

ANC GOLD

by Peter Robbins

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I must immediately make it clear that I will be arguing against the nationalisation of the gold mining industry. I take this position not because I do not wish to see a future ANC Government controlling the gold industry in South Africa. I take it because I believe that the ANC will be able to have more flexibility over its control of the industry if the industry is not nationalised.

I must also add that I think that public utilities are best run as nationalised industries and I am not in principle against nationalising other industries including mines. The state owned British coal mining industry, for instance, was very successful in many ways before Thatcher decided to try to encourage coal imports.

I will also be arguing that the South African economy should be diversifying away from dependency on gold.

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I am sure that you fully appreciate that the viability of the South African gold mining industry is closely inter-connected with apartheid. This means that its future in a non-apartheid South Africa, although very important, is limited.

The degree of change that the industry needs to undergo to accommodate the expectations of the ANC depends entirely on the priorities set by the ANC for the entire economy. Once these priorities are established, ANC policy towards the gold mining industry will need to balance a large number of inter-connected factors which include:-

- The negative political influence of the large corporations.
- Requirement for foreign exchange.
- Employment.
- Government revenue through taxes raised from the industry.
- Wages of mineworkers.
- Safety.
- The quantity of gold produced.
- Recruitment policy.
- Private investment.
- Investment from the public sector.
- Corporate profits.
- The price of gold.
- Mining supplies policy.
- Marketing policy.
- Transfer pricing.
- The effect of government policy on foreign political and

financial attitudes toward South Africa.  
The grade of gold ore mined.  
The value of the Rand.  
The degree of mechanisation.

I believe that this balance could be more effectively struck by legislating for powerful control over the industry which, nevertheless falls short of nationalisation.

One thing is clear. It would be out of the question to leave the relationships between the industry, its owners, managers, workers and the state in their present condition.

The industry evolved alongside apartheid and has a symbiotic relationship with apartheid. Each serves the others interests.

The gold industry profits from draconian labour laws, low wages, lax safety precautions, monopolistic recruitment, a large pool of disenfranchised, unemployed people and total control over which people are employed at any level in its structure.

White governments have benefited from massive foreign earnings, high tax revenue and the international connections with the world's banking system that the gold industry brings to the country.

If the South African gold mining industry had not been able to take advantage of the apartheid system it would only be half its present size.

The prospect of allowing the gold mining industry to continue as it has done under apartheid carries profound dangers for any democratic government.

The gold industry represents a concentration of accumulated political power and wealth that could easily rival that of the government. Its interests are, in many important ways, diametrically opposed to the interests of a democratic South African government.

Its ability to influence foreign governments and the world's financial community, to corrupt officials, to purchase public opinion and to sabotage the economy could be enormous, especially in the context of a fledgling ANC Government.

The mining industry generally has one of the worst reputations of any industry in terms of ruthlessness. Many developing countries have all but lost their sovereignty to multinational mining corporations and there is no doubt that South African gold mining companies would stop at nothing to protect their perceived interests.

The function of gold mining in a post-apartheid South Africa must be very different from its present function.

One can assume that an ANC government would have different expectations for the industry. It would require that profits should be used to the benefit of the entire population rather than a single racial group, that safety standards, terms of employment and wages of mineworkers were massively improved.

These changes cannot be brought about, however, without radically changing the entire basis of the industry as perceived by the national and international financial community.

Higher taxation, increased expenditure on labour and increased government control will negatively affect profits and share values in gold mining companies and thus make them less attractive to private investors and reduce taxable profits.

If an ANC Government really did want to take complete control of the industry it should know exactly what it is taking on.

Gold mining carries with it two types of risk which are not encountered in most other types of industry. Firstly, the gold market is very volatile. Prices in the last ten years have been as high as 840 US Dollars per ounce and as low as 265 Dollars. (Most experts believe that the increase in the gold price for the foreseeable future will be lucky to keep up with the rate of inflation in OECD countries.)

Secondly, the type, quality, accessibility and quantity of gold deposits are very difficult to ascertain until the mine is in a working condition.

This means that in spite of using all the modern techniques of geological assessment and financial forecasting, the decision to sink a new mine carries with it enormous risks.

Investment in mines differs in another very important respect from most other investments. If, for instance, you were to invest in a chain of garages or a factory, you would expect the asset that that investment represents to grow in value as the business builds up.

With a mine, however, the asset value falls as available ore becomes depleted and eventually the mine closes down altogether.

The risk in investment comes mostly at the beginning, before the mine starts to produce any product. Investment for a working mine is much less risky as more and more is known about the ore body and the costs of extracting it. It is start-up investment that the mining industry finds most difficult to attract.

