CHAPTER FIVE

# A NEW MINING INDUSTRY: OPPORTUNITIES AND CONSTRAINTS

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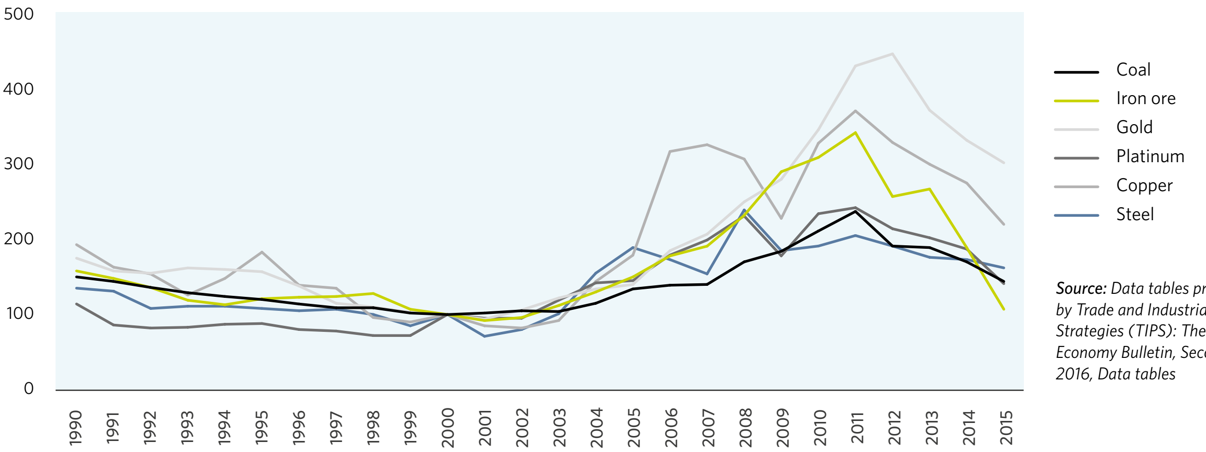
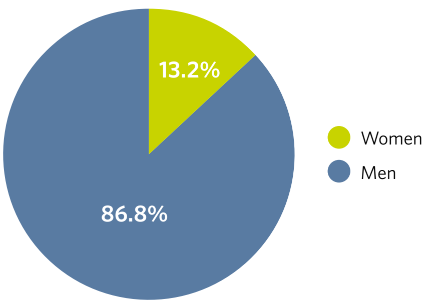
The mining sector, one of South Africa's largest sectors in terms of contribution to GDP (7.9 per cent in 2015/16) and one of the largest mineral producers in the world, has since 2011 been faced by a global downturn in demand for commodities, from which it has only recently begun recovering. The sector's growth in real production, however, has still outpaced its growth in employment. With 86.8 per cent of employees being male, it is also very much a male-dominated sector.

**Commodity prices** (2000 constant US$)



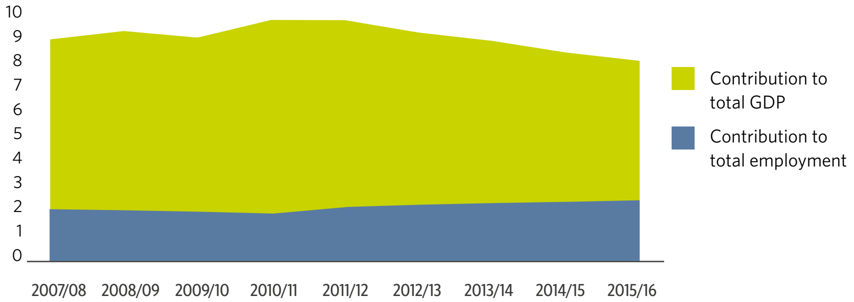

*Source:* *Data tables provided by Trade and Industrial Policy Strategies (TIPS): The Real Economy Bulletin, Second Quarter 2016, Data tables*

**Employment by gender** (percentage)



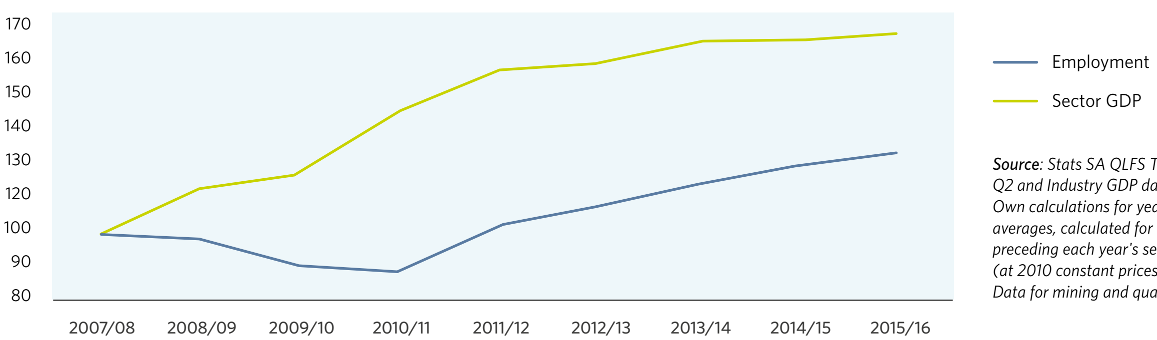

*Source:* *Stats SA QLFS data, 2008–2016 Q2*
*8-year average from 2008 Q2 to 2016 Q2*
*Data for agriculture, forestry and fisheries combined*

