# Reflection

# Reflections on South Africa's gold mining crisis: challenges for restructuring


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## The Time

The article for *Transformation* 20 (1992) was drawn from a paper written for the Cosatu Economic Trends Group (Leger and Nicol 1991a). The ET Group, which had met with the ANC in Harare in 1990, was involved in plotting a pro-labour growth path for post-apartheid South Africa. The ET Group was the pre-cursor for the Cosatu Industrial Strategy Project, parts of the RDP and also GEAR. The paper was also a contribution to the Summit on the Future of the Mining Industry, 'an unprecedented gathering of trade unions, mineowners and the SA government on 3 June 1991' (Leger and Nicol 1991b:5).

It is distressing to look back at how events unfolded. So much of what we argued came to pass – relentlessly so, resulting in the loss of two thirds of South Africa's gold mining industry. The industry appears set to continue on a path of decline, despite the great rises in the gold price of recent years. Urgent and profound changes are required to the economic framework if what remains of the industry is not to be completely dissipated, with the consequent loss of jobs and economic value of the industry to the country.

- The question in 1990: What could be done to ensure the survival of gold mining as a generator of wealth, export revenue and a provider of employment, given a stagnant gold price, a 15.5 per cent inflation rate and ingrained employment inequities?
- The question in 2011: Can we safe-guard the 160,000 jobs we still have in gold mining, given the notable increase in the real gold price since 2005? Can South Africa make it attractive for capital to invest in new gold mines?

In the original paper we argued that unless urgent steps were taken, a dramatic downscaling of the industry was imminent. Fortunately we were incorrect on the time frame – the decline has played out over 20 years rather than five years.

1. In the paper we argued that mine workers would be worst hit, that employment would fall from some 450,000 jobs to about 130,000.

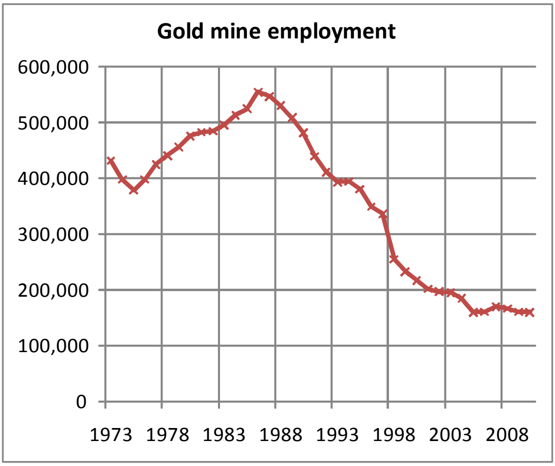


Figure 1: SA employment on gold mines

As can be seen from the accompanying graph, by 2000 employment was down to 200,000 and is currently around 160,000.

2. We wrote that gold production would decline from 600 tons per year to less than 200 tons per year.

In 2010, gold production was down to below 200 tons. More concerning is that despite the substantial real increase in the price of gold in recent years, the decline in gold production has continued, and is likely to continue, unless substantive new capital investment in new mines is attracted. Great reserves of gold remain. South African deep level gold reserves remain the world's richest, and hundreds of years of mining could be sustained if the returns were sufficiently attractive.

Accompanying this decline in gold production has been the decline in manufacturing and engineering activities that were directly related to the gold mining industry. These are not easily quantified and largely hidden. But the consequence has been the loss of major sectors of South Africa's previous substantive heavy engineering and manufacturing capacity.

**The amount of gold produced by SA fell**

| World Gold production (tons) | | |
|---|---|---|
| 1970 | 1,477 | SA = 68% |
| 1980 | 1,219 | 55% |
| 1990 | 2,115 | 26% |
| 2000 | 2,573 | 17% |
| 2010 | 2,652 | 8% |

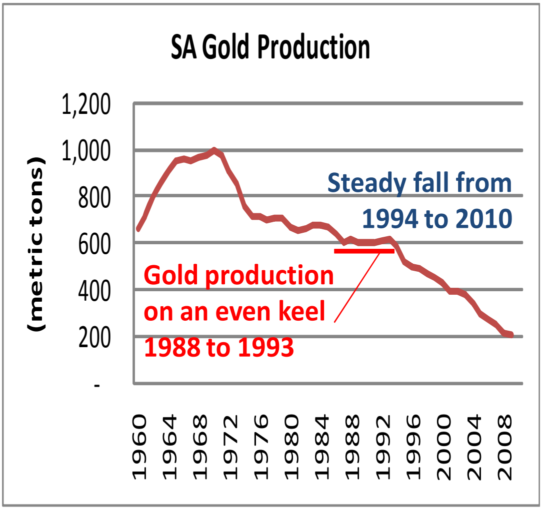


Figure 2: SA gold tonnage per year : South Africa's share of world gold production has fallen drastically. World gold production has boomed but SA production has fallen – despite our huge gold reserves. This is a profound indicator of the decline of our gold mining sector.

