



The South African mining industry: An overview

by J.J. Geldenhuys*

Premier of the North-West Province, Mr Molefe, foreign dignitaries and guests, ladies and gentlemen.

It is a pleasure and also a special honour for me to have been invited here this morning to make this address. The XV Congress of the Council of Mining and Metallurgical Institutions is, by its very nature, an extremely important event for the international minerals industry. But I believe that this specific Congress assumes an even greater significance because of the profound and far-reaching changes that have taken place in South Africa this year. These are exhilarating times, a period when so much in our country has altered and when so much has to be done so quickly to build positively on our bold political decisions.

Your Congress is taking place at the start of this critical building phase for South Africa, a phase which the mining industry is determined to contribute to in no small measure. And so it is a special honour for me to make this address at such a vital time for the country and its mining interests.

For more than a century now the mining industry has been the foundation of the South African economy. Today, the industry remains robust, energetic, more innovative than ever, and still possessed of the capacity to be a reliable economic generator for this country and the region as a whole.

Mining in this country is already ensconced in some of the challenges of our new era. South Africa's mining houses, which for so long have been at the forefront of progress in mineral extraction, are researching new methods of enhancing production. They have already achieved technical breakthroughs to improve the safety of workers and, on a broader front, they are working on strategies to compete aggressively with growing international competition.

I am pleased to report to you this morning, that, after a long drought our gold mining sector is buoyant and showing improving health. On an annualised basis, working profit per kilogram of gold improved by 52,5 per cent last year. And, for the first six months of this year, working profits per kilogram rose another 16,2 per cent on the same period last year. This improvement has enabled the industry to re-evaluate its levels of capital expenditure and its strategies for new mining ventures.

But, before I deal in more detail with the general state of the industry, and in particular the outlook and the challenges for the nation's gold mining operations, mention must be made of the all-important relationship between our new Government and the mining industry.

We are unequivocal in our belief that the mining industry can—and must—enter a co-operative relationship with Government. We believe such a relationship would not only be to the mutual benefit of both parties, but, would also help in the creation of an enticing and positive climate for investment in South Africa. In fact, in recent days, and specifically during a visit to Cape Town for the purpose, the mining industry has indicated strongly to our elected leaders that it stands ready to use its diverse expertise to help the Government of National Unity to achieve its aims for a better life for all in this country. I shall talk more about this partnership later.

In an examination of the mining industry's broad contribution—financial and otherwise—to the greater good of this country, and its own economic state, it remains clear that what was true a century ago remains true today: The mining industry is a mainstay of our economy, both as a foreign exchange earner and a direct and indirect contributor to the Gross Domestic Product. It also remains a leading employer, in fact the second biggest behind the agricultural sector. In short, the industry has maintained, and in many ways reinforced, its capacity to create wealth and employment.

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Last year the industry generated, through the exports of primary and beneficiated mineral products, more than 60 per cent of South Africa's foreign exchange earnings. It was also directly responsible for 8,7 per cent of GDP or, more spectacularly, 18 per cent of GDP if the so-called indirect backward and forward linkages were included. (Those linkages are the flow-on effects from mining into sectors such as manufacturing, community services and electricity, and the effects of domestic industries making use of mining outputs such as coal.)

Despite the protracted world recession and the generally depressed mineral markets, the value of our mineral sales increased by 10,9 per cent to R46,7 billion last year. Our total export sales rose by 14,8 per cent, and this was mainly the result of bigger exports of gold, platinum group metals, iron ore and miscellaneous minerals, among them diamonds.

On a provincial basis, latest statistics show that the impact of mining on economic growth in many of the provinces was significantly greater than the industry's contribution to the national or overall economy. In the Free State, mining is responsible for about 20 per cent of the Gross Geographic Product; in North-West Province, our hosts, about 43 per cent; in North Cape Province almost 27 per cent and in Eastern Transvaal Province mining is responsible for more than 20 per cent of GGP.

For the record, the PWV, which has by far the smallest surface area in the country, produces some 23 per cent, or R9,7 billion worth, of the nation's minerals. Its mining and quarrying activities contribute a little over five per cent to its Gross Geographic Product.