**Mining contribution to total employment and total GDP, 2007–2016** (percentage)




*Source:* *Stats SA QLFS Trends 2008–2016 Q2 and Industry GDP data 1993 to present*
*Own calculations for year-on-year averages, calculated for the four quarters preceding each year's second quarter (at current prices)*
*Data for mining and quarrying combined*

**Mining employment and GDP index, 2007–2016** (percentage 2007/2008=100)




*Source:* *Stats SA QLFS Trends 2008–2016 Q2 and Industry GDP data 1993 to present*
*Own calculations for year-on-year averages, calculated for the four quarters preceding each year's second quarter (at 2010 constant prices)*
*Data for mining and quarrying combined*

# SOUTH AFRICA'S MAIN CONTRIBUTION TO GLOBAL MINERAL PRODUCTION, 2014

*Percentage of global contribution and ranking*

78 Pt — 1st — 51% Platinum

24 Cr — 1st — 47% Chromium

25 Mn — 2nd — 25% Manganese

23 V — 3rd — 15% Vanadium

6 C — 7th — 6% Carbon

79 Au — 6th — 5% Gold

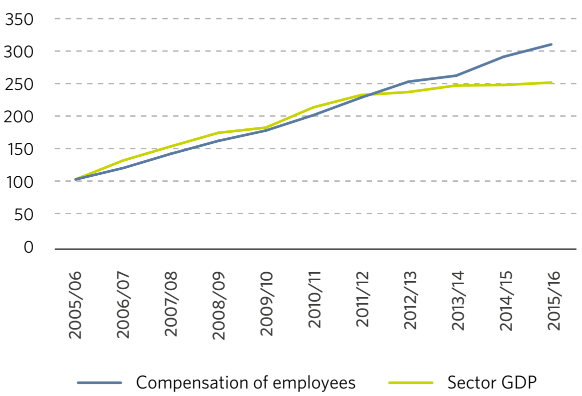
7th — 3% Coal

26 Fe — 6th — 2% Iron

**Source:** *British Geological Survey, World Mineral Producation Report 2010–2014*

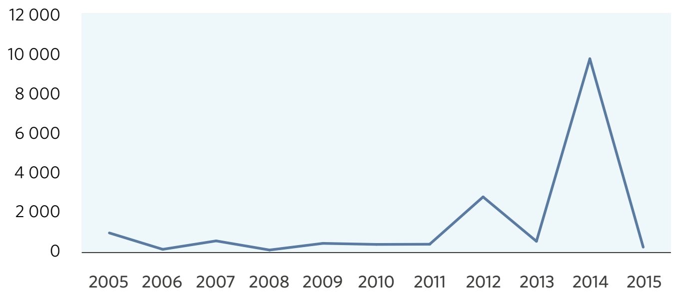
Contributing 39 per cent of all labour strikes over the period 2005–2015, the sector has been a constant labour relations boiling point. In 2014 alone, the sector saw more than 9.6 million working days lost due to strike action. However, the real average wages in the sector have seen significant improvement since 2014, and growth rates for the total compensation for employees have even outpaced the real growth rate in sector GDP. Investment in the sector has not yet recovered to the record high levels of 2008/09.

**Mining compensation and GDP growth index** (percentage)



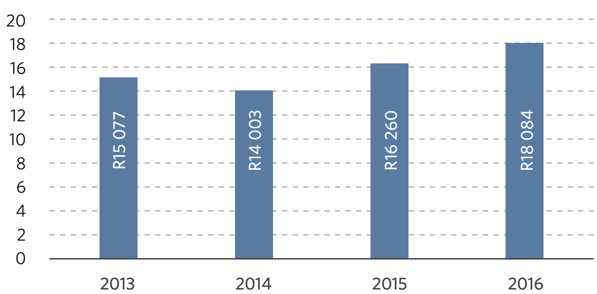

***Source:*** *Stats SA Industry GDP data, 1993 to present*
*Own calculations for year-on-year averages, calculated for the four quarters preceding each year's second quarter (at current prices). Data for mining and quarrying combined*

