MINING POLICY FOR INDUSTRIAL MINERALS IN POST-APARTHEID SOUTH AFRICA

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I am convinced that appropriate policy for the mining sector cannot be properly formulated in isolation. The decisions that need to be made to provide a framework in which detailed policy for the mining industry can be determined are essentially political.

I have outlined my views on the subject of control of large South African mining corporations in two other papers offered to this conference. In this paper I would like to describe some of the more important features of South Africa's role as one of the world's most important producers of industrial metals and minerals. I will also suggest how I feel the industry can best serve the interests of a new South Africa.

South Africa mines about 40 different products. I have made comments about gold in another paper and I do not feel qualified to speak on the subject of coal and natural gas extraction as, I feel, debate in this area should be included in work on an energy policy for South Africa.

The requirement to develop policy to adjust the industry to fit in with ANC policy for the post-apartheid economy is, of course, just as important in this sector as it is with the gold mining industry.

There are, however, important differences between these sectors. Firstly, South Africa produces a significant percentage of the world's supply of many minerals which have important uses in the aerospace, defence, electronic, automotive, chemical and other high technology industries, which means that their production has strategic significance. Secondly, the scope for developing those minerals into semi- and fully-fabricated products is high.

I believe the usefulness of this industry to the country can be enhanced considerably either by taking more advantage of the semi-monopolistic position of South Africa as a supplier and/or by developing the manufacture of products made with locally produced raw materials.

I would first like to explore the first of these ideas.

Sanctions measures taken by the international community to persuade the Pretoria regime to abandon apartheid were never strong enough to force a swift transition to democracy. Most of those measures were applied only recently.

There are, of course, many explanations for this lack of enthusiasm to end the worst case of institutionalised racism the world has seen in modern times.

One of the most important of these, however, has been South Africa's strategic importance as a supplier of vitally important industrial minerals.

Without platinum the world could not produce modern fertilisers, without chromium there would be no stainless steel; without rhodium, no clean-air auto-catalysts; without manganese, no mild steel; without vanadium, no steel of the type used for making bridges. In fact, almost every area of high technology is based on using one or other of the minerals mined in South Africa.

The South African mining industry together with the Pretoria government has always adopted a policy which has ensured a large, reliable, cheap source of strategically important metals and minerals.

This source has been so important to modern industry that Western governments have been prepared to ignore apartheid for fear that the transition to democracy might cause a disruption of supplies.

This has meant that sales prices for exports of many South African mined products have been lower than they need to have been. The industry has never used its power as the major supplier of these materials to force higher prices from consuming countries as, for instance, OPEC has done with oil.

In the case of platinum, for instance, South African supplies represent over 80% of world exports. Canada produces some and the USSR, although a large producer of platinum, exports only a little. No other large deposits exist in the whole world. South Africa could double its export price and it would only stimulate tiny increases in production from other countries.

In the case of rhodium, another platinum group metal, South Africa represents an even greater proportion of world supply. Neither of these metals are marketed from South Africa by a central selling organisation as gold and diamonds are. Sales are made by two companies, Rustenburg and Impala who are in competition with each other.

We have, therefore, the two largest platinum group metal-producing companies in the world, operating in the same country, each trying to sell to the same customers and effectively driving the price of platinum group metals down to get the competitive edge over each other. They are doing this when competition from suppliers outside the country is almost non-existent.

South Africa produces 35% of the world supply of chromium and 17% of the world's manganese. Because very little of either metal is used inside the country, this represents 60% of world exports for chromium and 37% of world exports for manganese.

South African producers of both metals have been reluctant or unable to plan production or marketing policy with other major producing countries. This is partly because of the desire to please consumers in the West for fear of tougher sanctions, and partly because other producing countries have not been willing to enter into talks with the apartheid state.

Zimbabwe is a major producer of chromium, for instance, and although there has been some degree of informal contact, the political differences between them has meant that both countries must compete with each other, which has the effect of lowering prices.

There are no commercially viable substitutes for either metal so there is no particular reason why prices could not be substantially increased if producing countries agreed to find ways of reducing competition between themselves.

