

## The South African Mining Sector: An Industry at a Crossroads

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### **Abstract**

Historically, South Africa's mining industry has been at the heart of the economy's development - given the country's competitive position as one of the most naturally resource-rich nations in the world. In fact, the industry has played a key role in attracting foreign investment and creating leading global enterprises, and remains South Africa's most critically observed economic sector. That said, the mining industry in Africa's largest economy has undergone major turmoil since the beginning of the 2008 global financial crisis, including the 2012 shooting of some 34 mineworkers by police at the Marikana area and increasingly vocal calls for the nationalization of mines as a cure for the nation's hardships of poverty, inequality and unemployment.

A major crisis in the mining industry will pose a great risk to South Africa economy's growth path and may lead to a shift to the left in economic policy. Moreover, considering that the Tripartite Alliance has yet to propose a convincing policy agenda, the mining industry and its concomitant issues are some of the major drivers leading up to the 2014 national elections and beyond.

## Introduction

On 16 August 2012, after negotiations over a substantial wage increase between striking mineworkers and multi-national platinum producer Lonmin collapsed, violence erupted and 34 mineworkers were killed at the producer's Marikana mine in the North-West Province; this added to the ten people already killed during the preceding week, a tragedy that global media coined: "...one of the bloodiest incidents since Apartheid ended in 1994" (CNN 2012a). News of the violence, already extensively covered by Alexander (2013), spread rapidly around the world.

President Jacob Zuma responded by declaring a national mourning period in the week following these events, by appointing a Judicial Commission of Inquiry, and by establishing an Inter-Ministerial Committee (IMC), highlighting the magnitude of the incident. Fearing the economic backlash of the tragedy, the IMC rapidly issued a statement to the Foreign Correspondents' Association, through which it sought to placate the international business community:

*"The tragic incident at Marikana is not a reflection of the business environment in South Africa. We would like to reassure all stakeholders and the international community that mining operations continue unhindered [...] throughout the country. Government remains in control of the situation and law and order continues to prevail. The country continues to fully support direct investment and appropriate incentives and the legislative framework is in place to give confidence and predictability to investment decisions and security of tenure" (Presidency Republic of South Africa 2012).*

But the damage was already done. Immediately after the events, the value of the Rand against the US Dollar decreased by several percentage points (Baxter 2013, p.14) and the market capitalization of the top 39 mining companies (companies with a primary listing at the JSE or a secondary listing with main operations in Africa) decreased by five percent between June and September 2012 (PriceWaterhouseCoopers 2012, p. 4). In total, according to Chamber of Mines (CM) estimates, approximately R15 billion was lost in sales and production due to the strikes (Baxter 2013, p.13) in particular the "wildcat strikes" that followed Marikana tragedy and spread to several other platinum, gold and iron ore mines within the country (Reuters 2012a).

The nature of the Marikana tragedy demonstrates the important role that the mining industry plays for South Africa. Before focusing on the current issues of weak economic performance and capital flows, the labour dispute, and the nationalization debate, this paper will analyze how the industry has arrived at this challenging stage. The conclusion will provide an outlook leading up to the 2014 national and provincial elections.

## The Mining Sector and the Birth of the South African Economy

South Africa's transformation from an agricultural domain to the most industrialized nation in Africa began in the Witwatersrand Basin in the late 19<sup>th</sup> century: "The discovery of the

Witwatersrand goldfields in 1886 was a turning point in the history of South Africa. It presaged the emergence of the modern South African industrial state.” (Government Communication and Information System 2012, p. 21)

The world’s largest diamond deposits had been already discovered in the 1860s around the area that later became the city of Kimberley in the Northern Cape Province. The subsequent De Beers monopoly over the diamond industry led to the installation of a railway system; however, it was the labour and capital-intensive deep-level mining in the gold fields that had the most impact on the economic trajectory of the future Republic of South Africa. After British mining magnates pushed the Empire to seize the Boers’ territories - after identifying the vast mineral resource potential therein - a series of military conflicts between the two nations culminated in the South African War of 1899-1902. The supply of the mine labour became the victorious British colonial authority’s priority, and policies were formulated to drive the African population into the developing urban mining centres (without effectively integrating them into society). The long-term effects of these policies were devastating: “This set of assumptions and policies informed the development of segregationist ideology and later (from 1948) apartheid” (Government Communication and Information System 2012, p. 22).

The second effect of the discovery of gold in South Africa was the ascension of mining houses. At first, the mining houses’ sole purpose was to acquire capital - with particular focus on the attraction of foreign investment. A case-in-point was Anglo American, which was founded to mobilise capital from British and American investors (Malherbe 2000, p. 19). To strengthen their case against global competition and the government, the major mining houses – including Anglo American, De Beers, Goldfields and Harmony, amongst others - created the Chamber of Mines and went on to dominate the economy up until the 1990s. The mining houses created the South African money and capital markets by functioning as investment banks, pioneered other mineral resources besides gold, and used their economies of scale to centrally purchase material, employ highly skilled labour to form a central intelligence unit, and monopolize the unskilled labour market (Malherbe 2000, pp. 19-21).

Starting in the 1970s, however, political developments began to affect the mining business negatively. It was in this decade that mining houses, which had previously actively recruited unskilled workforce from rural areas outside of South Africa, were forced due to political developments to shift their attention to South (Malherbe 2000, pp. 31-33).