**Mining sector working days lost to strike action, 2005–2015** (R'000)



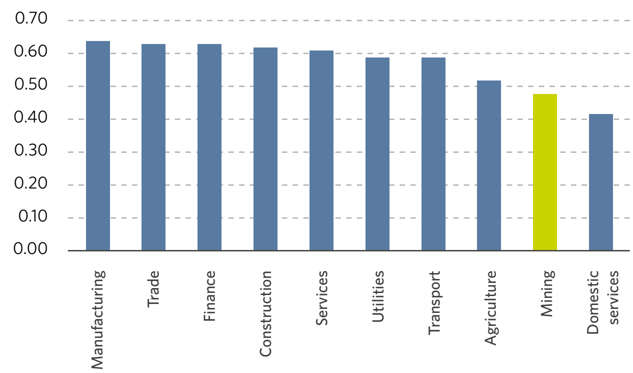

***Source:*** *Department of Labour, Annual Industrial Action Reports: 2005–2015*

**Mining average monthly earnings** (R'000)



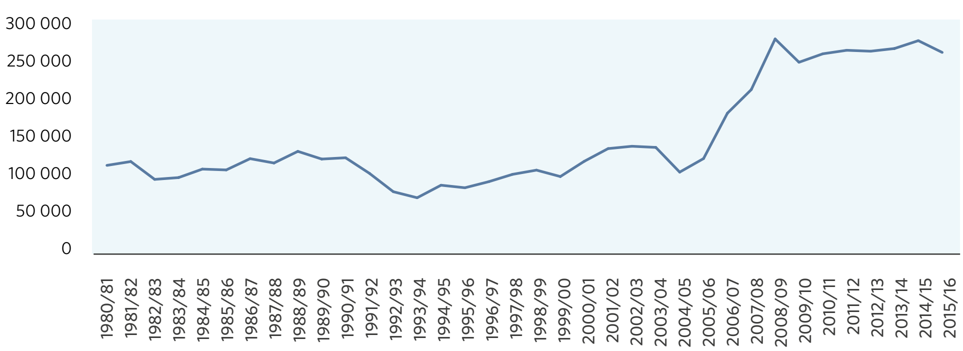

*At 2010 constant prices, calculated for the month of May of each year*
*Stats SA statistical release P0277: QES June 2015 and June 2016*
*Data for mining and quarrying combined*

**Wage inequality per industry by Gini coefficient, 2014**




***Source:*** *Finn, A. (2015) A National Minimum Wage in the context of the South African Labour Market. National Minimun Wage Research Initiative Working Paper No 1. University of Witwaterrand. The Gini coefficient measures wage inequality, with 0 being completely equal and 1 completely unequal. As it measures wages, the inequality between employers and employees is not captured in this graph, but only the wage inequality between the various levels of employees in the sector.*

**Gross fixed capital formation (investment) in mining, 1980–2016** (R'000)




***Source:*** *SA Reserve Bank*
*Data for mining and quarrying combined*
*Constant 2010 prices. Seasonally adjusted at annual rate*

# 5/ KEY INSIGHTS

- Despite its potential to transform the future of the economy, the mining industry's dark history of injustice towards black workers cannot be overlooked.
- Whereas other sectors voluntarily initiated their own sector empowerment charters, the mining sector failed to develop one.
- Despite commitment by the democratic government to equity and redress, the patterns of accumulation and social relations in the mining industry have not changed substantially for the vast majority of mineworkers.
- The mines and their operations are islands in a sea of poverty, where communities live in squalor and suffer from environmental pollution and water shortages as a result of the mining operations.
- In the context of stagnant or volatile global demand for raw materials, mining companies' share performance is especially susceptible to fluctuations in commodity prices and political risk perceptions.
- Many of those who presided over policy setting and regulation of the industry lacked experience, and, at times, the government has preferred ideological hostility to pragmatic engagement and long-term thinking.
- The mining industry is critical because of its forward and backward linkages with manufacturing and tertiary sectors of the economy.
- Politically, international relations may be in for major readjustment, with the USA under Donald Trump, and growing nationalism, exemplified most strongly by the UK's Brexit vote, is likely to reset the tone of domestic politics and economic policies in Europe.

*The national wealth of our country, the heritage of South Africans, shall be restored to the people. The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole. All other industry and trade shall be controlled to assist the wellbeing of the people. All people shall have equal rights to trade where they choose, to manufacture and to enter all trades, crafts and professions*. The Freedom Charter (1955)

## Introduction

In 2015, the mining industry contributed about 7 per cent to South Africa's gross domestic product, and accounted for about 25 per cent of its exports. Unlike the manufacturing sector, most of its operations are broadly distributed, creating jobs and adding value to poor provinces and many small towns. Historically, the industry has been a major source of foreign direct investment, contributing 15 per cent in 2015, of which 20 per cent came from private investors. In the same year, it accounted for 1.4 million direct jobs (CMSA 2016).

While its contribution to the economy may have diminished over the years, it still has the potential to be a major catalyst for inclusive economic growth. In this regard, it has been argued that more than half of the priorities of the National Development Plan (NDP) could be tackled by the mining industry (CMSA 2016). These include:

- the economy and employment;
- economic infrastructure – the foundation of social and economic development;
- environmental sustainability – an equitable transition to a low-carbon economy;
- an integrated and inclusive rural economy;
- positioning South Africa in the world;
- transforming human settlements;
- improving education, training and innovation; and
- promoting health.

However, despite its potential to transform the future of the economy, the mining industry's dark history of injustice towards black workers cannot be overlooked. Rooted in colonial and apartheid exploitation, this stubborn legacy continues to manifest itself, as inhabitants of land endowed with mineral riches hardly share in the proceeds of mining. They are often powerless to negotiate equitable deals with mining companies, making the creed of the *Freedom Charter* that all shall share in the country's wealth a distant dream.

