Mining industry in a democratic South Africa

By Paul Jourdan

The minerals-energy sector is the core of the South African economy constituting a third of gross domestic product. Gold mining dominates the mining industry, but is in a long term crisis due to reserve depletion.

In this article Paul Jourdan, co-ordinator of the minerals and energy policy of the African National Congress, analyses the future of the South African mining industry. He points to the need of widening the industry through greater production of other minerals and in the long term, most importantly, the need and possibility of greater benefication .

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South Africa is a **minerals economy**[1] and minerals and mineral-based exports make up over three-quarters of foreign exchange receipts. This industry is at the core of the economy with numerous linkages to other sectors and when combined with the related industries of refining and energy the **minerals-energy complex** (MEC) it constitutes about a third of GDP. Mining is also an important direct employer and can be a significant source of revenue, though in the last few years its contribution to the fiscus has fallen dramatically. The mining industry is dominated by gold mining which makes up two-thirds to three-quarters of the sector's value-added, exports investment, state revenue and employment.

Gold reserves are running out...

Mining exploits finite resources. There is no long term future for any mineral. From 1884 to 1990 over 43 000 tonnes of gold were extracted at an average grade of 9 grams/tonne representing over two-thirds of the original resource base. In addition the economic viability the remaining 20 000 tonnes at grades less than 6 grams/tonne and depths often in excess of 2 km is currently not certain. Hundreds of millions of Rand have been spent on exploration of the deep gold reefs of the Potch gap, but with the current gold price and exchange rate these deposits have moved from the resource category to that of a "geological curiosity".

Big reserves of other minerals

However, South Africa's resource base for some minerals is so large that they can be considered infinite for realistic planning purposes. For instance total world chromite production runs at about 12 Mt/annum which represents about 6 Mt/annum of contained chromium and thus South Africa alone could supply total global demand for 400 years or could continue to supply its current 40 per cent market share for 1 000 years. The same applies for platinum where South African reserves at less than 1 200 meters could satisfy current world demand for over 270 years or its current market share of 75 per cent for 360 years. Palladium, rhodium and some gold, copper, nickel and chromite are associated with the platinum so the proportion South African production of these metals that comes from platinum mining could also continue for 360 years. However, it should be borne in mind that all the minerals excluding gold only constitute between a quarter and third of the industry.

Crisis in gold mining

Our gold mining industry is in a long term crisis that is essentially due to reserve depletion. Well over 100 000 jobs have been lost since 1987 and labour shedding is likely to continue as mines try to reduce costs and old operations near the end of their life. Although marked progress has been made in keeping input costs below inflation, South Africa is still the highest cost major producer[2] and there is clearly a limit to the period that costs can be contained without reducing real wages without sustained improvement in price.

Other minerals are unlikely to replace gold old

Therefore the contribution of mining to the economy is in long term decline unless the production of other minerals can be expanded to replace gold mining. This is extremely unlikely as all the main contenders face very real limits to expansion. The first candidate would be coal, which is the second mineral in terms of value of output and exports, but expansion is limited by our distance from the main markets (Europe and the Far East), by the fact that we already constitute 20 per cent of world sea borne steam coal trade and fairly stagnant global markets. Our coal exports are unlikely to exceed 75 mt by the turn of the century, which would only be a 50 per cent expansion and would only replace about 15 per cent of gold exports! The domestic market for coal is also unlikely to expand, given that the major consumers are power generation and synfuels.

The second candidate would be platinum and associated metals, but as we al-

NUM National Congress in Johannesburg 1991.

ready constitute two-thirds of global supply, further increases in market share would be difficult to achieve.

This leaves us with the ferro-alloys[3] which are experiencing the worse slump in since World War II due to huge supplies coming from the ex-Soviet Union. Current South African ferrochrome output is less than a half the installed capacity of 1.8 mt per annum. Given that supplies from the ex-Soviet Union are likely to continue for some time, there does not appear to be much room for the expansion of output of these minerals.