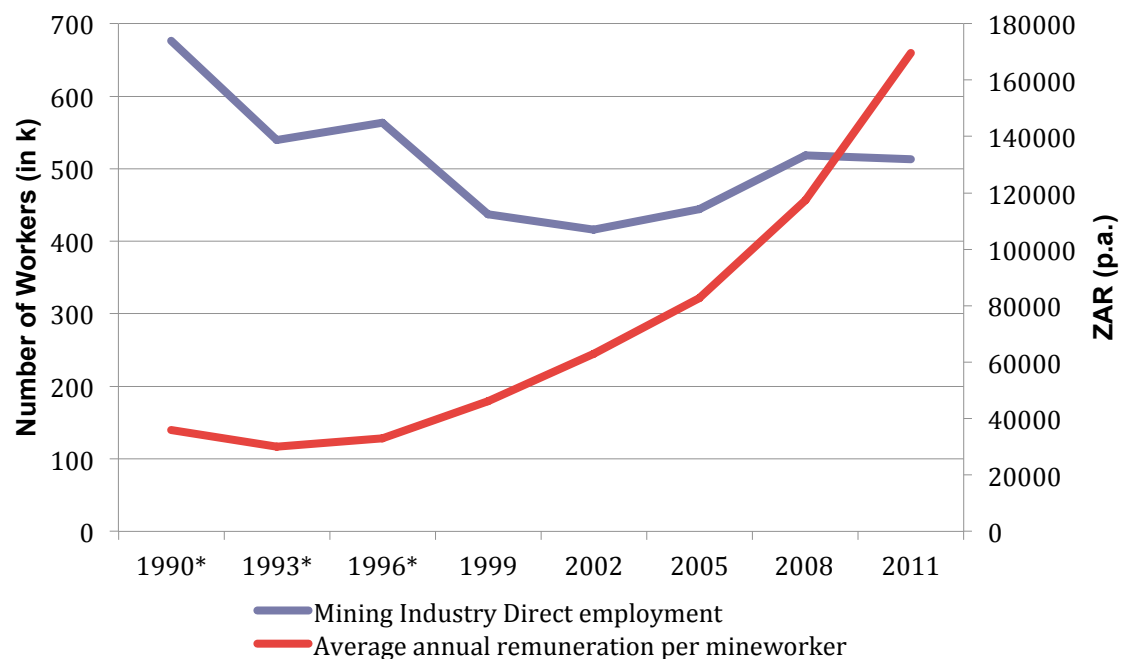
Following the establishment of the National Union of Mineworkers in 1980, the first legal strike by black mineworkers occurred in 1984. It was no coincidence that those strikes took place after the



great slump in gold prices (that remained a burden on the industry until the early 2000s). Thus, while wages for unskilled labour were rising (in real terms) due to better labour representation, global commodity prices decreased substantially and shareholders increased their pressure on companies. This resulted in an era starting in 1988 of massive job losses, a process that took place almost exclusively in the gold industry where approximately 60% of its workers lost their jobs within a decade (Malherbe 2000, p. 38).

The decline of the mining houses in their old form was also partially the result of the isolation of South Africa's economy during the late Apartheid era. The implementation of economic sanctions blocking inward investments and outward exports, forced the mining houses to diversify into manufacturing and other sectors. Although this forced diversification actually contributed to the establishment of large conglomerates such as SA Breweries, it also led to high levels of inefficiency. With the end of Apartheid and the reintegration of South Africa into the global economy during the mid-1990s, the mining conglomerates were broken up by the sale of their non-core assets and new, leaner companies emerged (Malherbe 2000).

### Wages and Employment in the Mining Sector (1990-2011)



The new mining companies immediately adopted the strategies of international capitalism. In order to participate in the mergers and acquisition frenzy of the 1990s, the mineral resources conglomerates initiated their catch-up strategy with the global economy by prioritizing the

maximization of access to financial markets and by migrating their primary listings to the world's financial capitals (McKenzie and Pons-Vignon 2012, pp. 6-7). What followed was a rapid capital outflow from South Africa, enabled by a highly liberal approach towards monetary movement by the new African National Congress (ANC) leadership (Ashman et al 2011 pp. 11-15). (Recognizing this new order is vital to understanding why the global commodity boom did not fully benefit the South African mining sector and the country's economy in general. Although the JSE resource index increased by over 250% from 2000 to 2008, employment in the mining industry increased by less than 25% while the contribution of the industry towards the nation's GDP decreased steadily – see infographic, above.)

The surpluses of the mining industry were only marginally captured by the public budget as a result of a reduced local tax base. This had a number of consequences, one of which was that domestic investments by the public sector to solve infrastructural bottlenecks were less actively pursued. Moreover, the mining sector itself sought out other investment havens and this led to the massive capital outflow that peaked at 20% of GDP in 2007 (Ashman et al 2011 p. 22).