One of the post-apartheid developments that sparked hope for many South Africans, and which depended on the mining sector, was the passing of the Mineral and Petroleum Resources Development Act 28 of 2002, which came into force in 2004. Its adoption meant that custodianship of mineral resources would henceforth reside with the South African government. It was envisioned that this would allow the state to play a key role in guiding the direction of growth and development, through a new licensing regime and by ensuring a business climate conducive to trading.

This transformative potential has never fully been realised, and most mining communities continue to exist in conditions of social and material deprivation. A glance at the birthplace of mining in South Africa, Kimberley in the Northern Cape province, is dispiriting. Despite the fact that the discovery of diamonds there opened up the pathway for mining development in South Africa, providing mining magnates with the finance and leverage required to unleash gold mining in Johannesburg, Kimberley remains economically marginalised. According to Stats SA (2015), the Northern Cape has a youth unemployment rate averaging above 40 per cent. Similar observations can be made in respect of the North West province and its mineral wealth.

Instead of generating prosperity, mining has intensified uneven patterns of development and inequality. Nowhere has this been more glaringly highlighted than in the Marikana Massacre (and the events leading up to it) in the North West in August 2012. This tragic event shed light on the living conditions of mining communities, and made it quite clear that not enough has been done to change patterns of economic growth and development in South Africa.

This paper, firstly, provides a historical background and a review of the Constitution and other laws that have impacted on the industry since 1994. It, secondly, provides an institutional review to lay a foundation for a discussion on the developments that led to the Marikana Massacre. Thirdly, the paper looks at global trends in mining, and the impact of the Chinese economic slowdown on the industry. Fourthly, the paper critically reviews the mining Operation Phakisa, and looks at how a different mining industry, founded on partnerships involving a wide range of stakeholders and interests, including the community, state, business, workers, customers, suppliers, the environment and sustainability, might be created. It concludes by re-emphasising the importance of the sector and its prospects in the light of such partnerships.

## Background

### *The ANC's developmental framework*

Unlike the Afrikaners who pursued a mixed approach to development, which combined the creation of powerful state enterprises that supported fledgling private concerns to uplift poor Afrikaners, the ANC in the transition period between 1990 and 1994 favoured a more concerted state-led approach to development. This was informed by the nature of the 1994 political settlement, which explicitly prioritised the protection of both individual and property rights. The ANC-led government, moreover, inherited a weak balance sheet, which limited its ability to achieve redress. As a result, it abandoned programmes such as the Reconstruction and Development Programme (RDP), which focused on addressing issues like shelter, poverty and inequality, in favour of the more open, business-friendly approach of the Growth, Employment and Redistribution (GEAR) policy (see Habib 2013; Marais 2011; Desai 2002; Bond 2000).

This policy shift by the ANC relied heavily on the assumption that white big business would invest in the economy to generate profits for its shareholders, and create employment for workers, with both paying taxes to the government. For its part, the state committed itself to creating an enabling environment for business and the privatisation of key assets to bolster its finances and strengthen competition, particularly through foreign direct investment. These interests were embodied in the GEAR macroeconomic strategy, for which the ANC-led government was heavily criticised by its communist, labour and community-based allies.

In subsequent years, the ANC used its political clout to pass a myriad of laws to promote black advancement and redress in the economy. Section 9 of the South African Constitution provides for special measures to promote equality and to redress disadvantages deriving from past unfair discrimination. This foundation for affirmative action (one of the measures to promote redress) is explicitly contingent on the persistence of disadvantage due to unfair discrimination. Legislation such as the Employment Equity Act 55 of 1998 and the Broad-based Black Economic Empowerment Act 53 of 2003 provide in greater detail (e.g. both codified a scoring system to quantify empowerment) for the achievement of the values enshrined in Section 9.

Unfortunately, the expected rates of investment by white business in the economy never materialised, and the complexion of ownership hardly changed. In the first democratic presidential transition, from Mandela to Mbeki, the seeds for more urgent, legislated means of empowerment were planted. Whereas other sectors voluntarily initiated their own sector empowerment charters, the mining sector failed to develop one, which is still a source of consternation between the government and business. With the leadership of the then Minister of Minerals and Energy Phumzile Mlambo-Ngcuka, the state intervened by passing the Mineral and Petroleum Resources Development Act 28 of 2002 (MPRDA). The legislation roused substantial objection, with white business terming it 'nationalisation through the back door', while many black role-players felt that the measures were merely cosmetic.

The MPRDA sought to facilitate the meaningful participation of historically disadvantaged South Africans (HDSAs) in the minerals and mining industry. Section 100(2)(a) of the MPRDA, in particular, laid the foundation for the creation of a Mining Charter as an instrument of transformation. However, amendments to the MPRDA have been in the works for almost two years, creating a great deal of uncertainty in the sector.

## Shaking the world

Despite commitment by the democratic government to equity and redress, the patterns of accumulation and social relations in the mining industry have not changed substantially for the vast majority of mineworkers. The migrant labour system, black cheap labour and the compound system continue to exist. The changes that have occurred are in the realm of black ownership, particularly in listed companies, led by an elite, arguably with no organic links to where the mines are located. Moreover, there is very little, if any, participation by the communities who own the land. The mines and their operations are islands in a sea of poverty, where communities live in squalor and suffer from environmental pollution and water shortages as a result of the mining operations.

