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Specter of multibillion-dollar write-down looms over Barrick as Tanzania balks at ratifying Acacia agreement

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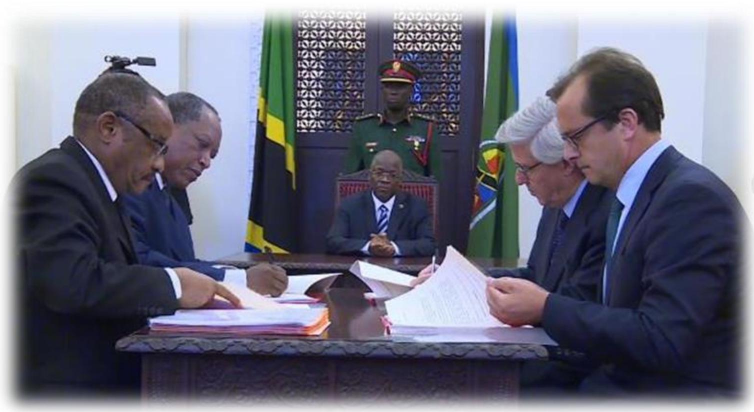

Nearly 1,000 days have passed since Tanzania placed a ban on the export of gold/copper mineral concentrate from Barrick's mines in the key East African nation. After missing a self-imposed Q4 2019 timeline to ratify the October 2019 agreement between the government of Tanzania and Barrick, the agreement remains un-ratified, and under new stress of potentially unraveling. Barrick may now have no choice but to write-down a significant portion of the value of the Tanzanian assets if the impasse which started in 2017 persist.

Both Tanzania and Barrick have previously publicly promised that the deal will be ratified before the end of 2019. That deadline has now passed, with no prospect of a quick ratification in sight as Tanzania prepares for a contentious 2020 national election. Additionally, Foreign Minister Palamagamba Kabudi, in office since March 2019 and Attorney General Adelardus Kilangi, do not agree on the contours of the agreement. Kabudi led the negotiations with Barrick, but Kilangi apparently believes the agreement is defective and not nationalist enough.

The parties have since the announcement of their deal to create a local Tanzanian company, Twiga Minerals Corporation to take over the operations of Acacia not fully operationalized the company which is to be charged with the management of the Bulyanhulu, North Mara and Buzwagi mines.

Despite the October 2019 agreement providing Tanzania with a 16% free carried interest in each of the mines, along with 50% of the economic benefits generated from the mines plus US$300mn, the government is seeking to re-open and negotiate key elements of the deal, which was initially welcomed by the capital markets. According to Tanzanian officials, Barrick has yet to make US$100mn payment in exchange for a lifting of the concentrate ban.

Tanzania is now demanding that Barrick sell not export any more concentrates but sell to a local smelter in Dodoma.

More than 2 and a half years since the major legislative changes signaling a soft nationalization of the country's mining sector came into effect, the Tanzanian public is yet to see any tangible benefits from the policy. Ahead of the late 2020 elections, President John Magufuli is desirous not to appear weak, but push through with his resource nation's agenda. The country recently banned foreign filmmakers from using their work product in movies without first sharing the raw content with the government and splitting revenues from any production.

Challenges in the mining sector are not the only woes for the extractives sector. The long-anticipated LNG project appears to have lost the race against Mozambique to get off the ground and the Uganda-Tanzania pipeline has been put on the backburner.

More broadly, with the 2016/17 – 2020-21 National Five Year Development Plan raising expectations of Tanzania becoming a semi-industrialized country by 2025 large scale projects will need to come online quickly. Although development in terms of roads, railways and bridges are evident, examples of successful large-scale private sector led investment during Magufuli's first term are few and far between.

With general elections scheduled for October 2020, President Magufuli and his Fifth Phase Government will be under increased scrutiny to demonstrate progress on key initiatives. Although the 2017 legislative changes to the mining sector were, and remain, overwhelmingly popular among citizens, the longer tangible benefits take to kick in, the higher the risks to the ruling party. Although electoral victory is all but assured in 2020, due in large part to an ongoing systematic weakening of the opposition by the ruling party, Magufuli's sees his legacy largely resting on his nationalization agenda.

Barrick, now fully in charge of the entire Acacia portfolio of mines may have no options under prudential accounting norms, but to undertake a multibillion dollar write off the Tanzania assets if the deal is not ratified.

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