The South African economy was to be severely affected by the global financial crisis of 2008. Although the opening up of the economy had led to substantial capital flight by domestic firms, it had also facilitated an inflow of capital that was absorbed by the private sector and used to support largely non-productive activities. The consequences leading up to 2008 were financial and housing bubbles, persistent trade deficits, increased household debt, and proportionately the highest current account deficit of the G20 (McKenzie R. and N. Pons-Vignon 2012, pp. 8-10). When the economy went into recession, posting a -2% GDP growth in 2009 (World Bank 2013), the mining industry was heavily affected by the crisis on account of its dependence on global growth to stimulate prices and demand, liquidity in the global economy, and conservative investment strategies in times of insecurity (Bexter 2009, pp. 113-114). Thereafter, neither the mining sector's contribution to GDP nor its investment returned to pre-crisis levels until 2011 (Chamber of Mines of South Africa 2012b, pp. 6-7). It was during that down period of 2008 to 2011 that today's pressing issues of underperformance, labour disputes, nationalization, and the debate around the right policy approach towards the mining industry emerged.

### **The Mining Industry Today**

The South African mining industry is the fifth largest in the world (Chamber of Mines 2012a, p. 12). South Africa is still considered to be “the country with the world's largest mineral endowment” (Carroll 2012, p.1). Citibank has estimated that the remaining resource base is at US\$2.5 trillion (Government Communication and Information System 2012, p. 130). For years, the four main



mineral commodities in terms of sales and employment have been platinum group metals (PGMs), gold, coal and iron ore. In 2013, coal overtook PGMs – a resource group that is highly dependent on demand within the European automotive sector due to the fact that platinum is used for catalysts converters – as “the highest revenue-earning commodity in South Africa” (PricewaterhouseCoopers 2012, p. 5). In terms of reserves, South Africa holds the number one global spot in PGMs, manganese, chromium, gold and other less-valued minerals (Government Communication and Information System 2012, p. 132).

In terms of productivity, South Africa’s mining industry holds a position that is similar to its position in terms of reserves - with the exception of gold and iron ore. This generally indicates a well-established industry, but closer inspection reveals severe productivity issues. In the case of manganese, for example, SA (with a 15% share of global production) currently trails global leader China. The latter provides over 30% of global production despite having close to 80 times *fewer* reserves (Bexter 2013, p. 51) than South Africa. Further, the vast majority of South Africa’s minerals are designated for export (coal is the only exception due to the energy sector’s dependence on it).

#### Top 7 Mineral Commodities in SA (2011)

	PGM*	Gold	Coal	Iron Ore	Chromium	Manganese Ore	Diamond
<b>Producer (Global Rk.)</b>	1	5	7	6	1	2	3
<b>Reserves (Global Rk.)</b>	1	1	6	13	1	1	4
<b>Employees (in k)</b>	195	145	78	22	16	7	12
<b>Profit Margins (in %)</b>	35%	24%	19%	8%	3%	1%	2%
<b>Total Sales by value (in billion R)</b>	84	68.9	87.8	62.6	8.6	9.9	14.4
<b>Export Sales by value (in %)</b>	~100%	95%	58%	93%	<1%	87%	~100%

\*Platinum, Rhodium, Palladium

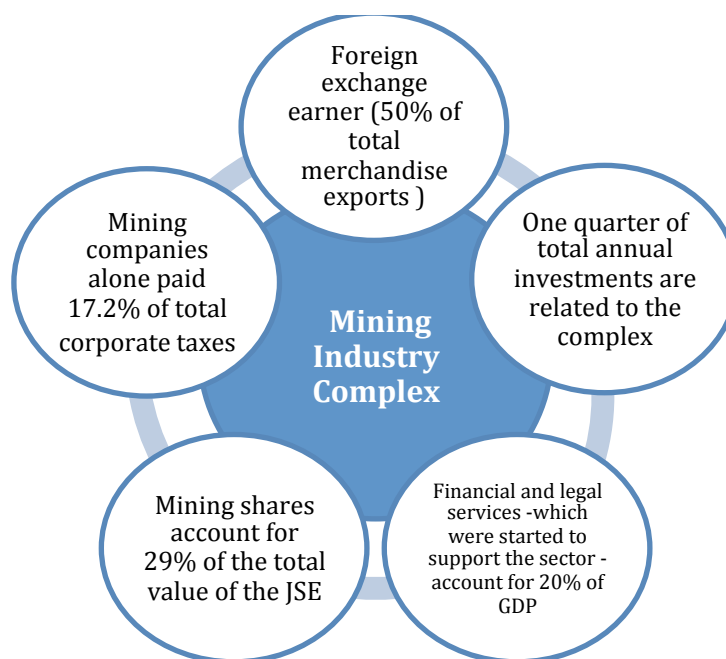
Sources: U.S. Geological Survey & U.S. Department of the Interior; Chamber of Mines 2012c, pp. 3, 8, 12; own calculations

In nominal terms, the mining sector has directly contributed an average of 8% to the country’s GDP over the last decade. In real terms, however, the contribution has regressed from 7% to 5%. Once indirect effects are considered, the full contribution of the mining industry comes to light. Including side-stream and downstream beneficiations, the mining industry generates approximately 18% of the economy’s activity (Chamber of Mines 2012c, p. 1). The key downstream industries – industries that use mineral resources – are the electricity sector, as 94% of electricity

is produced from domestic coal; the steel sector, in which 80% are made from domestic inputs; and the cement industry, where about 99% of product is made from locally mined products. The main side-stream industries – industries that sustain the mining sector – are housing, equipment manufacturing, and infrastructural projects such as rail and ports (Bexter 2013, pp. 31-32).