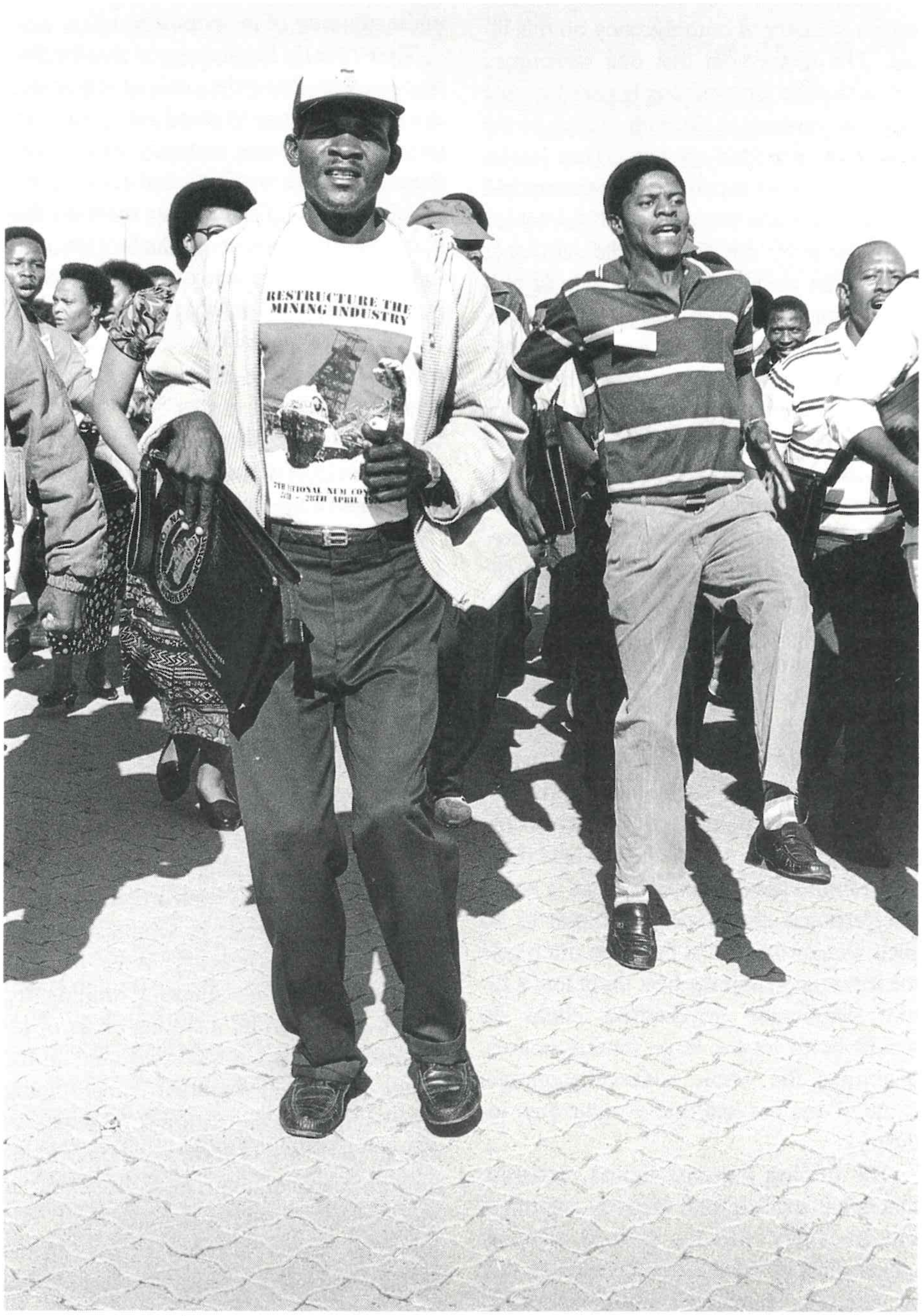
Benefication might be an alternative

Therefore it is unlikely that we will be able to replace the decline in gold mining by **widening** the industry through greater production of other minerals. In addition, South Africa is in general geologically well surveyed and the chances of coming up with large new unknown, deposits is extremely low.

The only conceivable way in which we will be able replace the inevitable long term decline in gold mining and, indeed, attain growth of the minerals sector, will be by **deepening**. By this I mean going downstream, or what is generally known as beneficiation. This has already happened to some degree with the announcement of the Columbus, Alusaf and Mamakwa projects last years, but I believe that there is still great potential for greater beneficiation, particularly of our ferrous metals, titanium and, to a lesser extent, our precious metals.