Price cartels are notoriously difficult to arrange but with South Africa as such a huge producer, the difficulties should be surmountable. De Beers, after all, has been operating a very effective cartel in diamonds for many decades.

South Africa also dominates the world vanadium market. In this case, however, there are possible substitutes. Molybdenum, for instance, can be used to replace vanadium in many of its uses. No molybdenum is mined in South Africa. This does not mean, however, that prices could not be improved by the same means.

We can see, from this information, that certain arrangements suggest themselves.

An ANC Government should seriously consider setting up a state controlled marketing company with the exclusive right to market certain mined products. This has been done in Zimbabwe, although the proportion of world production of any metal produced by Zimbabwe is very small compared to South Africa and the effectiveness of the Zimbabwean Minerals Marketing Corporation is yet to show its true potential.

This state organisation would first eliminate competition between different South African producing companies by arranging sales centrally. It would then have the task of arranging talks with other producing countries that exported similar metals, with a view to reducing competition between suppliers on a world scale. It should be remembered that many of the countries involved are developing countries who suffer just as much from the low price of exported minerals.

This state marketing organisation will have another important role in preventing transfer pricing. Transfer pricing is practised by nearly all mining companies in the developing world. These companies have a great incentive to keep profits low in the developing countries in which they work and to accumulate profits in hard currency areas and tax-havens.

This is done by exporting the product they mine to a sister company in a tax-haven at a price which is below the true market price. This sister company then sells the product to consumers at the true price. This practice has the effect of boosting profits for the sister company and lowering profits for the mine, in this case in South Africa.

The mining company benefits in two main ways. Firstly, the low profits in South Africa prevents mineworkers from claiming that they are under-paid and secondly, since corporation tax levels are very low, by definition, in tax havens, the practice reduces the tax burden on the group overall.

This is almost certainly one main reason why so many South African mining companies have set up subsidiaries in Switzerland in recent years.

If the state takes on the role of marketing it can sell directly to consumers at the market price and thus prevent transfer pricing of this kind.

If we look at Africa as a whole we can see that the continent dominates supplies of manganese, platinum, palladium, rhodium, ruthenium, copper, cobalt, germanium, diamonds, uranium, andalusite, chromium, and asbestos as well as several other less important products.

It may be that a pan-African effort to improve terms of trade could be attempted based on the fact that most of the world's industry would come to a grinding halt if these metals were not available.

Such a move is likely to be strongly resisted by the mining companies (or the management of mining companies in the event that they become nationalised) on the grounds that a state marketing organisation would not have the necessary skills at its disposal to market products efficiently.

One little known fact should be borne in mind at this point. South African mining companies do not normally market their own products. In some cases the mining companies have opened up sales offices in the most important consuming areas, Europe, USA, Japan and have staffed them with local people. In other cases they have bought, or bought into, existing merchant companies who do the selling for them but very often the selling of the product is contracted out on an agency basis to independent metal trading companies.

(This, of course, is not true in the case of the diamond cartel or in the case of gold where the South African Reserve Bank makes all sales)

A state organisation is just as well equipped to arrange sales in this way as the mining companies and the example of the gold selling arrangement demonstrates that this is not even a new idea.

I believe that a core of officials could be quickly trained to first administer the appointment of sales agents then master the intricacies of metal and mineral marketing. This would mean that eventually more middlemen could be cut out of the marketing process.

I would like now to make some suggestions concerning South African minerals that could not be defined as having strategic importance.

As you may know, South Africa produces another group of important industrial mined products in quantities which are comparatively small on a world scale. Such products include tin, copper, nickel, zinc, aluminium, iron and steel and many minerals used in the building industry.

A high proportion of the production of these materials is exported in a raw form. Yet a country the size of South Africa with a comparatively sophisticated industrial structure might be expected to use its entire production of these materials for its own use or, at the very least, turn them into semi-fabricated products for exports at a higher value.