The economic impact of the mining industry complex is also acutely felt by the South African labour market, considering that it provides over 1.3 million jobs (Chamber of Mines 2012c, p.1). A concerning factor for the industry and the country in general is that approximately ten people are dependent on every wage that is paid by the mining industry. An additional concern is the high level of unskilled labour within the sector (Chamber of Mines 2012a, p.11). Besides those two key indicators, the mining industry contributes in several other ways to the economy. These are summed up in the figure below:

### The Mining Industry's other Ways of Contributing to the Economy



Sources: Chamber of Mines 2012c pp. 3-5; Bexter 2013, p. 32

For all the statistics indicating the importance of the mining sector, the industry is far from flourishing. Recent official statistics show that the steep decline in physical production volumes after the Marikana tragedy had still not been compensated for by January 2013, and that volumes actually began decreasing again from March 2013 (Statistics SA 2013, p.4). Virtually all industry analysts attest to the same reasons for the recent decline of the mining sector: cost inflation and political insecurity.



Of the top ten global business risks for mining that were identified by Ernst & Young<sup>1</sup>, South Africa's mining sector was singled out in two categories: cost inflation and resource nationalism (Ernst & Young 2012, pp. 3, 11, 21).

The harsh reality of the sector is made clear when seen in light of recent capital movements as compared with other African nations: "There was a strong contrast between the drivers for mergers and acquisitions (M&A) in South Africa and those for the rest of Africa in 2012. African nations with relatively untapped resources continued to attract growth-driven investment for resource security. Conversely, deal activity in South Africa's mature mining and metals industries largely stemmed from industry reorganization in response to widespread labour unrest, growing resource nationalism, and higher-than-inflation wage and energy cost increases..." (Ernst & Young 2013a, p.48). Infrastructural issues such as electricity prices (which increased by 238% within five years), bottlenecks in the rail network and skills shortages are all drivers of cost inflation. Nonetheless, it is the troubled labour situation and the resulting political insecurity that are scaring investors away.

### **Labour Unrest and the Trade Unions**

Between 2007 and 2012, the average total guaranteed remuneration package per worker in the mining sector increased annually by between 10-12%, depending on the source and what was considered part of the total package (Bexter 2013, p. 26; PriceWaterhouseCoopers 2012, pp. 29-30). On a year-by-year basis these increases were, on average, several percentage points higher than the growth rate of the consumer price index and 1-2% higher than the national average increase across all industries. It comes as no surprise, then, that labour costs amount to at least 36% of total operating expenses of South African mines (PriceWaterhouseCoopers, pp. 29-30). The main driver of this extraordinary trend has been labour representation.

The National Union of Mineworkers (NUM) has been at the forefront of labour representation in the mining sector and has often used mass strikes to reach its goals. That said, the recent struggles which escalated into the Marikana tragedy were not primarily associated with the NUM, but with the newly established Association of Mineworkers and Construction Union (AMCU) that has, since 2012, threatened the once almost-monopolistic position of the NUM. With the establishment of mine-by-mine wage negotiations, AMCU has also successfully become the biggest union in platinum mining (Reuters 2013b). The conflict between the two unions has cast a long shadow over the

<sup>1</sup>In order of significance, from 1 to 10: resource nationalism, skills shortage, infrastructure access, cost inflation, capital project execution, social license to operate, price and currency volatility, capital management and access, sharing the benefits and fraud and corruption (Ernst & Young 2012, p. 3)



entire sector and has become a ticking time bomb beyond the issue of the sector's pure economic performance.

AMCU's rapid rise to power came in light of the spreading perception among mineworkers that the NUM had become too strongly allied with the government and management (this despite the comparably high wage increases). From its early days, the NUM has been a strong ally of the ANC and has since 1994 maintained ties with several ANC officials, the most prominent example being ANC deputy president Cyril Ramaphosa, one of the founders of the NUM (Reuters 2012b; Butler 2013, p. 15). AMCU's resentment towards the perceived alliance has gone as far as men shouting slogans such as "NUM must die" and "Zuma must die" (Reuters 2012b). In May 2013, the conflict reached a peak when an AMCU organizer was assassinated in a tavern at Marikana. Immediately after the incident, the rhetoric increased substantially; Joseph Mathunjwa, head of AMCU, called for the president to investigate the shooting and went as far as to threaten the public during a radio interview: "We said we are going to bring the economy to a standstill" (Reuters 2013b).

The analyst who claimed that the labour talks that began at the end of May 2013 "may be the toughest yet" was proven correct (Reuters 2013a). In an attempt to regain supporters, the NUM, in a submission to the Chamber of Mines, reportedly sought a 60% increase for "entry-level minimum monthly wages" and a 15% increase for "all other wage categories" (Reuters 2013c).

The high stakes come to light when this wage dispute is placed against the industry's wider context. Global commodity markets for platinum and gold are on a prolonged downturn and have led to an increase of shareholder pressure on historically high-cost South African mines as they struggle to remain profitable (Reuters 2013d). The world's biggest platinum producer, Anglo American Platinum Limited (Amplats), saw its value on the stock market decrease by R44 billion within four months in the first half of 2013. Amplats' struggles were already evident in January 2013 when it announced that it had to shed 14 000 jobs and mothball unprofitable mines. [Due to heavy government pressure, this figure was reduced (Business Report 2013a).]