However, in line with the MPRDA, some companies have accommodated workers by way of Employee Share Ownership Schemes (ESOPS). Compliance with the MPRDA's 26 per cent shareholding requirement has been varied. ESOPS have attempted to align the interests of employees with those of employers and shareholders, by allowing employees to share in the company's growth through (share) capital appreciation. However, share appreciation is not driven only by efficiencies brought about by high levels of productivity as workers seek to maximise returns on their equity investment, but also by the demand for the commodity.

To date, the most successful example of this is the Kumba Iron Ore Envision ESOPS, which transferred about 3 per cent of Kumba's equity to more than 6 000 non-management employees in 2006. Five years later, on the back of increased production and high share prices, the ESOPS yielded R2.6 billion to its beneficiaries, each of whom received more than R500 000 in pre-tax dividend pay-outs (Sogoni 2016).

In another instance, more than 9 600 below-management employees of Exxaro each received a dividend of R135 000 at the end of the five-year vesting period in 2011 (Sogoni 2016).

Unfortunately, successes of the likes of Kumba, Exxaro and Sasol run counter to a more discouraging pattern of underperforming ESOPS. In the context of stagnant or volatile global demand for raw materials, mining companies' share performance is especially susceptible to fluctuations in commodity prices and political risk perceptions. The problem lies with the debt-based equity-funding model underpinning most ESOPS. In these transactions, low-interest debt is used to purchase the ESOPS' stake in the company. This means that the ESOPS' equity structure consists of a combination of unencumbered (free) and encumbered (loan) shares (Segoni 2016).

Often, the loan shares constitute the largest proportion of equity held in ESOPS' trusts, and the loan is expected to be repaid from dividend returns. Although no capital injection is required from beneficiaries, the compromise is that they can derive the full value of share ownership only once the debt tied to encumbered shares is fully repaid. The risk lies in the fact that ESOPS depend 'on rising commodity prices to result in value-creation for beneficiaries', as the Chamber of Mines concedes (Segoni 2016).

In many democratic regimes, these challenges would have fostered a culture of partnership among various stakeholders to tackle them. However, in South Africa, it has led to antagonism, finger-pointing and paralysis. On the one hand, the mineowners are calling for certainty in the mining law; on the other hand, workers and communities are demanding higher percentages in the ESOPS. The government would like to see the industry deracialised and, as such, wants to pass amendments to the existing legislation.

Various scholars have argued that the elitist nature of the political settlement has shaped these realities, suggesting that the ANC had choices but took the easiest path to appease business (see Habib 2013; Marais 2011; Desai 2002; Bond 2000). Sampie Terreblanche (2002) probably articulated this sentiment most strongly, writing that the ANC caved in at their discussions with business about the economy for a democratic South Africa hosted by the Oppenheimer-funded Brenthurst Foundation in Johannesburg, bending to the interests of capital, with their consciences softened by the lunches offered by their hosts.

### *Strained relations among key stakeholders*

Despite their close relationship, the members of the Chamber of Mines and the National Union of Mineworkers (NUM) have made little headway in addressing the historical legacies in the industry. Some contend that the NUM has become too embedded within the capitalist system and has lost the autonomy necessary to represent workers effectively (Evans 1995). Even at the height of the commodity cycle, between 2001 and 2007, where the mining corporates were returning capital to shareholders, very little was done to improve the living conditions of the workers and the communities within which they lived. Instead, mining companies repeated the refrain that they contributed significantly to direct and indirect employment, generated large foreign exchange earnings and added to tax revenues by way of corporate tax and royalties. These are, however, basic social returns expected of any corporate citizen. Given the privileged position of the industry in South Africa, and the historical injustices it has wrought in the past, much more should be expected. Instead, captains of industry have a siege mentality, failing to explore innovative approaches to the

CAPTAINS OF INDUSTRY HAVE A SIEGE MENTALITY, FAILING TO EXPLORE INNOVATIVE APPROACHES TO THE CREATION OF SHARED PROSPERITY.

creation of shared prosperity, while viewing the government as intent on frustrating their interests. This is not to suggest that the state is beyond reproach. Politicians have not made the effort to understand the industry, its nuances and the challenges it faces, especially when dealing with tough external conditions. Ministers have been changed with regularity. Many of those who presided over policy setting and regulation of the industry lacked experience, and, at times, the government has preferred ideological hostility to pragmatic engagement and long-term thinking.

The relationship between the state and business between 2001 and 2007 remained strained as a result of mistrust, particularly in the period leading up to the adoption of the Mining Charter, when a leak relating to drastic industry changes, which included the suggestion that control of all new mining projects would have to rest with black business within ten years, scared off investors. On the side of industry, proposals that the government should invest in infrastructure in both the Sishen-Saldanha iron ore railway network and the Mpumalanga-Richards Bay coal network were rejected by the state-owned company Transnet. As a result of these tussles, underpinned by a lack of trust between stakeholders, South Africa incurred a huge opportunity cost, since output, employment and investment did not grow at the same pace as those of its peers at the height of the commodity cycle.

