DAILY MAVERICK

SOUTH AFRICA

South Africa: Mining for change. Or change for mining?

J BROOKS SPECTOR SOUTH AFRICA 20 JUNE 2012 00:26 (SOUTH AFRICA)

Who owns the minerals beneath our ground? The government, the people or those who manage it as a business? J BROOKS SPECTOR reviews the discussions so far at the“Mining for Change” discussions, where he’s learned more than a thing or two about digging stuff out of the ground and selling it to others.

Long, long ago, in a university classroom far, far away, I sat through three economics classes on macro-, micro- and international economics. Back then, pre-OPEC, pre “Limits to Growth”, resources were barely mentioned, except as the throwaway note that land, labour and capital were the fundamental inputs for the economy and economic growth. Then it was off to the important stuff.

However, that almost certainly would not have been true here in South Africa. Instead, economic historians explain that mining and minerals virtually caused the creation of South Africa – as a concept, as an actual place and for the shape of its politics.

From 1867's discovery of diamonds at Kimberley to the present there has been one overwhelming characteristic in the mining industry: South African mining, international capital and corporate management have been thoroughly intertwined. This has never been a place where mining began with small-scale family businesses that just grew into the powerful Randlords and their more rainbow-hued successors. As a consequence, mining and government have either been hand-in-hand, or they've been locked in a kind of wrestling match to the death.

By the end of the apartheid era, the mining industry, the government and an increasingly unionised labour sector were in a three-sided conflict. In the new dispensation, the government – usually aligned with labour – and the mining industry have now found themselves doing a new dance step, but it hasn't always been the same dance or rhythm.

The department of mineral resources says South Africa's mining and minerals policy ultimately draws its impetus from that ringing peroration in the 1955 Freedom Charter that says the nation's mineral wealth will be transferred to "the ownership of the people as a whole."

Current governing legislation in South Africa, the Mineral and Petroleum Resources Development Act, has made some serious changes in the management of mining rights in support of the government's goal of opening up "substantial and meaningful participation of historically disadvantaged South Africans in the exploration and exploitation of mineral resources" under the 2004 Broad Based Socio-Economic Empowerment Charter.

Drawing on the implicit promise in the Freedom Charter, nationalisation has become one of those political hot potatoes that can mean pretty much whatever its advocates choose it mean. It also has become a useful club for beating on the heads of political opponents.

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By MANDY DE WAAL

Its proponents argue nationalisation is the only way to liberate all that wealth that has been extracted and stolen by those rapacious mining houses so as to put the sector's wealth to work on behalf of the rest of society. Opponents, on the other hand, argue that the mere rumble of nationalisation proposals has depressed domestic and foreign investment and made the industry increasingly uncompetitive globally.

This national conversation about mining and mine ownership stays alive at the discussions and speeches at mining indabas, lekgotlas and Cabinet gatherings, and it is certain to be a contentious topic at the ANC national policy conference and the national congress at Mangaung. To stay in this debate the mining sector has hosted colloquies on the future of their economic sector for the past few years. The point has been quite simple: the mining sector is a loyal, reliable participant in the national economy – and a contributor for its future success. Or, in ordinary English: for goodness sake, don't strangle this golden goose!

Kicking off the first session of this year's series, Bheki Sibiya, chief executive of the Chamber of Mines and Mavis Hermanus, head of the University of the Witwatersrand Centre for Sustainability in Mining and Industry, offered their perspectives on the issue of the sector's sustainability and its role as a good corporate citizen and contributor to community development and protection of the environment.

Sibiya – the man who had cheerfully confronted a protest at the Chamber of Mines some months earlier - argued that the mining sector was a soft target for criticism. Its opponents can go to just one building, the Chamber of Mines, and confront 10 firms, which constitute half the sector. Sibiya argued that in terms of empowerment, employment equity and enterprise development, the mining sector actually has been the country's best performer – save for women's empowerment.

He also argued that a more effective alliance between government and the mining sector in the future could make real progress with effective management of increasingly scarce and costly water. Similarly, in energy, more could be done co-operatively to save electricity in the national interest.

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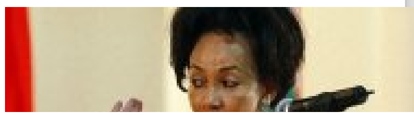

Sibiya ended with the observation that there simply have been no successful examples of nationalising a nation's mining sector. Rather, he argued that "nationalising the revenue stream" is much more likely to generate the productive use of these resources for the common good.

In response to questions about how the government and the mining sector could join more effectively on behalf of the "democratic transformation agenda", Sibiya observed that powerful, already "empowered" individuals in the sector (no points for guessing who he meant) needed to take visible, audible leadership in the industry to lead this coming together. Moreover, "this nationalisation talk is killing investment, the environment is hostile and so industry is recycling investment rather than taking in new investment."

"Too often", he said, "there is a dream or wish that this industry has a kind of magic wand that can be waved to fix everything." Sibya's advice was that the rules governing mining should be allowed to stay in place at least until 2014. After all, when all else fails, the government always has the final card to play in withdrawing a mining license.