More mining companies will be likely forced to follow the path of Amplats should the unions succeed again in attaining above-inflation level wage increases or if wildcat strikes break out during the wage negotiation process. This is partly due to the difficult market environment and reduced investor trust since the Marikana tragedy (Mining Weekly 2013).

This diminished investor trust in combination with labour unrest had an immediate impact on the South African currency. Right after the NUM lodged its initial wage demand and the first miner strikes broke out - at a chromium mine - the Rand dropped to a four-year low and there are no signs

of a fast recovery (Reuters 2013d). The fact that industrial union National Union of Metalworkers of South Africa (NUMSA) also demanded a 20%, multi-year wage increase in the automotive sector supports the notion that the mining sector's foremost unions have become role models for their counterparts and that the risk of labour disputes is rising.

The impact of the labour unrest on the mines is likely to have a much wider impact upon the economy. South African politicians have also become aware of this impact - as evidenced by Finance Minister Pravin Gordhan's parliamentary warning: "We will see deteriorating confidence, job losses and business failures" (Business Report 2013b).

Another source of conflict is the tension within the Congress of South African Trade Unions (COSATU), which, together with the ANC and the South African Communist Party (SACP), makes up the Tripartite Alliance. Historically, COSATU has been dominated by the NUM, but recently, public sector unions have achieved parity and are often at odds with NUM on key issues. This is another sign that the relatively stable times of the NUM at the helm of labour representation within the mining industry might be gone (Butler 2013, p. 15). Moreover, the loss of NUM's influence in COSATU and in general might be a threat to the ANC. This explains why the ANC, as represented by the party's secretary-general and former NUM leader Gwede Mantashe, was quick to intervene at COSATU in order to "shore up the ailing workers' movement" (Business Day 2013b). The growing discrepancy between the sentiments of the NUM and the rest of COSATU strongly influenced the way in which the question of the appropriateness of nationalization has been perceived (Butler 2013, p. 15). In fact, the nationalization debate has gone far beyond trade unions and has legitimately dominated all policy discussions surrounding the mining sector.

### **The Nationalization Debate**

In this context, "nationalization" broadly refers to the practice whereby the state takes ownership of a company or creates a company that is legally entitled to develop and control a certain business sector. Sectors that represent a natural monopoly (such as railways and telecommunications) have historically been under the state's custody in South Africa.

These are sectors that depend on many natural resources, demand vast investments and are critical for economic development. The over-arching and well-established ideal behind nationalization practices in the case of mineral resources is "resource nationalism", defined as a "sovereign claim on resource assets by citizens of a mineral-rich country, in which this claim must deliver maximum benefits to them" (Cawood and Oshokoya 2013a, p. 46).



Resource nationalism in South Africa has its roots in the Freedom Charter of 1955, which states: “The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole” (Mitchell 2013, p. 39). In 2002, after approximately ten years of negotiations, the Mineral and Petroleum Resources Development Act (MPRDA) was introduced. This legislation was strengthened by the Mining Charter of 2004. It was “a radical departure from past mining policy and legislation” – a rather “laissez-faire” approach in the years of transformation – designed to increase the state’s participation in the sector’s revenues and to battle legacies of the Apartheid regime (Mitchell 2013, p. 39; Cawood and Oshokoya 2013a, pp. 46-47). With those instruments, the state officially gained custodianship over mineral resources, which led to higher revenue via mineral rights sales, increased tax revenue, and a new royalty regime (Cawood and Oshokoya 2013b, pp. 54-58). Moreover, the MPRDA and the Charter of Mines empowered the state to legally pursue Black Economic Empowerment (BEE)<sup>2</sup> and to create opportunities for historically disadvantaged South Africans. This effectively meant that the mining sector was obligated to allocate funds to specific projects and that, to a certain degree, a change of ownership was facilitated (Cawood and Oshokoya 2013a, pp. 47-49). Despite the introduction of this framework of resource nationalist policies, a fierce debate on nationalization was ignited in 2010.

The extent to which the policies have been implemented so far – in particular the policies outside the taxation and royalty regime of the MPRDA – is disputable: “The evidence on the extent of transformation in mining in South Africa is, at best, unreliable” (Mitchell 2013, p. 43).

However, the new claims for nationalization – a globally far-spread and cyclically reoccurring claim, that has most notably led to action in Latin America – did not embark from a factual analysis, but were rooted in a reoccurring public perception: “... in light of recent commodity price booms and despite the mining sector’s significant contributions to the economy of South Africa, popular feelings revealed disenchantment with the sector and the people lashed out at the government as they felt that foreign mining investors were benefiting at the expense of South Africans” (Cawood and Oshokoya 2013a, p. 47).

This fertile ground of rising commodity prices and a persistent wealth gap in South Africa explains how the mostly ideologically driven claim for nationalization by the ANC Youth League (ANCYL) gained “so much traction” in recent years (Du Plessis 2011, p. 10).