When the commodity cycle began to swing downward after the global economic and financial crisis of 2008, the distance between workers in the mines and union officials widened, as did the relationship between the state and business under the leadership of Minister of Mineral Resources Susan Shabangu. This was exacerbated by the Sishen Iron Ore debacle when an unknown entity, Imperial Crown Trading, was awarded the prospecting rights on an operational mine owned by Kumba. Business questioned the efficiency and the transparency of the processes involved in awarding prospecting and mining rights by the Department of Mineral Resources. Then, there were calls by the Department of Mineral Resources to amend the MPRDA because many companies were perceived to be non-compliant as a result of the collapse of black economic empowerment (BEE) partners due to the global crisis.

The South African mining industry presented a united response to the global economic and financial crisis by forming the Mineral Industry Growth, Development and

Employment Task Team (MIGDETT). In June 2010, the stakeholders represented in MIGDETT, including the Department of Mineral Resources, the Chamber of Mines, the South African Mining Development Association, NUM, the United Association of South Africa and Solidarity, reaffirmed their commitment by signing the 'Declaration on the Strategy for the Sustainable Growth and Meaningful Transformation of South Africa's Mining Industry'. The Declaration formed the basis for the Mining Charter review and amendment. The amended Charter was published in September 2010.

### *The external environment and social challenges in the mining sector*

The global economic and financial crisis led to retrenchments as companies cut costs to compensate for falling commodity prices. Having witnessed how supernormal profits were distributed to shareholders and senior managers, while their salaries were merely adjusted for inflation, and having seen how some of their counterparts in the iron ore sector had participated in the sharing of the supernormal profits, workers in the platinum sector started to turn their backs on NUM. This disenchantment with the NUM leadership, whom many believed had got too cosy with employers, resulted in the emergence of the Association of Mineworkers and Construction Union (AMCU). AMCU grew rapidly, and its mobilisation led to the 2012 strike for better wages in the 'Platinum Belt' of the North West province.

Miners rallied around the call for a minimum wage of R12 500, which amounted to an increase of R8 000 for a mineworker earning R4 500, the lowest on the income spectrum, and an increase of R4 500 for a mineworker earning R8 000, the highest on the income spectrum. This translated into wage increases of 178 per cent and 56 per cent for the lowest and highest earners, respectively (Potenza n.d.).

In the context of mistrust between the industry and the state, the unions and employers, and the workers and their unions, the situation started to resemble a Molotov cocktail that was ready to explode. After a series of violent confrontations between striking platinum mineworkers and the South African Police Service at the Marikana Mine in the North West province, police shot and killed 34 miners on 16 August 2012. Including the deaths in the days that led up to the massacre, the total number of fatalities was 44 (Setou 2015).

This represented the bloodiest suppression of protest since the end of apartheid. In its immediate wake, the gravity of the events brought together several mining stakeholders, including the unions, the communities, corporates and the Chamber of Mines. The mistrust between AMCU and the ANC government, particularly its alliance with the COSATU affiliate, NUM, and Deputy President Cyril Ramaphosa's involvement, made it very difficult for the government. The presence of both the United Democratic Movement (UDM) and the Economic Freedom Fighters (EFF) on the ground, side by side with communities, made Marikana a no-go zone for the government. It is in that respect that the government was conspicuous in its absence. The deputy president, then a director of Lonmin, which owned the Marikana Mine, was alleged to have precipitated the police action when he called for more forceful action to end the strike. However, the Farlam Commission of Inquiry, which was appointed by President Zuma to investigate the incident, did not find any wrongdoing on the part of the deputy president.

The strike resumed in the first five months of 2014 and saw 70 000 mineworkers from major platinum producers such as Impala Platinum, Anglo American Platinum and Lonmin Platinum Mines, based in the North West province town of Rustenburg, down tools. These mineworkers belonged to AMCU, under the leadership of Joseph Mathunjwa (Setou 2015). The affected mines lost around 40 per cent of platinum production as a result of the strike and the subsequent shutdown. The strike took around 440 000 ounces of platinum out of production, and the three companies mentioned above suffered a total revenue loss of about R24.1 billion, with a further R10.6 billion being lost in wages.

The strike had a profound impact on the livelihoods of workers. During these five months, mineworkers' dependence on credit increased and they were forced to borrow for basic necessities, which had severe implications for their personal debt situation. It was estimated, furthermore, that miners lost, on average, around 45 per cent of their annual income, which would take roughly 2.5 years to recoup through the negotiated wage increase (Setou 2015).