Investment required to start new mines must come from somewhere. The South African gold mining companies have been able to attract private foreign investment for new mining projects partly because of the natural merits of the proposed mine but

also because investors know that apartheid laws keep costs low.

An ANC government might consider making state investment available to the industry if private capital fails to meet all the necessary costs. It is unlikely, however, that such a move would encourage private investment unless the government were prepared to invest its own money in the early stages of financing new mining projects which carry the highest risks. This could easily mean that the government lost money while private investors gained.

If it was decided to raise money for new mining ventures by the issue of government bonds, the sums required could be so massive that they would badly affect the government's ability to raise funds for other purposes.

Nationalising the mines would not only have the effect of reducing available public investment on the terms enjoyed by the present owners, it would also be seen as a hostile act by Western governments and negatively affect South Africa's terms of trade and aid.

Systems could be devised to ensure that essential management staff are encouraged to remain in the company, but there must be a great risk of them leaving.

In my experience, senior managers in the mining industry have an obsession to make fortunes for themselves and they don't really care how they do it. Working for a nationalised industry is not usually regarded as the best way to fulfil this ambition.

I submit that very few trusted supporters of the government know how to master the complexity of running a large gold mine. Political appointees will have to rely on members of the existing management to provide them with the necessary information to make decisions and no one will know if this information is correct.

I don't want to go too deeply into whether compensation to the present owners is paid or not paid if the mines were nationalised, but either alternative would bring with it serious problems.

Failure to fully compensate shareholders would bring bitter and immediate retribution from the international financial community and from Western governments.

Giving full compensation will burden the government with debts at a time when other priorities will be on the agenda. I think it would be wrong to suppose that investors would gladly swap equity in a privately owned and managed mining company with a government bond representing their share of the asset.

A stated intention to nationalise the mines will cause the

existing owners to high grade their mining, i.e. preferentially extract high grade ore at the expense of the working life of the mine.

I also strongly feel that there are other political dangers in nationalising the mines as has happened in Zambia, for instance.

If the mines remain in private hands the government is free to give the workers in the industry and the trades unions its full support. If the government owns the mines it becomes the employer of those workers and must, at least occasionally, oppose the workers' interests.

In addition, if you offer a group of 'civil servants the control of a powerful sector of the economy, they will tend to protect that sector rather than interest themselves in the economy in general. They will be in a position to successfully argue for more investment and resources when, perhaps, other sectors have greater priority.

I believe that all these problems will be encountered if nationalisation is used as a means for an ANC Government to control the gold mining industry.

I should just say that my alternative suggestion will not solve all these problems either. It will, however, give a new government a great deal more flexibility and retain the essential control required to divert the power and wealth of the industry into its own programme of priorities.

It is important to understand that an ANC government could not expect the gold industry to employ the same number of workers, use as little government capital, sink as many new mines, improve wages and conditions of mine workers, pay more taxes and produce the same amount of gold to earn foreign exchange.

Something has to give.

In order to decide which of these elements should be sacrificed to benefit another we should look at the three major reasons for maintaining the industry. These are foreign exchange, taxes and employment.

Let us take these reasons more closely.

We can see clearly why the present government is obsessed with foreign income. The white community has as high a standard of living as is enjoyed by people in the richest developed countries. They have arranged the economy to allow themselves all the consumer goods available, many of which cannot be produced in South Africa.

In addition, a large sector of the economy is geared towards producing goods that only the white community can afford. This

sector must import machinery and raw materials to manufacture these goods.

The only way to provide these requirements is to gear the economy towards the earning of massive amounts of foreign exchange.

It is also true to say that there is a large and growing proportion of the black population who also aspire to these types of consumer goods and even the mass of the poorer section of the population benefit from some imported goods.

Most of the immediate requirement for these imported goods, however, comes as a direct consequence of apartheid.

It is also important to remember that the impact of international sanctions has drastically affected the cost of imports such as oil and armaments. One might envisage that these costs will be equally drastically reduced once the trade embargo has been lifted and the need for a massive army to enforce apartheid laws becomes obsolete.

It is necessary to quantify the need for foreign currency earnings in a democratic South Africa in order to assess role of the gold mining industry.

The requirement for such an assessment is obvious.

I have stated that if the gold industry is to be expected to return the same amount of revenue through taxes to the government, employ the same number of people, attract the same amount of private investment and export the same quantity of gold, it will be unable to improve the wages and conditions of its workers.

