting. In the mid-1970s natural gas was discovered in the Kudu field off the mouth of the Orange river – thought to contain reserves of over 1.3 trillion cubic feet. In 2009, the Government announced changes to the ownership structure of the Kudu project. Tullow Oil Plc, which had owned 70 per cent of the Kudu gas field, saw its stake reduced to 31 per cent. Japanese firm Itochu Corporation, which had owned 20 per cent of the project, saw its stake reduced to 15 per cent. The Namibian Government, through state petroleum firm NAMCOR, has partnered with Russian giant Gazprom to take a 54 per cent stake in Kudu (NAMCOR had previously held a 10 per cent interest). Despite the changes, there are currently eight companies exploring for oil and gas.

As has been noted, the rebound in copper prices has worked in favour of the country's economy and those firms active in the sector. In 2006, Weatherly International, an AIM-quoted UK prospecting company acquired a majority interest in struggling firm Ongopolo, operator of the Matchless, Kombat and Otjihase mines (subsequently extended to 100 per cent ownership.) That year Ongolopolo suspended operations at the Tsumeb copper smelter, relined the 30,000mt/pa reverbatory furnace, and reopened it in the same year. Other firms active the in the same area (the Haib copper prospect) include Copper Resources Corp of South Africa, Canadian firms Teck Cominco on the Kaoko project and Helio Resources on the Honib prospect, and Yale Resources on the Leicester project.

Weatherly's copper portfolio now includes two mines at Otjihase and Matchless in production, three development projects and an exploration licence. The company has resources containing 624,000t of copper. The Otjihase and Matchless operations were brought back into production in the first quarter of this year. Production is expected to average approximately 7,000t of copper per annum.

Companies prospecting for gold include Canadian-based firms Forsys Metals Corp working on the Ondundu prospect, Teck Cominco on the Vredelus prospect, Teal Exploration & Mining Inc on the Otjikoto prospect, and Yale Resources on the Makuru (aka Otjimakuru) prospect. However, by 2010 the only operational gold mine in the country was the Navachab mine.

The uranium mining scene has traditionally been dominated by Rio Tinto, who for more than 30 years has operated the Rössing mine, producing 7.5 per cent of the world's uranium supply. It has been joined by Palladin Resources, who recently began production at the Langer Heinrich mine, adding another 2.5 per cent of the world's production to the Namibian account. Forsys Metals' Valencia deposit and Areva's Trekoppje project (which the company acquired when it took over UraMin) have both offered promising results, and the latter obtained the first batch of uranium concentrate in the development phase of the Trekkopje project.

However, with a climate that is among the world's driest, the lack of water resources presents a significant constraint on mineral development in Namibia, as do the relative lack of availability of fuel and electricity. New investment is needed to further develop the country's natural gas resources, and the hydro-electric possibilities offered by the Baynes Mountains on the Kunene River. Five years ago it was proposed to develop nuclear power plants, utilizing the abundant uranium resource. The then Permanent Secretary in the Ministry of Mines and Energy, Joseph Iita said at the time: "It will not be in the immediate future, but rather a long-term project, because we will have to co-operate with several countries, especially those which have experience with that technology, since our people need to be trained in this field." It is an issue, of course, that confronts all developing nations.

In April 2011, the Mines and Energy Minister, Isak Katali announced that the Government had declared diamonds, uranium, gold, copper, zinc and coal as strategic minerals, to allow state-owned Epangelo Mining Company "exclusive exploration and mining" rights. The Namibian newspaper, in an unusually restrained comment, observed that the announcement "saw some negative impact on international stock exchanges for explorers and operators active in Namibia". News wires and agencies were not slow in producing negative reports on the announcement, and the Government has sought to pour oil on troubled waters. The foreign companies potentially affected by such a move were more relaxed. Marcel Hilmer, chief executive of Forsys, commented: "Forsys has made significant investments in exploration and development of its Valencia and Namibplaas uranium projects. We welcome the Minister's clarification in his recent media statement." It is thought unlikely that existing arrangements will be affected. As Glen Chipman, analyst at Bank of America observed: "Reports quoting Namibia's mining minister declaring uranium, copper, gold, zinc and coal would face legislation later this year giving the state exclusive exploration and mining rights have understandably concerned industry officials. At this very early stage, it appears there could be some misconstrued elements."

It is also not unusual for countries holding significant reserves of minerals to rattle their sabre from time to time – such moves invariably prove popular with voters and offer a useful negotiating tool. It is also an unavoidable fact that the skills required to realise those assets are invariably overseas, and that joint ventures tend to be the order of the day. Exactly how joint remains to be seen.

But the fact remains that Namibia has, since achieving independence, been one of the more inward-investment friendly countries – particularly in Africa. Its relatively under-utilised but significant resources will ensure it remains a popular country in which to operate for the world's mining and energy developers. F

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Tsumeb mining town