In May 2014, the newly appointed Minister of Mineral Resources Ngoako Ramatlhodi appointed a task team to revive negotiations in search of an amicable solution. On 7 June 2014, Ramatlhodi announced that he would pull out of negotiations if a deal was not reached by

**Box 1: Backward linkages**

*Backward linkages (suppliers of goods and services)*

- machinery and equipment
- transport equipment
- wood products
- fabricated metal products
- non-metallic minerals
- chemicals and petroleum
- electricity
- water
- transport services
- construction and civil engineering
- finance and business services

**Box 2: Forward linkages**

*Forward linkages (consumers of mineral products)*

- basic metals
- motor vehicles and components
- chemicals
- petroleum refineries
- electricity
- construction and civil engineering

9 June 2014. In June 2014, AMCU argued for a fixed wage increase over four years to meet the R12 500 goal by 2017. On 24 June 2014, the deal was officially signed and workers started to return to work on 25 June 2014. AMCU announced that it would continue to agitate for an increase in the minimum wage to R12 500 by 2017. By the time a deal was reached, the strike had become the longest and most costly in South African history.

In 2015, an initiative aimed at stimulating growth in the mining sector under President Jacob Zuma, was launched by Ngoako Ramatlhodi. There had been other initiatives aimed at bringing stakeholders together to work for the development and competitiveness of the sector in the MIGDETT, but the MIGDETT stakeholders were not of the same mind on the principles applicable to assessing the ownership element in terms of the amended MPRDA. In an attempt to promote regulatory certainty, Ramatlhodi agreed in 2015 to approach the courts for a declaratory order as to the correct interpretation. However, he could not conclude the legal process because President Zuma replaced him as minister of mineral resources with Mosebenzi Zwane in September 2015. This move, again, added a disruptive dimension of uncertainty to a very volatile sector.

## The current state of play

The mining industry is critical because of its forward and backward linkages with manufacturing and tertiary sectors of the economy. More than 80 per cent of overall spending by the mining industry on its input requirements is sourced from domestic suppliers of goods and services. The mining industry spend in the local economy (backward linkages) and supply to other sectors (forward linkages) is depicted in Box 1 and Box 2. These are not necessarily exhaustive but are presented as indicative of the critical nature of the industry and its multiplier effects.

In 2015 the mining industry contributed about 7 per cent to the GDP. It is also a critical contributor to South Africa's balance of payments, accounting for about 25 per cent of its exports. Unlike manufacturing, most of its operations are distributed provincially, creating jobs and adding value to less-developed provinces. Table 5.1 shows the mining industry's contribution to the GDP and employment of selected provinces in 2012.

**Table 5.1: Mining's contribution to GDP and employment by selected provinces, 2012**

| Province | GDP | Employment |
|---|---|---|
| Limpopo | 29.4% | 12.9% |
| Mpumalanga | 24.9% | 11.3% |
| North West | 33.6% | 28.7% |
| Northern Cape | 26.7% | 10.5% |

*Source: IDC (2013)*

In June 2016, PricewaterhouseCoopers (PwC) released its annual publication *Mine*, which focuses on the Top 40 global mining companies by market capitalisation. These companies represent about 80 per cent of global mining production, and compare favourably with the JSE-listed mining companies with a market capitalisation of more than R200m. PwC (2016) shows that the Top 40 global mining companies by market capitalisation incurred a collective loss of about US$27 billion in 2015. Their market capitalisation declined by 37 per cent and in certain cases fell below book value. Of all the listed companies, the Top 40 global mining companies had the lowest return on capital employed and were heavily indebted. In this adverse environment, mining companies have been focusing on cost cutting, productivity improvements, and capital discipline and adjustments.

With the exception of gold, the rand price of export commodities also dropped significantly in South Africa (see IMF 2016). However, there has been a recent resurgence in the price of some export commodities, such as iron ore and manganese, but questions remain about the sustainability of this revival. The sharp rise in domestic costs is of concern for the South African mining industry. Electricity prices, for example, have trebled since 2009, wages have increased, and the cost of stores and materials have also gone up by more than 10 per cent. These cost increases have not been matched by productivity gains. In the platinum-group metals (PGM) sector, for example, platinum output per worker declined by 49 per cent, whereas real labour costs per kilogram increased by more than 309 per cent between 1999 and 2014. Gold, a typical investor resort in volatile periods, remains resilient in the face of continuing global economic and political uncertainty. Projections for global economic growth are subdued. Emerging economies have lost their lustre, with China, in particular, having to adjust to its 'new normal' of more modest growth. Politically, international relations may be in for major readjustment, with the USA under Donald Trump, and growing nationalism, exemplified most strongly by the UK's Brexit vote, is likely to reset the tone of domestic politics and economic policies in Europe.

In 2015, mining continued to be an industry in decline, with an aggregate net loss of R37 billion, compared to the R10 billion loss in 2014 (see IMF 2016). Several companies are battling to stay afloat in the current crisis, inevitably leading to retrenchments. Employment in mining has plummeted, with approximately 59 407 jobs lost between January 2012 and December 2015. The multiplier effect of these losses indicates 180 000 jobs being lost in other sectors linked to mining. This requires urgent attention, and new approaches to doing business in the sector. The Mining Operations Phakisa was launched to address the challenges faced by the sector, which relate to social inclusion, efficiency and competitiveness in the face of falling commodity prices.

While there was a slight recovery in the sector toward the latter part of 2016, views on the sustainability of coal, iron ore and manganese prices are divergent.