<sup>2</sup>A program launched by the South African government to redress the inequalities of Apartheid by giving previously disadvantaged groups who are SA citizens (black Africans, Coloureds, Indians and Chinese (declared to be Black in June 2008[1])) economic opportunities previously not available to them. It includes measures such as Employment Equity, skills development, ownership, management, socio-economic development and preferential procurement. (EmpowerDex 2009, p. 1)



In its 2010 position paper, the ANCYL declared: “Nationalization of mines means the democratic government’s ownership and control of Mining activities, including exploration, extraction, production, processing, trading and beneficiation of Mineral Resources in South Africa. Minerals Resources refer to all the more than 50 non-renewable precious, industrial and chemical stones extracted from Mines in South Africa. This includes, but is not limited to, Gold, Platinum Group Metals, Chrome, Coal, Manganese, Diamond, Copper, Metals, Aluminium, etc.” (ANCYL 2010, p. 2). This limitless ownership should, according to the ANCYL, result in higher fiscal revenue and redistribution independent of profit-maximizing corporations (Du Plessis 2011, p. 10).

There is a specific political explanation regarding the ANCYL’s involvement in the initiation of the push for nationalization that goes beyond the previously discussed broad reasons for nationalization: the potential to increase its political power. The ANCYL attempted to exploit the growing differences within the Tripartite Alliance regarding economy policy in order to advance its own position and, most notably, that of its leaders. In December 2007, the ANC passed the Polokwane resolution in order to solidify a market-based approach towards economic policy that gave “...not a single reference to nationalization or socialization...” (Butler 2013, p. 14). This resolution merely served to enhance a power vacuum on the left of the Tripartite Alliance, one that the ANCYL readily exploited. The SACP leadership, located in government, was disconnected from its base as it remained uncommitted to state-ownership, whereas “a vastly expanding and economically illiterate membership” that was reinforced by the Young Communist League (YCL) asked for immediate nationalization by the current administration (Butler 2013, p. 15).

COSATU also struggled with the question of nationalization as it had a tendency to demand a state-led economy, but did not present a systematic approach to implement such a policy. As previously mentioned, however, NUM lost its stabilizing stronghold over COSATU, thereby paving the way for the more robust supporters of nationalization (Butler 2013, p. 15).

Given this fractious background, it is little wonder that the ANCYL and especially its former leader Julius Malema could so easily challenge the ANC’s leadership. This turn of events also revealed the fundamental conflict between political age-sets. Soon after being elected as the president of the ANCYL in 2008, Malema played a key role in assisting Jacob Zuma step into the presidential office, going so far as to proclaim that he would “kill for Zuma” (BBC 2012). The relationship began to deteriorate when Malema was summonsed to ANC disciplinary hearings on account of several provocative statements and actions that drew mass attention (BBC 2012).

The growing divide between the ANCYL leaders and the Zuma camp played out most visibly in the nationalization debate. The presentation of the ANCYL's radical position paper in February 2010 caused the initiation of "an unusual" mining sector policy review process in the run-up to the ANC's 53<sup>rd</sup> National Conference in Mangaung (held in December of that year) (Butler 2013, p. 18). The fact that the ANCYL mentioned the possibility of expropriation without compensation underlines both the radicalism of the ANCYL (intended to create leverage), and its economic illiteracy (Kahn 2013, p. 6). Even if Article 25 of the South African constitution, which guarantees property rights, was eliminated, the government would not be liable to international shareholders (that control a majority of the major mining companies) due to bilateral agreements with nations such as Germany, the UK and the U.S. (Keeton and White 2010). The only way expropriation could be achieved would be through a breach of those contracts, leading to a complete collapse of the economy. But considering the vagueness of the proposal (including the "with or without compensation" statement and the trying to create state-owned companies), this was a massive success for the ANCYL (Butler 2013, p. 16).

The rhetoric between the ANCYL and the Zuma supporters picked up drastically in the lead-up to the presentation of the "State Intervention in the Minerals Sector (SIMS)" document. After facing another hearing in front of the ANC's disciplinary committee, Malema rallied his supporters for what he called a march to "Economic Freedom". About 5000 supporters carrying placards reading "We Demand Nationalization" and "Expropriation of Land without Compensation" marched to the Chamber of Mines in downtown Johannesburg to present a memorandum, before heading to the Johannesburg Stock Exchange (JSE) and later to the Union Building in Pretoria to present the same memorandum. Malema addressed the crowd using slogans such as "Down with white monopoly capital" and called on the mining companies to respond to the ANCYL's demands in order "to avoid blood on the floor" (Bloomberg 2011).

The march was also a reaction to the ANC's leadership openly dismissing Malema's call for the government to take a 60% stake in the mines (The Telegraph 2011). Commentators once again saw the central conflict between Zuma and the ANCYL as a major motive for the march: "This is a lot about trying to demonstrate that they are no longer in favour of Jacob Zuma" (Bloomberg 2011).

Malema's challenge was taken very seriously, as seen in the downgrade of the Rand by Moody's soon after the march (Kahn 2013, p. 6). Only a few days after the downgrade, Malema was handed a five-year suspension from the ANC on a number of charges. The head of the ANC disciplinary panel, Cyril Ramaphosa, summarized: "Malema damaged the standing of the ANC and South Africa's international reputation" (The Guardian 2011). Malema's appeal in February of 2012 resulted in his expulsion from the ANC (a verdict that withstands all appeals). Although observers primarily



saw President Zuma eliminating his harshest critic as a way to pave the way for his re-election as the ANC's party leader and later the presidency, Malema's expulsion simultaneously removed the nationalization debate from the spotlight (CNN 2012b). Shortly after the Marikana tragedy, several attempts were made by Malema to restore his political influence and to resurrect the nationalization debate. Although the conspiracy theories suggesting that Malema contributed directly to the escalation of violence at Marikana in an attempt to advance his demand for the nationalization of mines should be dismissed, the fact remains that Malema embarked on a road show and persistently called for national strikes until his demands were met (Daily Maverick 2012).