Although the mining industry today employs fewer workers than it did six or seven years ago, it still maintains a labour force in excess of half a million—about 505,000 in fact, or 4,5 per cent of the country's total economically active population. The economic effects of this rate of employment are immense; the industry's workforce received earnings last year of R11,9 billion, a sizeable portion of which would have been ploughed back into the economy through consumer spending. In addition, it is estimated that for every three people employed on a mine, one is employed by industries serving the mining industry, either directly or indirectly. It has also been calculated that every mine industry worker supports between 7 and 10 dependants.

These facts, I believe, underline more firmly than ever the mining industry's status as a socio-economic lynchpin in South Africa, and they also testify to the continuing vitality of the industry.

It is important when tracing the economic veins of our mining industry to acknowledge the lifeblood they supply to a number of our neighbouring states. Much of South Africa's mine labour needs are sourced from outside of this country, for example Lesotho and Mozambique to mention only two. Last year, through remittances of wages of migrant workers, the mining industry's contribution to the Gross Domestic Product of Lesotho was 55 per cent and to the GDP of Mozambique about 50 per cent.

Latest figures indicate, too, that the mining industry is maintaining its renowned capacity as a major player in South Africa's formal wealth creation structure, the Johannesburg Stock Exchange. Mining producers alone accounted for 21 per cent of the market capitalisation of the JSE last year, and of the total value of shares traded on the JSE in 1993, 59 per cent were in mining shares. Shareholders also benefitted from the industry, with about R2,2 billion being paid out in dividends.

It is worth highlighting at your Congress the giant strides made by the South African mining industry in the field of research. Since the 1970s the industry has spent almost R1,5 billion in research and development aimed at improving the productivity and safety of our mining operations. This year alone, the industry will spend R32 million on a range of safety research projects.

Over the decades the narrow tabular gold and platinum-bearing reefs have created unique mining problems and have demanded some ingenious solutions. I think it is fair to say that this country is still recognised as the world leader in shaft sinking and hoisting technology, cooling of deep mines, rock mechanics design, and, general underground mining technology.

We have evolved innovative processes and produced sophisticated technology to try to counter underground hazards such as rockbursts and rockfalls—the two biggest causes of fatalities in our mines and certainly among the biggest disruptions to production.

The industry has introduced, among other things, the process of backfilling, state-of-the-art lightweight and blast-on props, and highly-advanced systems of seismic monitoring. A significant achievement, too, has been the virtual elimination of heat stress problems in major South African mines.

One major difficulty yet to be conquered by our innovators lies with the mining of metal-bearing reefs. The hardness of the rock and confined working areas have prevented large-scale mechanisation of the extraction process. It appears, though, that significant improvements in deep-level mining productivity could be achieved through non-explosive, continuous mining methods, which are being researched right now. These methods would make it possible to mine around the clock, enabling a much better utilisation of costly mining infrastructures.

In recent weeks intensive discussion about mining innovations, particularly those aimed at achieving a safer working environment, took place before a Commission of Inquiry into health and safety in South African mines. The industry gave its full support to the Inquiry and we express the hope that the Commission's deliberations would produce constructive recommendations, which, when implemented, would result in even greater safety awareness, and go still further to reducing fatalities and injuries in our mines.

The industry placed on record before the Commission—and I stress this point again this morning—that it remains wedded to the quest of achieving the safest possible working conditions and a zero fatality rate. The Inquiry, after hearing evidence and argument for almost six weeks, has, now retired to prepare its report.

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Ladies and gentlemen, if I were to single out one of the most cheering characteristics of the South African gold mining industry, it would be its resilience. For over the years—and particularly in the past decade or so—gold mining has exhibited a capacity to weather a variety of adverse conditions and incumbrances, and then to bounce back with renewed vigour, tougher, leaner and wiser for the experience. I personally could not have wished for a more challenging and satisfying career over the past 30 years.

Gold mining in this country has had to contend with spiralling and potentially crippling working costs over the past 10 years. In fact, in the mid-1980s there were some gloomy predictions about the number of mines that were unlikely to survive into the 90s. But today, we are able to reflect on how tenaciously and effectively the industry has so far dealt with the problem of costs, and how it finds itself well into the 1990s with far fewer mine closures than some pessimists had believed likely. However, the industry has no illusions about the magnitude of the on-going task of trying to counter these ballooning working costs.