Let us now suggest that less gold is produced and less private investment can be attracted. This would mean that the unprofitable mines now operating are likely to cease production and fewer new mines will be sunk. South Africa, by far the world's largest producer of gold, will produce less gold.

South Africa has, however, some of the most profitable mines on earth which can pay a much higher than average tax and improve wages and conditions for its workers enormously.

Twenty years ago South Africa produced over two-thirds of the world's gold. Now it produces only about a third. New techniques for gold mining have been introduced more quickly in many other gold-producing countries which has caused the industry to become much more competitive.

The gold price increased steadily through the 1970s but since 1980 the price has not increased at the same rate as inflation in South Africa.

Although mineworkers' pay and conditions are still lamentably low in South Africa, there has been a steady improvement, especially over the last decade.

All this means that overall profitability has fallen and government revenue from taxation of the industry has decreased sharply as a proportion of total revenue.

Gold mining tax and lease revenue constituted 14.5% of total taxes in the fiscal year ending March 1980. In the year to March 1986, they were 9.7% and by the year ending March 1989 they had dropped to 4.3%. In that year this government revenue totalled 2,818 million Rands.

Employment in the industry has also fallen but South Africa's reliance on cheap labour has meant that much labour saving mechanisation has not been introduced. In 1986 the industry employed 534,000. In 1988, 516,000 were employed and in 1989 employment had fallen to below half a million people.

So, although the industry remains an extremely important sector, its importance is decreasing and is likely to continue to decrease whichever government was in power.

In spite of this, it would be nice to think that an ANC Government could preserve these benefits. I must assume, however, that the ANC economic programme will not set such a high priority for foreign exchange and that other areas of the economy such as the provision of housing, education and health as well as the stimulation of agriculture and many other domestic industries will take a high priority. It is this type of activity which one would expect to stimulate employment, rather than gold mining.

In these circumstances some benefits from the gold industry could be sacrificed and changing the industry to suit the purposes of the ANC must reduce its asset value. But why should the Government as shareholder pay the price of a fall in value of the assets of the mines. The present owners made their investment on the understanding that they would profit indirectly from apartheid, so why should they not pay the price when apartheid comes to an end? Why shouldn't the present owners see the value of their shares fall as a consequence of the ANC's reasonable expectations for the industry.

In other words, why acquire the industry and suffer all the consequences I have mentioned, when you can achieve the same control without acquiring it.

So now I would like to outline my suggestions for control.

An economic model of the interconnecting parameters of the industry must first be devised but a policy for the gold



industry can only be formulated as part of an assessment of the economy as a whole.

What are the political, social and economic priorities for a new South Africa?

The decisions required to formulate these priorities are, essentially, political.

Once these priorities are established their effects on the gold industry can be calculated.

I carried out some work for the Zimbabwean Government after independence when consideration was given to this very question of government control of the mining industry.

Once the degree of control had been decided, it became necessary to work out what new legislation needed to be passed to achieve that control.

It was found that legislation passed by the Smith regime was far stronger than had been expected. In retrospect this was probably understandable given that Rhodesia under UDI was a siege economy that needed draconian central control. This meant that the new government already had many of the tools on the statute book which it needed for this end.

I am not suggesting that the degree of control required by the Zimbabwean government will be the same as that required by an ANC government in South Africa but there is no doubt that the Pretoria regime has never altogether trusted the mining corporations and has instituted some important control of its own over the industry.

Its policy on taxation, although very cumbersome, illustrates this degree of control. In addition the industry is subject to strict controls over its accounting and reporting systems, preferential grading of mined ore, marketing access to foreign exchange, expansion plans, leases, and many working practices.

Many of these measures are and always have been vorciferously opposed by the mining companies.

Needless to say, most, if not all these existing measures would have to be greatly strengthened and often radically changed to meet the priorities of an ANC Government.

Such legislation could be extended to ensure proper control over labour relations, recruiting policy, training, expansion plans, pollution, housing and safety.

And, it must be said, that such necessary changes in government control will be greatly resisted by the mining companies and adversely affect output profitability, taxable revenue,

employment and investment.

These existing rules, however, have been in place for a very long time. All the systems exist to police these laws and an inspectorate exists to make sure they are not broken. It is not as if a new bureaucratic structure and inspectorate needed to be started from scratch.

It should be remembered that South Africa is still the largest gold producing country in the world. A fall in South African production would have the effect of raising the world price of gold so, although less gold would be produced the market price would certainly rise, at least in the short-term.

I believe that a proper control system can be built around the idea of this type of statutory control and give the government all the flexibility in the future to bring in other measures or amend existing legislation even to the point of wholesale nationalisation if required.

