# The Lobito Corridor

## What It Is and Why It Matters

January, 2024

Lobito Corridor
Investment Promotion Authority

## LOBITO CORRIDOR INVESTMENT PROMOTION AUTHORITY

Website: www.lobitocorridor.org
Social Media: @LobitoCorridor

# Forward

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The Lobito Corridor Investment Promotion Authority ("LCIPA") was devised and formed in 2023 as a private company to serve as a permanent intergovernmental body to link all public and private entities interested in advancing and participating in the Lobito Corridor. Its main goals are to maximize and promote trade, investment, and economic integration among and between the three African nations of Angola, the Democratic Republic of Congo (the "DRC"), and Zambia.

This report provides a broad overview of the history of the Lobito Corridor, and in particular, of the underlying Benguela Railway infrastructure. Much is omitted from the fascinating history of the railway and the reader is encouraged to research and learn more should the topic be of interest. The report continues by describing the reasons why the Lobito Corridor is important from an international investors' perspective. It is designed to be a high-level and introductory document for those just learning about the Lobito Corridor.

We thank you for your attention and interest in the Lobito Corridor and our Investment Promotion Authority. Visit the website (www.lobitocorridor.org) to learn more, and we invite you to follow our social media platforms whose links are provided on the website.

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The Lobito Corridor is connected by a stretch of railway infrastructure snaking through mineral- and oil-rich parts of Angola, the DRC, and Zambia. It connects Southern and Central Africa, and provides access to Eastern Africa and a pathway to the Atlantic Ocean. The rail route was established in the early 1900s and thrived until the mid-seventies when its use was curtailed due to damage sustained during the Angola civil war. The period of underutilization continued until 2015 when a nearly $2 billion rehabilitation contract was funded and carried out by the Chinese government.

Today, the railway concession of the Lobito Corridor is controlled by a group of prominent European logistics companies which include Trafigura, Moto-Engil, and Vecturis. This concession has been given for 30 years and can be extended an additional 20 years if investment thresholds are met. The governments of the United States of America and the European Union have announced their support for the advancement of the Lobito Corridor and plan to make major financial and other commitments.

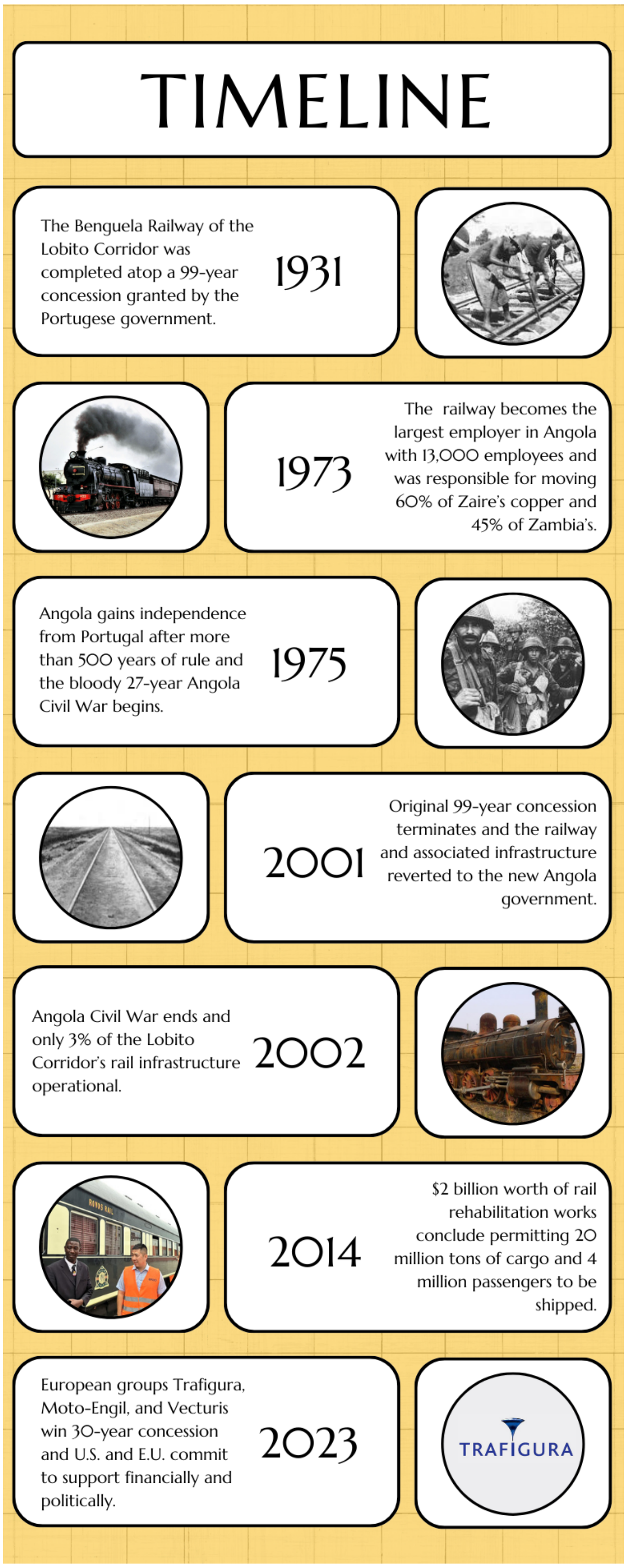
The Lobito Corridor project matters for many reasons and some of the most relevant to international investors are highlighted and discussed in this report. First, the Lobito Corridor provides the most efficient method of moving people and materials between Angola's port city of Lobito, and the mineral-rich portions of the DRC and Zambia's Copperbelt. Many of the minerals are considered critical for the energy transition adding an additional layer of urgency. Second, this investment represents the first alternative from Washington DC to China's Belt and Road Initiative. Furutre infrastructure investments in Africa from the Western democracies hinge on the Lobito Corridor's success. Lastly, the Lobito Corridor will spur investment and be a catalyst for more rapid development and integration of the region. Large-scale mining returning to and expanding along the Lobito Corridor means more ethical extraction, better jobs, more investment, and better cooperation with the authorities.