Hermanus, speaking next, discussed how mining companies must respond to the need for sustainable development challenges. She argued that, historically, mining development had come at a price – more economic and social inequality, abuse of land, water, the full nine yards. For Hermanus, the question for now is how mining can have a role in generating more equal development in addressing that new concept, the triple bottom line: the Earth, the people at large and business profits.

Unfortunately, mineral wealth extraction comes faster than any fixes, but Hermanus pointed to the Royal Bafokeng Holdings' efforts to deliver sustainable benefits across the board as an example of moving in the right direction – even if it is still just a beginning. The real heavy lifting and hard choices are yet to come.

The next week, influential economist Iraj Abedian and Peter Craven, from the state-owned minerals technology institute, Mintek, spoke in the series. Abedian made the case that South Africans have been arguing about the merits and methods of beneficiation in far too limited a sense. In his view, if a country is as richly endowed as South Africa is with its natural resources, doesn't it follow that it should derive at least part of its economic growth into downstream industrialisation, based on these natural resources?

But he argued that, far too often, the discussion in South Africa has narrowed down to how to squeeze more value out of gold and other precious metals through more jewellery manufacturing - rather than a broader, more important effort to re-industrialise the country. For example, Abedian asked where is South Africa's research and development sector dealing with chrome and manganese – especially given South Africa's pre-eminence in mining those metals. For instance, it is clearly wrong that the country's miners still send ore samples overseas for analysis.

Unfortunately, Abedian commented, South Africa has managed to miss the sustained commodity boom of the past decade and, as yet, has no tangible plans to build a broad base for future beneficiation and re-industrialisation. He added that this doesn't mean government has to do all the heavy lifting in financing the infrastructure. Instead, the mining sector should be encouraged to do its own infrastructure - if it is the sole beneficiary. After all, does the government give us all cars and houses to solve personal transportation and shelter infrastructure demands?

Abedian warned that time is of the essence – once Russia, China and other key producers gain this broad beneficiation, it will be virtually impossible to regain those benefits. While South Africa still has the potential to re-industrialise at a scale larger than the industrial boom of the 1950s and 60s, some major miners have become so diversified internationally that their headquarters are effectively portfolio managers not particularly concerned with South Africa's growth.

Peter Craven picked up from there, but pointed to risks and pitfalls in a broad-based beneficiation strategy. Militating against easy implementation were corporate fears of competing against their own clients, the risk in moving away from areas of expertise, running against shareholder expectations and the fact that such activities do not automatically diversify a company's portfolio or protect against the cyclic forces companies fear.

Craven also explored South Africa's problems as a space for attracting investment. He noted that this country is second only to Russia in terms of energy usage to generate a unit of GDP as well as poor international investor perceptions of the country – about on a par with Kazakhstan, India and Argentina. (Maybe India's not a bad example, but Kazakhstan and Argentina?)

Moreover, the country is increasingly short of technical skills and graduates –paradoxically, many of its technically trained graduates are moving to the financial services sector instead. And as a sector's companies shift downstream, the inputs rise in cost - but the added value or return to an investor diminishes in unit terms. All of this makes for difficult, finely tuned decisions and hard choices.

In response to questions, Abedian commented that whenever a country becomes a dominant force in a particular minerals or metals sector as with chrome here, but it doesn't establish an exchange for trading in the item, as the Canadians have successfully done with potash, this is asking for trouble. It sets up that country's commodity-base economy to remain at the mercy of the boom and bust cycles of commodity dealing.

Over the next two weeks, future speakers include political risk analyst Mzukisi Qobo, business development analyst and consultant Paul Jordaan, Anglo Gold Ashanti CEO Mark Cutifani and Mintek CEO Abiel Mngomezulu. Attending this series is like getting a crash course in mining economics – but no one should be without this kind of information if they want to be able to understand the future of this country's stark economic choices. **DM**

Read more:

- MINING FOR CHANGE SEMINARS 2012 website (includes link to 2011 seminars)
- The stuff of legends: Diamonds and development in southern Africa (a socio-economic study of diamond mining co-authored by Marcus Noland and J Brooks Spector) for Business Leadership SA at the end of 2006
- SA 'needs chrome exchange market' in Business Day
- Chamber of Mines homepage

- The Department of Mineral Resources' homepage

Photo: Mineworkers work deep underground at Harmony Gold Mine's Cooke shaft near Johannesburg, September 22, 2005. (Reuters)

J BROOKS SPECTOR SOUTH AFRICA

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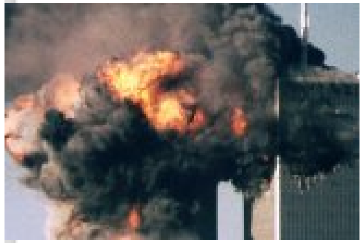

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Is Mavis Hermanus the only speaker who in any way addresses the costs - for example, to water - of the extractive industries?

Mandi Kraft on Thu, 21 Jun 2012 at 09:44