

The birth of a new South Africa: Effects on supply and demand of alloying metals and PGMs

By Yozo Baba

The importance of South African mineral supply to the Japanese industry is growing quickly. Japanese analysts follow closely the political and economic developments in South Africa. The following brief report is an example of present Japanese views on South Africa.

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Economic policy of a new South Africa

After the first democratic elections in South Africa in April 1994 the most important problem facing the new Government of National Unity is to facilitate the reconstruction of the impoverished South African economy. By advocating the "establishment of a market economy" and "reconstruction of its finances", the Government intends to alleviate worries of potential investors and in turn to stimulate investment from Japan, USA and European countries.

The mining industry and the RDP

The new Government has adopted the Reconstruction and Development Programme (RDP) as the basis of its economic policy. Its implementation will hopefully not cause any steep rise in taxes but the Government should be able to keep the budget deficit as low as possible. The Government considers the mining industry to be in a key position to acquire the foreign currency which is necessary for the success of the RDP. This is basically the same role as the mining industry has had so far: to provide a reliable and stable forex income for the South African economy.

The Government also intends to promote the export of beneficiated mineral products. In particular, it is aiming to acquire more foreign currency than before through the manufacture of value-added intermediate/final products. It is possible that it is even considering imposing a royalty on exports of ores and concentrates in order to promote local beneficiation. Further, the Government aims to promote industries using domestic resources by removing differences in prices of products for the domestic and overseas markets, the so-called export parity pricing phenomena. In this way the country's international competitiveness may be enhanced.

In addition to the Government's intention to exert control over mineral re-

sources (i.e. the proposal to acquire mineral rights from private owners), it will actively promote overseas investment into South Africa. This will constitute an important opportunity to the international mining industry, and for the South African mining houses it will possibly give a possibility to decrease their investment especially in the gold mining industry of South Africa.

Another issue affecting the mining industry will be the rise in production costs due to increases in labour costs. This raise in labourers' wages is inevitable to improve the living standard of workers. This is an item which is high on the new Government's agenda.

Difficult situation of gold mining

Gold mines in South Africa have had to go deeper and deeper when more easily accessible ores have been depleted and further, ore grades have steadily fallen. The gold production cost in South Africa is among the highest in the world. Therefore, gold mine management has attempted to reduce costs by wholesale dismissals. The Government's aim to achieve economic equality will increase labour costs and hence raise production costs. The present situation of the gold industry in South Africa has become increasingly bleak and a decrease in gold production is probably inevitable. To compensate for, this the South African mining industry has started three large beneficiation projects. The exports of products from such projects are expected to generate new foreign currency when the income from the gold industry gradually decreases.

Increase in foreign investments

After abolition of apartheid, worldwide economic sanctions against South Africa were lifted. In 1995 South Africa is slowly but successfully becoming re-integrated into the international economy. It is finally possible for major mining houses to invest more freely than before by effectively utilizing the world's

financial markets. This has stimulated foreign investments by South African companies. AAC has been leading in this area but also Gencor has been following in its footsteps. In mid 1994 Gencor acquired the major Dutch mining group Billiton from the Shell group. This might indicate a new trend where South African mining houses go international.

Unbundling

Under the new political and economic situation in South Africa after the democratic elections, JCI's traditional role to promote investment and disperse risk within the AAC group is no longer of prime importance. AAC, the major shareholder of JCI, has announced its intention to divide JCI into three separate entities; a platinum group, a gold mining group including also other metals and an industrial financing group.

There are also other examples of unbundling, such as Rand Mines.

Platinum group metals

AAC intends to acquire the platinum group of the unbundled JCI. There are several factors behind this strategy. AAC seems to regard PGMs as a very important source of future profits. The group anticipates an increase in the demand for platinum group metals (PGMs). Further, more than 80 per cent of the world reserves of platinum group metals are to be found in South Africa and these reserves are located near the surface and not so deep as in the case of the South African gold reserves.

As a measure of AAC's commitment to this strategy, it probably intends to place JCI's platinum division under its direct control. AAC also plans to build up a close relationship with Johnson Matthey, which is one of the world's leading smelters and seller of platinum group metals. Since most of platinum group metals are produced in South Africa and CIS, attention should be paid to AAC's future PGM sales policy. The

planned cooperation between Japanese consumers and the Norilsk mine is also important.

Chromium and manganese

Due to the worldwide decline in demand for chromium, the leading chrome producers in South Africa, including Samancor, tend to intensify their relationship with buyers in the chrome consuming countries. Examples of this are the cooperation between Samancor and Japanese Nippon Denko, with Ugine in France and between JCI and Minerais in Luxembourg. This trend is due to the bitter experience of Samancor in the past when they were forced to adjust their production by suspending the operation of their ferrochrome-producing furnaces or to convert them into ferromanganese production.