# 1. Introducing the Lobito Corridor

## 1.1 The History of the Lobito Corridor

The underlying rail infrastructure throughout most of the Lobito Corridor is the Benguela Railway, which began on November 28, 1902, and concluded in 1931. Sir Robert Williams was the brainchild and its purpose was to connect extensive mining and property interests in what is now Zambia and the DRC to the Atlantic Ocean for export to Europe and the Americas. Williams was the Managing Director of the Tanganyika Concessions ("Tanks" for short) which managed most of the aforementioned interests on behalf of a multitude of investors including Cecil John Rhodes. Angola was a colony of Portugal at the time which ultimately granted the initial 99-year concession along which the railway was built.

The Benguela Railway took almost thirty years to complete, owing to the unexpectedly difficult geography encountered, and World War I which meant a lack of the 3M's, Men, Money, and Materials. Although the works began in 1902, the rail line only reached the border with Belgian Congo in 1929. This stretch was made particularly difficult due to lack of potable water and having to lay rail along a steep 5,000 foot (i.e., 465 meter) climb which characterizes most of Africa from the coastal plains to elevated inland plateaus. The strict land concessions granted for the project followed surveyed routes which sometimes ignored geographic barriers that would have otherwise been diverted around. Politics may have also had a role in the elongated construction timeline. Jan Smut, the Prime Minister of South Africa from 1919 to 1924, opposed the rail's entry into Zambia, or Northern Rhodesia as it was then called, since he wanted the territories to be unified and connected via north-south infrastructure.



Despite these obstacles, the Benguela Railway was finally completed in 1931 and immediately asserted itself as the most efficient way to export materials and minerals from the DRC and Zambia to Europe and the Americas. In 1973 the railway reached peak operational efficiency when it employed 13,000 employees as Angola's largest employer. In the same year, it transported 3.3 million tons of cargo over the single track and managed to generate $30 million in freight revenues. Before Angola's civil war, and the subsequent slowdown of rail traffic, the Benguela Railway was undergoing modernization to diesel and handled 60% of Zaire's (i.e., today's DRC) copper and 45% of Zambia's.