Flexibility would be a great advantage as measures could be relaxed or strengthened if parameters change, to meet the needs of the government.

So I argue that control should be exercised through legislation and not through nationalisation.

As I have stated above, the kind of control of the mines that the ANC would impose would restrict the industry's profitability. This would have the effect of reducing share prices for the companies on the various stock markets in which they are traded. This in itself would not be a great problem as these shares have already been floated and would cause a loss only to the present owners of the shares.

At this point I should just mention that if people wish to invest in South African gold mines, they can either invest in the parent company which manages and controls the mine or, in many cases, they can invest in the mine itself. Investing in the mine carries more risks as the investment is not spread over a number of mines but the rate of return is expected to be higher.

Shares in the individual mine are floated by the parent company before the mine has started production and income from the sale of those shares is used to sink the mine and bring it into production.

Potential investors look at all the geological data available on the proposed mine and take particular note of the previous performance record of the parent company before deciding to invest.

Occasionally a major South African mining company will float a rights issue on its own shares for some capital venture of its

own, such as Anglovaal has done in the last few weeks.

Stock issues, then, are used by mining companies primarily to raise cash to finance new mines. Once the shares have been issued the value of the share becomes less important to the company except for the fact that investors would be unlikely to invest in new ventures if previous issues do not perform well.

An ANC government, therefore, could encourage investment in new mines if it wanted to, without worrying too much about the fall in the value of shares in existing mines.

It could give very attractive terms to investors in new mines either by floating stock in the proposed mine itself or forming companies to do so in conjunction with the mining companies or by encouraging new companies to get involved.

In order to do this it would be necessary to give the necessary government guarantees to make sure that the new investor disassociates the prospects of the new mine with the share performance record of working mines. This may not be very easy for the government to do without taking much of the speculative risk itself but it is an option.

An alternative would be to use the tax system to encourage existing mining companies to invest in new mines rather than diversify away from mining.

I mention these points because I want to demonstrate that even in the difficult area of raising capital for new gold mines, a policy of not nationalising existing mines still allows the government the flexibility of finding private investment funds.

At this point I feel that I should mention another important feature of the industry.

Gold mines are able to adopt a flexible regime in mining policy. During periods where the price of gold is high, they can preferentially mine lower grade ores and, conversely, when the gold price is low they can mine higher grade ores.

Providing that the price of gold goes through regular fluctuations between high and low prices, which it has done in recent years, this system can be used to preserve the life of the mine and maximise gold output.

A similar choice can be made about the degree of mechanisation at a mine. It may be that there are periods when a mine owner would naturally prefer to increase capital expenditure in the form of mechanising processes for ore extraction, and other times when reliance on human labour is financially preferable.

These decisions are complex and depend on the advance of mining technology, profitability, the cost of labour and access to

foreign exchange to import machinery.

An ANC Government would need to ensure that legislation existed to ensure that these types of decisions are made in the national interest and not, necessarily, in the interest of short-term profits.

This brings me to another area of controversy.

It seems to me that there is no good purpose served by the giant mining companies being diversified into so many other areas of economic life.

I cannot see why the subsidiary companies of Anglo-American, say, in banking, manufacturing, publishing and retailing could not be run just as well or better, if they were run as quite separate companies.

Needless to say, a proper investigation would need to be undertaken to examine the advantages and disadvantages of why and how to break up the large corporations but I feel that there would be positive political and financial benefits from doing so.

Anyone familiar with the structure of the large South African mining corporations will know just how labarinthine they are. The incredible system of cross shareholding and cross directorships has produced a semi-monopolistic private commercial sector in the country which cannot offer efficiency even in capitalistic terms.

The concentration of power in the hands of a few white men is impossible to overestimate.

Anti-trust legislation would have prevented this from happening in most other countries in the world. The Large corporations should be broken up into their component parts as a priority, in my opinion and cross share-holdings and directorships between the corporations abolished.

It seems to me absolutely essential that a core of experts and potential policy-makers must be assigned as quickly as possible to the task of preparation for decision-making.

Apart from all the tasks I have mentioned, policy needs to be formulated on training, recruitment and the role of the trades unions and many other problems. One of the most difficult of these will be the control and, where necessary the replacement, of the army of Government inspectors and civil servants engaged in the current forms of control and liaison with the industry.

Forming government policy is important enough but I am convinced that future policy towards the control of the large, mainly mining corporations will be one of the central issues for

negotiations for transition of power.

If nationalisation is to be the policy then negotiations will be made that much more difficult. Government control of the industry such as I have outlined will have a lesser negative impact on negotiations but will give better and more flexible control.