In the case of Ugine, which is one of the world's leading stainless steel producers with a total capacity of some 1.2 Mt, Samancor has bought a 4 per cent stake and concluded a 10 year agreement to supply ferrochrome and stainless steel products from Columbus stainless steel plant in RSA.

Luxembourg based Minerais SA is one of the leading ferro alloys marketing companies, the largest charge chrome importer in the US and one of the leading traders in Europe. JCI acquired 62.3 per cent of Minerais in 1992 and increased its stake to 75 per cent on the 1st of July 1993.

At the same time, owing to the sluggish demand of manganese caused by the worldwide depression in the iron and steel industry, various trends have been noted around the world, including capital/business links between mining companies and ferroalloy manufacturers. It is believed that South African manganese producers may also be planning to start joint production of ferromanganese with European firms. Examples of such plans are the contacts between Samancor and the French SFPO and the negotiations between Gencor and Comilog in Gabon.

Samancor will acquire a 5 per cent stake in the major French ferro alloy producer Societe du Ferromanganese de Paris-Outreau (SFPO). A joint venture will be set up to produce refined ferromanganese importing between 80-160 kt ore per year from Samancor.

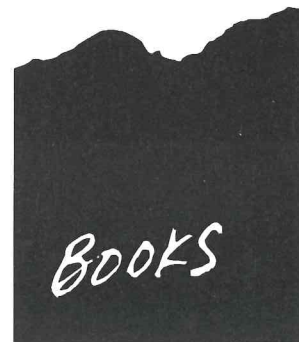
Measures required by Japanese investors

In view of South Africa being both a developed and a developing country, it is difficult to determine the risks for foreign investment. There are two views held by overseas investors:

- South Africa is a safe promising country where investments will be lucrative.
- Investing in South Africa will be dangerous.

Japan considers South Africa as its most important supplier of many metals such as the platinum group metals, chromium, manganese and other alloying metals. Hence, it is important for Japan not only to closely watch the movements in the new South Africa but also take prompt actions when required. Changes made by several Japanese companies in their loans and investments are but one example of such actions. These actions should both secure high returns for Japanese investments and ensure stability and growth of the new-born country. South Africa will most likely continue to be a stable and important supplier of alloying metals and PGMs.

The tightening of world legislation restricting exhaust fumes from cars has led to an increased demand for auto catalysts and hence for the platinum group metals. The use of PGMs is projected to increase even further in the future. A positive Japanese investment in present projects to enlarge production is expected as a means to develop a closer relationship with the platinum group metals manufacturers in South Africa. Japanese loans to cofinance mine developments, such as the 75 M ZAR loan given by Mitsubishi Corp in 1993 to Western Platinum, is one



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example. In addition, Japan should actively participate in the exploration of platinum group metals in Zimbabwe such as the Hartley, Mhodoro and Selous projects.

In view of the worldwide prospects for the increasing demand for stainless steel, the demand for chromium is expected to grow steadily even if no steep rise is anticipated. Since the birth of the new government in South Africa, a trend towards increasing exports of intermediate/final products with more value added than before is predicted. The Government seems to be considering the possibility of imposing royalties on the export of ores and concentrates. A shift from the export of chromium ore to that of ferrochrome and towards increasing domestic production of stainless steel in South Africa is also observed. Moreover, ore supply from the Donskoy complex in Kazakhstan seems not to be stable. It appears that Japanese imports of chromium ore and ferrochrome from South Africa and Kazakhstan will not be as stable as before.

In South Africa, a joint venture between Nippon Denko and Samancor has been started resulting in a stable supply of ferrochrome to Japanese users mainly due to the maintenance of a friendly relationship. It would be wise for Japanese firms to start similar closer relationships like this with other chromium producers in South Africa. Also a closer Japanese cooperation with the Donskoy complex is needed.

The accomplishments of manganese ore producers and manganese ferroalloy manufacturers have been reduced, because of the fall in demand for manganese ferroalloy accompanying the recent reductions in the worldwide iron and steel production. The worldwide structure of manganese supply is changing as seen in recent movements such as capital and business links between the producers of manganese ore and manganese ferroalloy. An important initiative has

been taken by Sumitomo in its cooperation with Assoman.

In addition to the four major Japanese sources of manganese, i.e. Australia, South Africa, Gabon and Brazil, other countries should be sought in the future as new suppliers. In this connection, it would be important to develop closer relationships including joint ventures to produce manganese ferroalloys with the manganese producers, especially with those having extra supplying capacity, such as Samancor, Assoman, BHP and Comilog. ■

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