Crisis of legitimacy in mining

The mining industry won't only be facing the constraints of diminishing economic gold reserves, in a future South Africa, but will also have to grapple with a much deeper and thornier problem: **The crisis of legitimacy**. Due to the totally racist development of this industry over the last one hundred and thirty years, the vast majority of our population view it with deep suspicion and question the total legitimacy of its ownership and staffing structures. Crass racism excluded them from participating meaningfully in the industry. Their mineral rights were violently alienated from hem and even where they tried to register claims they were excluded by the white settler's explicitly racist legislation, such as in Kimberly in the 1860's ("digger's democracy"). Within the industry they were denied training and access to all but the most menial of jobs, until recently through a wide array of petty racist laws and practices within a deeply discriminatory and immoral industry. Unless the South African mining industry confronts this crisis head on and starts to tackle its causes, its future is likely to be seriously compromised and



the people's resentment will be constantly reflected in destructive and mutually unconstructive industrial and governmental action.

What can be done to correct the state of affairs?

Lets start by suggesting what shouldn't be done:

There appears to be an alarming attitude within industry of complacency on this issue. The impression that one sometimes gets is that the large mining houses feel that they had nothing to do with racism in the abhorrent apartheid system. They claim that they always supported non-racism and liberal ideals and that apartheid was forced upon them by the xenophobic Afrikaner Nationalist government. This type of attitude is not only untrue, but extremely dangerous. Unless a problem is clearly identified a solution is impossible. The white mining industry from its inception has used and abused racial discrimination to its own ends, and has done very little to overcome the restrictions imposed on the majority of its workers by successive racist governments. Thus, a first step in tackling its problem of legitimacy is for the industry to objectively and dispassionately recognise its immoral and murky past and, unfortunately often its present.

Another dimension of this arrogant attitude is the perception by parts of the industry that it has done such a wonderful job, that it is an important contributor to the well-being of the nation and the best thing that a future government could do is not to interfere and allow it to contilnue to do such wonderful job. In fact, one often gets the impression that the best thing that a future democratic government could do would be to let the large mining houses, determine the whole national economic strategy and not just that of their own industry!

The mining industry should recognise that is has made a total mess by creating a fundamentally racially skewed industry where most of the benefits accrue to a tiny white group. Human resource development within the industry has been scandalous and even at the lowest level of skills formation, that of apprentices, the majority are still from the white minority. It must also come to terms with the fact that the enormous revenues paid to government over the last century were essential to financing the oppressive apartheid machine and where they did end up in social expenditure, this predominantly benefited the white minority of the population.

Therefore I'd like to suggest that the first step in overcoming the crisis of legitimacy is a radical change of mind-set by the captains of the mining industry that allows them to start recognising and tackling the problems. I should however mention that there are are many individuals within the industry who have already made this step, but I would still assert that the industry as a whole has yet to make it.

Some solutions to the crisis of legitimacy

Three obvious strategies for changing the racial bias of the industry come to mind:

— The first could clearly be an accelerated programme of affirmative action in training within the white owned companies. Such a programme should include intensive training strategy right across the industry from unskilled workers to professional and managerial personnel, and the corporate boards of management. Such a programme should be elaborated together with a future democratic government and the unions. The **Mining Summit** might be a suitable vehicle for such an endeavour.

– The second strategy would be on the ownership of the industry: When the predominantly English-speaking mining industry was faced by a similar crisis of legitimacy in terms of the Afrikaners in the fifties, it created a major Afrikaner mining house which is the Genmin of today. A similar tactic would be the creation of a significant black mining house from one or more of the existing con-companies. The economic power of the Afrilkners in the fifties was evidently much greater than that of Blacks today and therefore much more imaginative financing mechanisms will have to be formulated, possible incorporating equity loans and the financial power of the unions through their providence funds.

– A third strategy would be to create new opportunities in mining for the dispossessed in micro-scale, small scale and medium-scale operations. However, unlike most countries, where minerals belong to the state, the minerals in this country are generally privately owned and thus the best mineral terrains are effectively frozen and therefore new entrants would not have access.

The ANC's policy on mineral rights is that *the mineral wealth beneath the soil is the national heritage of all South Africans, including future generations."* [4] The question is, however, how to achieve this in an equitable and non-disruptive manner. We are considering future system much along the lines of the Namibian mining law which consists of series of **licenses** for mining and exploration, The mining licenses would guarantee tenure over a reasonably long period, such as, say, 25 years, much like many other countries, while the exploration licenses would be time limited, thereby freeing up mineral rights for other entrepreneurs to try their luck.