Increased profitability in the gold mining sector is presenting our mining houses with an opportunity now to rethink their capital expenditure strategies. This small measure of relief is most welcome, because it follows a prolonged period of austerity brought on by poor gold prices and depressed revenues, combined with the pressures exerted by escalating working costs. Not so long ago a Chamber of Mines analysis calculated that expenditure constraints—primarily linked to the protracted squeeze on gold mining profits—had, since 1988, caused a fall in the mining industries level of capital expenditure by about R7,9 billion. So it is indeed encouraging news that the recent profit increases in our gold mines are allowing a degree of strategy reassessment.

I can report to you that, at the halfway mark of this year, capital expenditure had improved substantially. In the April-to-June quarter, capex stood at R684 million, bringing the total for the half year so far to R1,222 billion. That is more than 13 per cent higher than it was for the first six months of last year. It reflects a firm commitment by the industry to increase the capital investment allocation, an investment in the future of our industry, for the benefit of our country.

Although there were three gold mine closures last year—Marievale, Bracken and West Rand Consolidated—the number of marginal and loss-making operations was reduced from 11 in 1992 to seven mid-way through this year. Even so, of the 619 tons of gold produced last year, 57 tons was produced by loss-making or marginal operations. (By the way, the three mines that closed last year were not among the 11 loss-making operations in 1992, making the scale of the turn-around that much more significant.) Unfortunately, though, the recent announcement of Durban Deep's imminent closure will be cold comfort to marginal mines. Their battle against rising working costs is, I regret to say, a fight for survival.

Accompanying the improved profitability of gold mining has been the sharp rise in taxes paid by the industry. Estimated total direct taxes paid increased from R727 million in 1992 to R1,442 billion last year - an increase of almost 100 per cent. It is pertinent to mention the impact of the transitional levy, which was unveiled in the National Budget in June. It pushed up estimated taxation and the state's share of the profits by R101,4 million to R478,6 million in the June quarter.

There has been much better news lately for shareholders in gold mining; they have finally been rewarded after years of receiving dividend increases of well below the rate of inflation. Dividend payments rose by nearly 46 per cent last year compared with 1992—the first time in seven years that total dividend payments of gold mines exceeded the inflation rate. And dividends paid by the industry for the half year to this June totalled R1,421 billion, a 54 per cent increase on the same period last year.

Central, of course, to the buoyancy, or otherwise, of the gold mining industry is the gold price. Generally, its trend has been a little more cheering recently. For the first six months of this year the international dollar gold price traded in a narrow range between US\$360 per ounce and US\$390 per ounce. The average price over this period was US\$372,9 per ounce. That is an 8,6 per cent improvement on the same period last year.

Some words about our coal mining industry: coal, after gold, was the country's second biggest export last year. Despite difficult trading conditions on the international coal market, and poor economic conditions at home, our coal producers were able to consolidate their positions in both markets. We remain the third largest exporter of hard coal after Australia and the United States, and we are the world's second largest seaborne steam coal exporter after Australia with a 23 per cent world share. The tight market conditions of last year eased in the first six months of this year, but so far South African coal exporters have accrued little benefit from the improved spot price because most exporters are locked into lower contract prices.

And on the diamond front, the international market has been resilient in the face of the uneven nature of the world economic recovery. De Beers' Central Selling Organisation reported record rough diamond sales last year—US\$4,37 billion, a figure which is 28 per cent up on sales in 1992. Latest statistics indicate that increased confidence in retail markets has boosted sales of rough diamonds for the first six months of this year, to a level believed to be somewhat higher than for the same period last year.

Ladies and gentlemen, I spoke earlier about how the mining industry was entering an exciting new era, not only in the context of the profound political changes taking place in our country, but also in a mining context. Have no doubt that this is a watershed period for our industry because we are being confronted by an array of towering challenges to be conquered and new sets of circumstances to which we have to adapt. Fortunately mines thrive on challenges and are masters at adapting to change.

But, regrettably, moderate cost increases for last year have not been contained this year. Poor labour productivity because of additional public holidays, random strikes and general labour unrest associated with the election and its aftermath have been instrumental in forcing increases in gold production costs.