This rhetoric rekindled the debate and increased the massive insecurity surrounding the industry's future (thereby increasing the backlash). As a consequence, all three major global rating agencies downgraded South Africa's sovereign debt rating and the credit worthiness of several major South African companies (Business Day 2012), with the international media initiating requiems for the South African economy; for example, The Economist in its piece "Sad South Africa: Cry the beloved country" (The Economist 2012). Former JSE CEO Russell Loubser summed up the feelings of the business community by stating that confidence in South Africa could not be restored with "constant, brainless talk about nationalization" (Business Day 2012). Naturally, in these turbulent times, all eyes looked to the ANC's upcoming Mangaung conference with the intention of ultimately establishing some certainty regarding the future of the South African mining industry.

The general sentiment before Mangaung was best summarized by Solomon (2013): "It seemed yet again that mineworker activism may well play a major role in the changing political economy of the country with the possibility of a socialist backlash against the Zuma government. This enhanced the possibility of radical changes being imposed on a mining industry already plagued by high costs, low productivity, and challenging markets.

It seemed almost certain that Marikana would sway the direction of Mangaung towards a more radical left that might be negatively disposed towards the current structure of the mining industry" (p. 2). Yet, the SIMS report, which was strategically presented prior to Mangaung, attracted comparably little attention but effectively concluded the question of state ownership of mines: "This route would clearly be an unmitigated economic disaster for our country and our people. This study proposes that we rather investigate the desired outcomes of state control, in terms of rent share, growth and development, and make targeted interventions to achieve such outcomes" (ANC 2012, p. 28). When President Zuma opened the Elective Conference on 16 December 2012, he wasted no time in empathically rejecting the nationalization of mines as a cure for the economy.

The debate on the mining sector rather centred on the question of how to capture a fair share of

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revenue from mining companies and, subsequently, how to deploy those sums in the long-term (Butler 2013, p.19). The re-election of Zuma at the end of the conference seemed to be the final nail in the coffin for all nationalization claims and, with it, Julius Malema (Solomon 2013, p. 2).

Although the Zuma administration has embraced the anti-nationalization stance of the Chamber of Mines and the ANC, the debate surrounding the most suitable economic policy towards the mining industry is far from over. Days after the Mangaung conference, the Cabinet passed the Mineral and Petroleum Resources Development Act (MPRDA) 2012, a law that has massive consequences for the industry. The MPRDA provides for a vast increase in the power of the Department of Mineral Resources and its current Minister Susan Shabangu. For example, the Minister can refuse applications for mining rights in the event that there is a “concentration of rights” - even after a company already holds the prospecting rights and has invested in said mine.

Furthermore, the Bill would allow the Minister to decide, at short notice, at which percentage and at what price a commodity is needed for the vaguely defined concept of “local beneficiation”. Last but not least, Section 11 of the Bill states that “any transaction relating to a part of a right” would need the consent of the Minister on its terms and conditions (Werkmans Attorneys 2013). In essence, the shares of JSE-listed companies would cease to be tradable (Mining Weekly 2013a).

In early June 2013, the 2012 MPRDA Amendment Bill was introduced to parliament. But on 7 June 2013, President Zuma and Minister Shabangu signed the 2008 MPRDA Bill into effect. This occurred despite the fact that the 2008 MPRDA Amendment Bill was considered to be superseded by the 2012 MPRDA Amendment Bill. Remarkably, vital last minute changes were made to the 2008 bill in the form of amendments, changes that were very similar to critical aspects of the 2012 amendments. One example was the exclusion of a section in the 2008 amendments version that resembled Section 11 in the 2012 version. This led to increased confusion within the mining industry. How should companies effectively comply with a new regulation, if in a few months the rules might change again? (Business Day 2013c) This persistent policy insecurity, combined with the previously discussed labour unrest, is some of the challenges facing the mining sector.

### Effects of Mining Sector Challenges on Economy and Politics

The mining sector has been and will remain the heart and nervous system of the South African economy. The ongoing Rand crisis, which was blamed on the mining industry by the National Treasury Director-General Lungisa Fuzile (SABC 2013), is a reminder that the mining sector remains key to the South African economy. Labour unrest and nationalization have taken their toll on the industry during times of a weak global economy.

The international business community has noticed those developments, as evidenced by South Africa's fall in the highly respected annual Fraser Institute Survey of Mining Companies and the Grant Thornton International Mining Report, which assess the attractiveness of the mining business by nation. South Africa was placed at 64 out of 96 entities on the Policy Potential Index, which translated into a ten spot drop from last year (The Fraser Institute, p. 14).