Angola's 27-year civil war began immediately after it became independent from Portugal in November 1975. An underreported aspect of the bloody civil war in Angola was the devastating impact it had in disconnecting the interior countries from the world. Zambian copper was initially diverted across the iconic Victoria Falls bridge to Beira, Mozambique to be shipped to South Africa for processing and to be sold abroad. Later, Zambia benefited from the Chinese-built Tazara Railway which opened in 1976 and provided another copper export corridor to the port of Dar es Salaam in Tanzania.

On November 28, 2001, the 99-year concession underlying the Benguela Railway expired and the land and all infrastructure immediately reverted to the government of Angola. The civil war ended one year later in 2002, and as a disastrous result of the civil war only 21 miles (i.e., 34 kilometers) of rail along Angola's coast remained in service. In other words, less than 3% of the rail was operational.

From 2006 to 2014 the railway was extensively renovated by the Chinese through a $2 billion rail-for-oil program. The entire rail network was upgraded and designed to accommodate 67 stations and trains traveling up to 56 mph (i.e., 90 km/hour). The stated goal when inaugurated by the Chinese contractor was that it would be able to carry 20 million tons of cargo and four million passengers. According to the May 2012 edition of the Jornal de Angola, in 2011 the railway only carried 5,640 tons of goods and 129,430 passengers.

## 1.2 The Present-Day Lobito Corridor

On July 4, 2023, the Lobito Atlantic Railway company secured a 30-year concession to provide railway services on the condition that it would invest $455 million in Angola and $100 million in the DRC. The Lobito Atlantic Railway company is a JV involving Trafigura, Moto-Engil, and Vecturis SA.

Trafigura is one of the largest physical commodity groups in the world with offices in 48 countries and 13,000 employees. It is ranked third in commodity trading behind only Vitol and Glencore. Its revenues in 2022 were $319 billion.

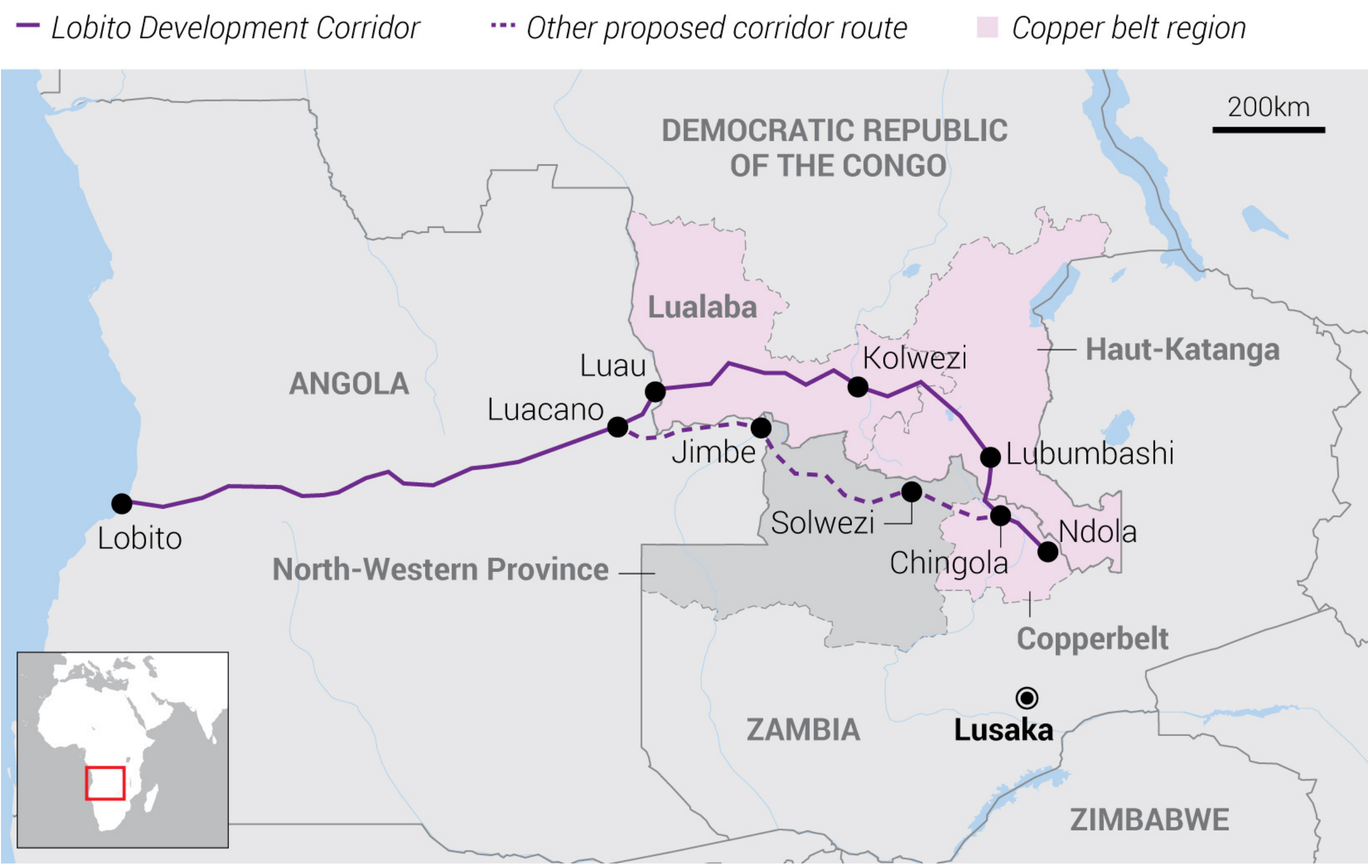
Moto-Engil is a Portuguese company established in 1946 with its first branch opened in Angola that same year. It has a long history in Angola and is Europe's 25th largest construction group employing 41,000 people in 25 countries across Europe, Africa, and Latin America.