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This implies strongly that the industry is now under greater pressure than ever to achieve much better productivity from its existing labour complement. For a start, this can be achieved through more flexible work practices, such as multi-skilling, and an extension of the permitted number of working hours a week, including Sunday blasting. I am given to understand that in Australia, where progressive work practices are being pursued throughout the national workforce so that the country can compete with the "tiger economies" of South East Asia, "multi-skilling" is a watchword, a fundamental principle for better productivity and efficiency. The South African mining industry is already examining ways of introducing multi-skilling or multi-tasking, but it remains critical that we strive for imaginative processes to facilitate continued containment of working and capital costs.

There is a counter view that the scope for meaningful productivity improvements is limited, and, that in due course costs will rise sharply because of the need to mine at greater depths and to spend more on environmental rehabilitation, and because of pressures exerted by a higher inflation rate. This scenario does not mean that effort should be spared in chasing better productivity; rather, it means that a sustained reduction in inflation and the negotiation of realistic wage settlements are also important facets of a total national strategy to combat rising working costs.

The mining industry, as with other sectors, has to be competitive; it is no longer constrained by the sanctions era but is now exposed to the free-wheeling market forces of the global industrial, commercial and business communities.

As I have indicated, this is a critical period for the mining industry, one demanding honest self-examination. Are we sufficiently flexible to adapt to fluctuating world trends? Are our management structures sufficiently streamlined, efficient and adept to meet the challenges? Is our workforce adequately trained? Are our safety standards the best that they could be? But there are other crucial factors which are not within the direct influence of the industry, such as achieving a competitive inflation rate. This, together with a modern, investment-attractive tax structure and a stable political environment, would do much to assist the mining industry to remain competitive and perhaps even surpass its achievements so far.

Growing competition from low-wage/low-cost producers in other countries will remain a difficulty and one which will demand, among other things, greater efficiencies from our mining industry. There appears to be a worldwide tendency for mining activities to shift from industrialised and developed nations to the less-developed countries, where wages and some production costs are considerably lower. Also, often in these countries there are substantial savings achieved through less rigid adherence to health, safety and environmental requirements. A recent study however showed that, even compared with some of our economically advanced competitors such as the United States, Canada and Australia, the South African mining industry had moved from being the lowest cost producer of gold to the highest.

The issue of the environment is already conspicuous and promises to assume an increasingly prominent profile in South Africa. It seems likely that pressure will be exerted on the mining industry, both at home and abroad, to devote even more attention to the preservation of our natural surroundings. 'How green is our output', is the question mine managers will probably have to ask themselves more frequently.

It is important to acknowledge the progress achieved within the industry to improve and strengthen the cords of contact and understanding with the mining workforce. The Chamber of Mines, in particular, has worked hard at dissolving that crude adversarial relationship that existed between employers and employees for so many years. Negotiated exemptions from legislation prohibiting work on Sundays and public holidays are evidence of a more co-operative relationship/understanding between the two parties.

And, this brings me to the role of the mining industry in the New South Africa, and what we in the industry believe is necessary in this new order for the mining sector to remain a vital contributor to the development of the country, and the betterment of millions of its citizens and thousands more people in our neighbouring states.

The mining industry has made its position clear to the Government of National Unity: We stand ready to assist President Mandela in his quest to provide a better life for all South Africans and, to create, as he puts it, a people-centred society.

We believe that there is no other sector in this country that is as well equipped to make a meaningful contribution to the nation's present process of upliftment and progression than the mining industry. It is our intention to build a synergistic and mutually beneficial relationship with Government, a partnership which we believe will do much to serve a broad sweep of interests.

The mining industry's primary focus in recent months has been to identify areas of common purpose in proposed Government policy and Government expressions of intent, and established mining industry principles and objectives. Already, it is clear that Government and the country's oldest and biggest industrial enterprise, share a range of ambitions and aspirations. Most notably, the mining industry has examined the ideals and aims of the Reconstruction and Development Programme (RDP) and is convinced that it can play an incisive role in helping the Government of National Unity to turn its blueprint for upliftment into reality. But, the mining industry requires an environment—political, economic and social—in which it can operate effectively and so continue to contribute in large measure to the growth of South Africa. And in turn, we suggest that the Government needs a strong and vibrant mining industry that can assist with the achievement of objectives set out in the Reconstruction and Development Programme. Thus, the mining industry's approach is to cement a pact of mutual endeavour with the country's leaders and policymakers.