In the Grant Thornton report, which surveys mining executives from Australia, Canada, the United Kingdom and South Africa, 57% of South African mining executives perceived uncertainties surrounding their assets as a significant or moderate issue - compared to 44% of their colleagues globally. Moreover, 41% of South African mining executives held the opinion that bribery and corruption were major concerns in South Africa (Grant Thornton 2013, pp. 9, 13).

The current troubles facing the mining industry represent a major challenge to the economy and to popular aspirations for development. However, labour unrest and the nationalization of the mining industry are not the way forward. In contrast, excessive wage demands, brutal disputes between unions and the threat of escalating mass strikes have all effectively hurt the productivity of the sector.

Threats of nationalization have damaged the carefully built-up investor trust and have hindered the realization of necessary long-term investments. The negative effects of increased insecurity surrounding the prospects of the mining sector industry have once again resulted in the depreciation of the Rand, a phenomenon that during May and June of 2013 led to the rare occurrence of President Zuma addressing the press to underscore the importance of the stability of the mining industry in maintaining the strength of the economy (Mail & Guardian 2013b).

Mining industry issues have also had massive implications for the political power game in South Africa. The conservative and centrist wings of the ANC were able to fend off populist pressures for the wholesale nationalization of the mining sector, but have since pursued a strategy of greater state intervention in the sector.

The fault-line between the "pragmatic centre" around Jacob Zuma and the "interventionist left" which includes COSATU and the SACP may reappear during the biannual wage talks in the mining industry and beyond (Economist Intelligence Unit 2013, p. 4). The current administration is anxious to demonstrate a hands-on approach during these negotiations in order to avoid further escalations of violence that invoke the memory of the Marikana tragedy and thereby spark new frictions within the fragile Tripartite Alliance (Mail & Guardian 2013a).



Commentators predict that the centre will likely prevail. This notion is strengthened by the entrance of the highly-respected businessman Cyril Ramaphosa – who also participated in designing the well received 30-year National Development Plan - as deputy president of the ANC, and the expected return of President Zuma in the 2014 party elections (Economist Intelligence Unit 2013, pp. 7, 23-24).

Political opposition groups external to the Tripartite Alliance have also raised their voices on the matter of the mining sector. The Democratic Alliance's (DA) parliamentary leader Lindiwe Mazibuko openly demanded that changes to the current "labour relations framework" in the mining sector should be made and urged the cabinet not to approve the MPRDA Amendment Bill as it "will kill investment in the mining sector" (Mazibuko 2013). The third largest political party, the Congress of the People (COPE), has also strongly criticized the ANC's mining sector policy. During the budget vote of the Department of Mineral Resources, COPE Member of Parliament Deirdre Carter concluded: "Hon. Minister, Government must realize that although they may wish to place all the blame in the Mining Sector on business, including the crisis of the unsteady Rand and high petrol prices, the buck actually stops with Government" (Carter 2013).

Dr Mamphela Ramphele, a well-respected anti-apartheid veteran, academic and businesswoman - who registered her political movement 'Agang' as a political party this year - has wasted no time in taking a position on the question of appropriate policy for the mining sector. During the 2013 Mining Indaba, Ramphele stated that it was no business of the government to follow the transactions of shares and that it should rather remain focused on the burning issues of worker wellbeing and housing (Business Day 2013a).

Although the DA is not likely to defeat the ANC at the polls in 2014 (Future Directions International 2013; Economist Intelligence Unit 2013, p.22), it is important that the opposition present alternatives for the mining sector in order to foster a constructive debate, and thereby help to deliver better policy-making.

Finally, although South Africa has sought to position itself as the gateway into Africa, its international reputation is being steadily eroded because of mining sector issues. The nation has arrived at a pivotal moment (Ernst & Young 2013b, p. 11).

## **Conclusion: Mining Industry at a Crossroads**



The South African mining industry stands at a crossroads; and any erroneous decisions that are made will have an impact on the entire nation's economy.

Besides the peaceful resolution of the current labour dispute, a definitive no-vote against wholesale nationalization and a fast rejection of the interventionist empowerment of the Department of Mineral Resources, decisive and transparent policies are needed. Capital will always remain global and flee to where the grass is greener; thus, policy that affects capital is harmful. Rather, boosting the downstream sector and strengthening ties to the emerging mining countries in Sub-Saharan Africa is a promising path as current research by Morris et al. (2013) already indicates.

Finally, while it is up to politicians to make informed decisions regarding the highly volatile mining sector, a critical public debate is vital in informing and thereby contributing to the decision making process of policy formulation.

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***Disclaimer:***

The views and opinions expressed by the author do not necessarily represent those of the Hanns Seidel Foundation

## List of Abbreviations

AMCU	Association of Mineworkers and Construction Union
Amplats	Anglo American Platinum Limited
ANC	African National Congress
ANCYL	African National Congress Youth League
BEE	Black Economic Empowerment
CM	Chamber of Mines
COSATU	Congress of South African Trade Unions
DA	Democratic Alliance
GDP	Gross Domestic Product
IMC	Inter-Ministerial Committee
JSE	Johannesburg Stock Exchange
M&A	Mergers and Acquisitions
MPRDA	Mineral and Petroleum Resources Development Act
NUM	National Union of Mineworkers
NUMSA	National Union of Metalworkers of South Africa
PGMs	Platinum Group Metals
SACP	South African Communist Party
SIMS	State Intervention in the Minerals Sector
YCL	Young Communist League

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