The reason this has not happened is also partly because of the effects of apartheid. This is because such a small proportion of the population is wealthy enough to create a market for the kind of products in which these materials are used. It is also because raw materials have more easily escaped import bans and consumer antipathy from sanctions-taking countries than manufactured goods.

In my view there is tremendous scope for utilising these products more efficiently but this would depend on several factors. If the ANC were to develop a programme to stimulate the domestic economy by such measures as land reform, improvement of education, health, housing, water and electricity supply and incentives for small-scale local industries, the multiplier effect of such stimulation would boost the consumption of unsophisticated but essential goods.

These might include farming machinery and tools, building tools, water pipes, electric cable, radios, bicycles, domestic equipment, transport systems, printed materials, detergents, canned and bottled goods, etc. etc. All these products either contain raw materials of the kind produced by South Africa or are made by equipment that contains these products.

Once production of manufactured and semi-manufactured goods had been stimulated in the domestic market, exports of manufactured products and semi-manufactured products containing these raw materials would also be stimulated by virtue of the economies of scale.

In addition, the government could take measures that would directly encourage the enhancement of the value of exported goods and by encouraging the working of raw materials into higher value products.

Countries that merely mine and market raw materials are subject to extreme volatility of prices on the commodity markets. The fall in the copper price over the last two decades has very seriously undermined the economy of Zambia, for instance. But industrial enhancement of these raw materials has a significant effect on employment, political and social stability, development and income.

Western countries take in raw materials, manufacture them into goods and re-export a proportion of them back to the countries that supply them with the raw materials. A raw material supplier is likely, therefore, to be more competitive in the supply of manufactured products if it can develop industries to make them.

As you know, these ideas are not new and difficulties arise over restrictions on the import of manufactured goods into developed countries but these problems fall into quite another area of economic debate.

The above strategy would tend to reduce imports of manufactured goods and boost the value of exports. Many countries that have adopted such a policy, however, have taken the idea of rapid industrialisation too far. There are countless numbers of examples of developing countries that have embarked on grandiose industrial projects which reqire the import of fabulously expensive capital equipment to make cars, machine tools, electronic equipment, chemicals, etc., for export.

The cost of these necessary imports combined with import restrictions in sales markets and difficulties in servicing imported equipment and marketed products has led to massive financial problems.

The only organisations capable of organising the investment, manufacture and marketing required for this scale of industrialisation are the large mulinational corporations. A stragegy of this kind, therefore, brings with it the danger of becoming dependant on these companies and being forced to comply with their requirements in other areas of the economy.

These policies have also led to many social and political problems as people are encouraged to leave their villages and migrate to industrial areas. This puts a massive strain on social provisions in towns and drains the rural areas of its most useful workers. It also encourages the formation of technical elites who demand rewards that include imported goods and political power. The whole policy becomes financially and politically divisive.

The secret of success lies in matching industrial development with the needs and the financial resources of ordinary people. Products need to be appropriate to the kind of development required. Agricultural tool making and irrigation systems can be developed on a small-scale in rural areas. Housing projects can be developed anywhere. Out of this, small to medium scale industrial centres can grow without the need to import expensive capital equipment.

This does not mean to say that existing sophisticated industrial development should suffer. It means, simply, that new industrial development needs to expand on a broad front at a pace and in a way that puts least strain on the economy and reduces dependence on external trade and investment.

Needless to say, the increase in government expenditure required to stimulate the use of home-produced raw materials and to provide the necessary economic stimulation to provide a market for goods made with these materials, has to come from somewhere.

Although the general economic policy developed by the ANC is out of the scope of this paper, I should point out that provided economic stimulation does not require the need of additional foreign currency the cost of pump-priming domestic economic growth should be met from the existing tax base. This tax base will only grow once the policy begins to work.

To sum up, I feel that the South African mining industry has a great deal of potential in the context of an ANC national economic plan. To reveal this potential, however, it will be necessary to change the existing marketing practices of the industry. This will, to some extent, change the role of South Africa as perceived by the outside world but make it less dependent on developed countries and give it a greater role in the development of Africa as a whole.