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The industry believes that its expertise in a wide range of areas, such as health care, housing, training and basic education, would be of extraordinary value in implementing broad portions of the RDP. The strategy lists among its chief goals the need to meet basic human needs, which are identified as jobs, housing, land, water, electricity, telecommunications, transport, education, a clean and healthy environment, nutrition, health care and social welfare. As I have already indicated, the mining industry's capacity to create jobs—505,000 of them—and to contribute across the economic spectrum is beyond doubt. The industry also provides good quality housing for hundreds of thousands of employees and, in addition, virtually all of these people are provided with water, electricity and access to telecommunications.

Adult Basic Education is a key component of the mining industry's training curriculum, and in the area of health care, the mining industry is without rival in this country's industrial or commercial sectors; it provides all of its employees with comprehensive medical facilities and treatment at 41 hospitals which it operates. These hospitals provide a total of 7000 beds, and about 300 full-time medical doctors and some 3500 health care staff are employed by the industry. This, ladies and gentlemen, is just a snapshot of the mining industry's capacity to help meet this nation's basic human needs.

The mining industry is sure that many of the RDP's goals will be difficult, perhaps even impossible, to achieve. But the spirit of this strategy is brave and bold, and its ideals are laudable. We believe that strenuous effort is necessary to implement as much of the Reconstruction and Development Programme as possible, and the mining industry stands ready to share the burden of this task.

However, we do believe the strategy has flaws. For one, the RDP document deals only in passing with the need for better productivity, a crucial requirement throughout commerce and industry. No mention is made of instilling the need for more flexible labour practices. Secondly, too much emphasis is placed on the role of the State which, if allowed expansive intervention, would, we believe, lead to a swollen bureaucracy and, quite possibly, a big increase in the public sector's expenditure on administrative red tape. Thirdly, we have our doubts that the economy, in its present state, could absorb and sustain ambitious social programmes without fuelling inflation. And fourthly, the need to stimulate economic growth—a requirement of cardinal importance to this country's future—is dealt with in just a single paragraph in the RDP document. No mention is made of the necessity for a strategic approach to promoting foreign or local investor confidence.

The mining industry believes it is imperative that a sound market-based economic system, which is seen to be wholeheartedly endorsed by our political leaders, is an essential prerequisite for the attraction of foreign investment and the promotion of confidence among local investors and entrepreneurs to pursue current ventures and ignite new ones.

Let it be said, too, that a stable political environment, with all the trappings of a functioning, albeit brand new, democracy, is an imperative for the future prosperity of all our people. The mining industry is heartened to see both central Government and our regional leaders embarked on a unified and intensive campaign against violence and crime, for we cannot allow a lawless minority to sow doubt and fear in this country at such an early stage in our new beginning.

Specifically, from a mining industry point of view, we would like to see a stable taxation system, free of frequent tampering and change. A system undergoing regular revision, or subject to retrospective alterations, creates confusion and, apart from distressing domestic ramifications, this also sends mixed signals to potential overseas investors. The State's revenue from mining should, we believe, be by way of taxation of profit, not through indirect taxes and imposts which increase costs and cut into ore reserves. The taxation system should continue to allow for accelerated or enhanced depreciation commensurate with the capital and time risk in mining, and it should also allow for both the renewal of mining resources through further investment by the taxpayer and a sufficient portion of distributable profit that may be returned to shareholders. We also believe the tax system should contain incentives to advance technology.

In conclusion, the mining industry is determined to continue playing its economic anchor role in South Africa. We will create jobs and wealth, both nationally and regionally, we will continue earning foreign exchange, and we will build and sustain communities. This determination is born of a faith in the political future of this country and its people. Political events in this country in the 90s, culminating in the breathtaking success of April's transfer of power—a process of unimaginable political proportions a mere five or six years ago—stand as monuments to the qualities of all South African people. Their capacity for forgiveness, their tolerance, their pragmatism and their determination form sturdy foundations for a bright, new South Africa.

This country has now achieved a stable political dispensation, in which, almost all of the inhibiting tensions of the bygone era have been erased. The mining industry believes there are unambiguous signs that the right climate is being created for sound and prosperous investment in South Africa. We hope that our faith in this country's future and our commitment to aiding its continued well-being will act as an incentive to potential investors the world over.

Ladies and Gentlemen, this has always been a country of ingenuity, a nation which puts great store in innovation. Now that the shackles have been broken to enable all its resources to be tapped, the sky is South Africa's limit.

Thank you. ♦