Clearly the establishment of a small- and micro-scale Black mining sector will require much more than the freeing up of mineral rights, but I won't go into this here as it was the subject of a seminar in late january that we organised jointly with Mintek[5]. The freeing up of mineral rights would also be a major stimulus to direct foreign investment in our mining industry as several foreign mining companies have indicated that the current system is a major impediment to their entry.

Mining and the the environment

Mining in South Africa has a terrible record for rehabilitation as any visitor to the Witwatersrand can attest to. Mining and reining currently contribute more to pollution (air, solid wastes and liquid wastes) than any other sector and although the new minerals act tightens up somewhat on this, further action is still warranted. However, future emphasis is likely to be on **environmental management** rather than **conservation** at all costs and the key concept in a future environmental policy will be **sustainability** rather than a policy that disallowed any temporary environmental damage. An essential aspect of any environmental policy should be the incorporation of the local community in decisions on the environment. The new system of environmental impact studies and rehabilitation trust funds appears to be workable, but instruments need to be developed to put such funds to productive use. A major problem for a future government will be what to do about the extensive past damage particularly by gold and coal mining where the culprits cannot be brought ought to book under the current laws.

Mineworkers' rights

The first point that the industry needs to take cognisance of with regard to a future policy on mine workers rights is that until now the majority of workers have been denied their political rights and therefore had to resort exclusively to union action to better their plight. But, under democracy mine workers and their families will constitute a large and powerful constituency that any Government will have take heed of. In the past the industry has abused the disenfranchisement of the workers to achieve their own short term financial goals. In general the attitude of most companies to the NUM and workers has improved considerably over the last few years, but much remains to be done. However, a few companies continue to behave as they did during the worst of the apartheid period and some appear to have a clear policy of union bashing. Needless to say such companies are in for a very tough time once democracy is attained.

A policy on mineworkers rights under democracy will guarantee the right of mineworkers to join unions, for the unions to have unfettered access to mine property to carry out genuine union work, for union officials to be given reasonable time off to carry out their union duties, for workers to be able to hold meetings on mine property and a rigorous policy to outlaw any form of racial discrimination on the mines.

Policy on migrant mine labour is likely to recognise the right of all workers to reside at or near their place of work with their families and will also most probably recognise the right of all workers to full control over their salary without any compulsory remittances. Such policies are likely to result in the mine work force becoming settled, as happened in Zambia and Zimbabwe, and the end of the migrant system which could have serious balance of payment effects on some neighbouring countries, such as Mozambique and Lesotho.

Measures will thus need to be formulated to ameliorate the forex effects on these countries.

In general given the size and strength of the NUM, they will be the major force in the formulation of policy on mine labour and migrant labour in a democratic South Africa.

The mining industry is essential to reconstruction

The reconstruction and development growth path for South Africa that is being formulated by the Mass Democratic Movement[6] will focus on the provision of social infrastructure such as housing, water, electricity, schools clinics, etc. which should be a major stimulant to growth in the economy as a whole due to the good multipliers of such investment. However, this type of strategy is a net drain on forex and will grind to a halt in the face of balance of payments deficits unless exports are expanded. It is my belief that only the mining and mineral processing sector has the capacity and the possibility to provide the necessary foreign exchange for such a strategy in the short to medium term and therefore a new democratic government is likely to make a concerted effort to facilitate the ability of the sector to expand and, indeed, flourish.

However, in the longer term we should be looking to the export of finished or manufactured products, but these could be the final expression of a minerals benefication policy that exported fabricated metal-based items.

Notes

1. Nankani (1979) defines a minerals economy in terms of mining's contribution tio GDP (> 10 per cent) and exports (> 40 per cent).
2. Excluding the CIS, for which cost figures are invalid.
3. Ferrochrôme, ferromanganese and ferro–silicon.
4. Ready to govern, ANC, May 1992, p 24.
5. "Financial and Technical support for small mining ventures", 22rd & 24th November 1993, at Mintek.
6. MDM, Mass Democratic Movement consists of African National Congress (ANC), Congress of South African Trade Unions (COSATU) and the Civics. ■