## A new mining industry

The mining Operation Phakisa has managed to draw together all stakeholders with a vested interest in the mining industry. This joint platform has provided the opportunity for a process that led to the development of an action plan for growth and transformation, which encourages investment. The industry agreed on a 20-year plan to modernise, localise the sourcing of machines and mechanisation to reduce fatalities and improve productivity. It is envisaged that the sector could add 10 per cent to its contribution to GDP, while creating jobs and wealth at the same time. Tax revenue could also grow as a result of increased investment and productivity.

However, the mining Operation Phakisa recommendations, scheduled for presentation to Parliament in February 2016, were scuttled, as were the proposed amendments to the MPRDA. These amendments are based on a self-assessment report of 29 March 2015 conducted by the Department of Mineral Resources without the industry's participation, and sought to do away with the principle of 'once empowered, always empowered' by forcing companies to go through the process of selecting BEE partners again should they not have the required 26 per cent broad-based black

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> THE CHALLENGES IN THE MINING SECTOR HAVE ALSO BEEN EXACERBATED BY THE REVELATIONS IN THE PUBLIC PROTECTOR'S *STATE OF CAPTURE* REPORT.

shareholding, rather than dealing with the immediate challenges facing the industry. In terms of the assessment, the following has been achieved:

- *Housing and living conditions* – Only 63% of mining right-holders with hostels have converted the hostels into family and/or single units. The drive to improve the living standards of mineworkers has not fully been realised. More needs to be done to address the broader objective of ensuring that mineworkers live in decent accommodation.
- *Employment equity* – the percentages of right-holders that met the 40% target for each category are:
  - top management (Board) – 73%
  - senior management (EXCO) – 50%
  - middle management – 56%
  - junior management – 68%
  - core and critical skills – 79%
- *Procurement and enterprise development*:
  - 42% met the target of procuring capital goods from HDSAs.
  - 33% met the target of procuring services from HDSAs.
  - 62% met the target of procuring consumables from HDSAs.
- *Human resources development*:
  - 36.8% of companies have spent the targeted 5% of total annual payroll on training.
- *Mine community development*:
  - 47% of mine community development projects are between 75% and 100% completed.
- *Sustainable development:*
  - As a whole, the performance on sustainable development has not met expectations.

The Chamber of Mines, through its president Mike Teke, has been engaging the government on the potential damage the amendment to the MPRDA, should they be passed, could inflict on the industry. This uncertainty has had a negative impact on the industry, particularly in attracting foreign direct investment, based on the existing shareholder base, which is pivotal as the industry mechanises. The goals of the NDP are being shifted, making it difficult to revive the industry and create employment. The challenges in the mining sector have also been exacerbated by the revelations in the Public Protector's *State of Capture* report, particularly as it relates to the alleged role of the minister of mineral resources role in the acquisition of a Glencore mine by Tegeta, a company owned by the Gupta family, with whom he is alleged to have close fraternal and business relations, and which subsequently won an Eskom tender to deliver coal to one of its power stations (Public Protector 2016).

Despite the acrimonious relationship between the government and the mining industry, the industry is functioning in the spirit of the mining Operation Phakisa. State-supported bodies, such as Mintek, academic institutions and original equipment manufacturers also are forging ahead with research and development relating to the localisation of manufacturing.

## Conclusion

The mining industry is pivotal in the South African economy. It creates jobs, through its forward and backward linkages, pays taxes and contributes about 25 per cent to the country's balance of payments. The industry can do much more than every big company does in the course of generating profitability – providing employment, contributing to GDP and paying taxes. It can be a force for substantive and long-lasting social change. To this end, it needs to imagine a different future for South Africa, to rethink its own position in the broader social structure, to engage honestly with stakeholders (including the government, workers and communities) and to provide solutions for driving the progress that would lead to shared prosperity. For as long as it remains inward-looking and perceives itself to be under siege, it will not have the creativity and goodwill required to produce long-term structural change.

The president wants fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy. Communities are longing for their land (The Presidency 2017). Mining companies want to get on with it and do what they know best. Given these different policy positions, a new political settlement is required for a new mining industry. Former Deputy Finance Minister Mcebisi Jonas has made the call for such a change. According to him, a critical mass in society – emanating from within the state, the higher education sector, the business sector (established and new), labour and civil society, including the media – must be mobilised to support policy choices that can rapidly transition the economy out of its low-growth and high-inequality trajectory (Jonas 2017).

South Africa needs a new economic consensus, as espoused by Jonas, but, without strong leadership among all formations, it might not happen. It remains to be seen which political and social formations will gather at the negotiating table. Tougher economic times and an even weaker ANC government may be just what it takes to get the 'new deal' on the go (Mondi 2017).

In the absence of a new deal, the industry – in partnership with the state, labour, communities and business, original equipment suppliers and customers – has an important role to play in the forward planning for a more inclusive economy. For example, through the Mining Phakisa, the old Chamber of Mines Research Organisation initiative to develop hydraulic technologies has been restarted in less than six months. Other initiatives are underway and, perhaps, when the new deal is tabled and the minister of mineral resources plays his/her proper role as a partner to the industry, the mining sector will change as envisaged by all stakeholders.

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