Vecturis is a private rail operator which was established in 1995 in South Africa with headquarters now in Belgium. It has more than 25 years of experience managing and revitalizing railways in sub-Saharan Africa.

The 30-year concession is extendable an additional 20 years to 50 years if the consortium builds a branch line connecting Luacano and Jimbe with a total length of 161 miles (i.e., 259 kilometers) which would cost around $1 billion according to some estimates. It is planned that 1,555 wagons and 35 locomotives will be added for the Angolan side of the corridor alone as part of the current agreement.

Towards the end of 2023, the governments of the United States of America and the European Union, took significant measures to support the advancement of the Lobito Corridor. On September 9, the governments made a joint statement announcing support for the corridor and that a Greenfield Rail Line Feasibility Study would be commissioned to explore establishing a new rail line from Angola through Zambia's Copperbelt region. The feasibility study is expected to begin by the end of 2023 and take six months to complete. The rail extension project through Zambia is planned to conclude in five years by 2029.

On October 26, 2023, delegates from the U.S., E.U., AfDB, and AFC signed a Lobito Corridor extension MoU where the parties agreed to cooperate under the shared vision. This is on the back of the governments of Angola, the DRC, and Zambia signing an MoU between themselves in January to cooperate and harmonize relevant regulations. The African Development Bank has stated that in total $1.6 billion is required for all the works envisaged, and that it was prepared to contribute $500 itself and lead the process to raise the rest.

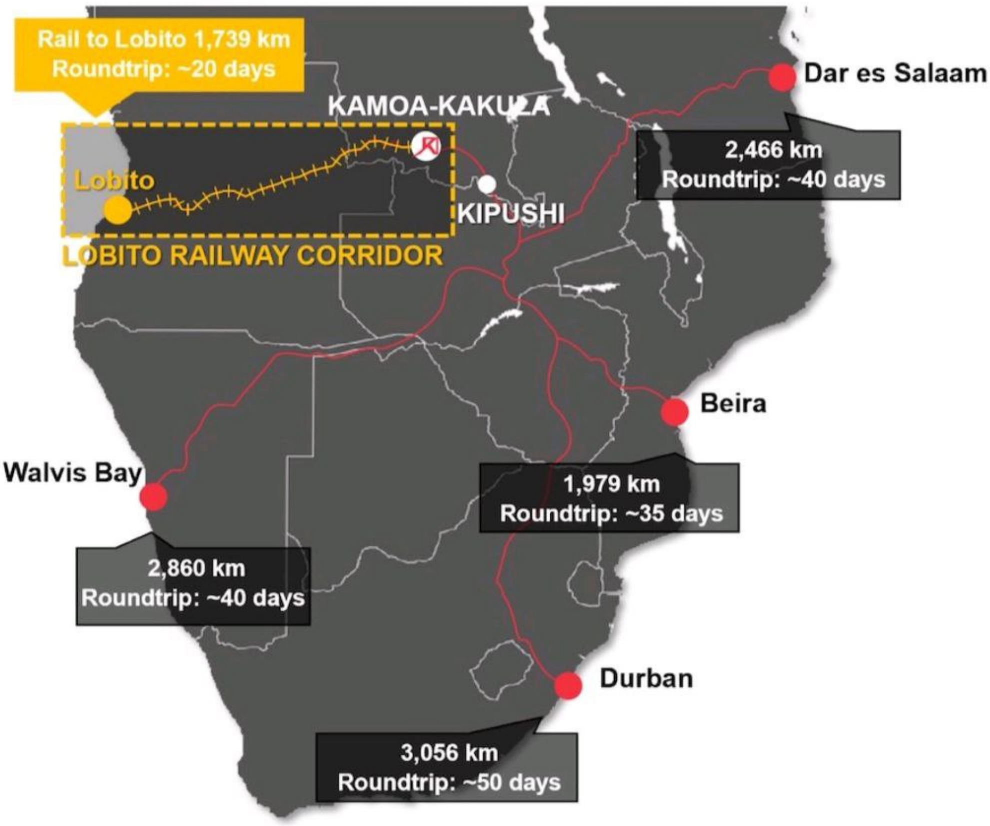


# 2. Why It Matters

## 2.1 Most Efficient Manner of Moving Minerals, Goods & People

In 2023, Ivanhoe shipped its first copper through Angola via the Lobito Corridor from its Kamoa-Kakula copper complex in the DRC. The trial runs consisted of 10,000 tonnes of copper concentrate over multiple shipments, with the first run concluding on December 23, 2023, carrying 1,100 tonnes. Previously, Ivanhoe trucked its copper via road infrastructure to ports in Durban (South Africa), Dar es Salaam (Tanzania), Beira (Mozambique), and Walvis Bay (Namibia). By using the Lobito Corridor the Canadian miner shortens the route to a port by two-thirds, while also simplifying logistics and cutting costs.

The mineral wealth along the Lobito Corridor is immense and passes through the densest mineral deposits in the DRC's Katanga region, and Zambia's famed Copperbelt. Angola is known for its vast oil reserves but also possesses 26 of the 51 most critical minerals in the world including chromium, cobalt, graphite, lead, lithium, and nickel. Because the port for the Lobito Corridor is on the Atlantic Ocean it offers easier access to buyers in Europe and the Americas.



## 2.2 Alternative to China's Belt and Road Initiative

Traditionally, Washington DC has engaged sub-Saharan Africa through aid and similar initiatives with scant attention to investing in infrastructure. The proposed multi-million dollar investment in the Lobito Corridor will be the first major rail infrastructure investment by Washington DC in Africa. The project must succeed so that future infrastructure spending on the Continent is encouraged and ultimately unlocked. Moving towards trade with Africa will benefit all parties and complement or replace the outdated development aid model.

In contrast, Beijing has adopted a state-led development model that cooperates with private entities through its Belt and Road Initiative. It has invested billions in African infrastructure projects with agreements signed with almost all governments in Africa. Even the Lobito Corridor wouldn't be what it is today without billions of dollars from China used to revitalize the Benguela Railway after the Angola Civil War and extend and deepen the Lobito port.

Washington DC is concerned about China's dominance of minerals in the region. 80% of the DRC's copper mines are Chinese-owned. China is responsible for digging up 85% of the DRC's rare earth minerals including 76% of its cobalt, a mineral essential in EV battery manufacturing.

## 2.3 Catalyst for Large-Scale Investments

Large-scale mining investments require advanced infrastructure to move minerals and equipment to and from mining areas and ports. To expect private companies to cover these costs and manage cross-border infrastructure is not realistic. The small-scale mines that litter the Lobito Corridor presently mostly leave much to be desired and do little to encourage investments outside of that which is minimally required to dig up and ship minerals out of the country for processing. Once upgraded, the Lobito Corridor will encourage large-scale mining investments which are associated with higher wages, stricter environmental and ethical standards, and better tax compliance. Large-scale investments are catalysts for economic development and the benefits of large greenfield FDIs are well-known to economists and development aid practitioners.

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