## Indicators

| **Gold** | 1990 | 1991 | 2008 | 2010 | |
|---|---|---|---|---|---|
| % of total SA exports | 31% | | 7% | 10% | est. |
| Real Export value (2008 R '000s) | 72,830,189 | | 45,789,471 | 51,158,506 | est. |
| *Real Export value (1990 R '000s)* | *19,300,000* | | *12,134,210* | *13,557,004* | est. |
| No. of gold miners | 481,178 | | 166,333 | 159,745 | q1 |

A radical fall in gold mine employment and in gold exports

| | | | | | |
|---|---|---|---|---|---|
| Annual inflation rate | 14.2% | 15.5% | 11.5% | 3.9% | est |
| CPI (2008) | 26.5 | 30.6 | 100 | 111.3 | est |

Inflation eventually came down (2008 an exception!)

| | | | | | |
|---|---|---|---|---|---|
| Real value of gold exports per miner | R151.358 | | R 275.288 | R320.251 | |

Effective rise in labour productivity

| | | | | | |
|---|---|---|---|---|---|
| Real value of gold exports per miner | R151.358 | | R 275.288 | R320.251 | |
| Gold price in US$/oz | 384 | | 872 | 1387 | London pm 22/12 |
| Gold price in nominal rands | R992 | | R7,136 | R 9,426 | 6.796 R per $ |
| Gold price in 2008 rands | R 3,743 | | R7,136 | R 8,469 | |

A very nice gold price in 2011. But can we keep the jobs now?

## The argument

The gold industry in SA faced a tight profit squeeze in the early 1990s. The gold price was kept at a constant nominal rand value by the Reserve Bank from 1988 to 1992 despite rampant inflation. The 1987 great mineworkers strike was the highpoint of employment numbers. Profit margins were under severe pressure both from worker demands – related to wages as well as housing and health and safety – and from stagnant commodity prices which reduced reserves and discouraged new exploration. In addition to profitability constraints, retrenchments were a weapon of mine management to reduce the effectiveness of the National Union of Mineworkers as it recovered from the strike – which had seen the dismissal of many union leaders. There was common cause that the industry needed to restructure in order to extend its life. The article put forward proposals from a labour perspective.

## The outcome

Several of the proposals outlined were indeed the basis for developments in the following years. But the restructuring that took place in the mining sector was multi-fold. Efforts to sequence and plan change through negotiations were largely unsuccessful. But the organic changes that were generated within the industry were fundamental. The mining house system which had been the vehicle for the super-exploitation of black workers for the preceding century was destroyed. The real value of the wages of black gold miners doubled over a ten year period – and their number halved. The gold mining industry that emerged was little changed in terms of training, racial structure and labour process. There were small but meaningful improvements in safety and in housing. Black mineworkers – in gold and in other mines (where employment increased after 2001[1]) – became less of a distinct part of the working class.

In 2011, the NUM and the other unions continue to represent their members and to 'knock on the door' with a wide range of demands, as they learned to do before 1994. They win small victories. They make a difference to their members. But many of the traditional union tasks have been taken over by the CCMA, which attends to worker grievances. The unions have failed to develop effective avenues for skills training, for adult basic education and for worker participation in management. As a result, the industry, at mine level, remains largely 'untransformed'. Unions respond to productivity measures introduced by employers rather than shape them themselves. This would not be a natural role for a trade union so this is an observation, not a criticism. The agency fee system means that unions have a secure and considerable institutional income. The mines collect subscriptions on behalf of the unions and also pay over a bargaining fee deducted from workers who are not union members. The NUM remains the biggest and best organised union in Africa. It takes responsible and often principled stands on issues like the 'nationalisation of the mines' and the proper governance of state-owned enterprises. But it is a shaker, not a shaper.

The big changes in the gold sector came from the mining houses as South African and international capitalism accommodated itself to the new South Africa. This was done with breathtaking speed and great accomplishment. Any negotiations were at individual rather than at industry level as black leaders in politics, law, business and the trade union movement were given places at board-room tables and space to empower themselves.

The mining houses, along with conglomerates in finance, took the opportunity offered to them by the political windfall of 1994 to restructure themselves as international players. They divested themselves of assets that were not top class – but still participated in managing them and advising on their use. All the traditional mining companies, with their individual listings and cross-holdings and the sacred fiduciary duties that prevented industry-wide agreements with unions on profit sharing and wages, were rolled up and re-packaged as single companies in line with international good practice. The names of some mines were changed to reflect African identities, the Chamber of Mines became impressively non-racial, and mining tried to become a business like any other.

## A reflection on the 1991 restructuring proposals

While we wrote and took individual responsibility for the research and interpretations, the proposals in the 1991 article were influenced by processes within and beside the NUM and Cosatu.

The article pointed to the need to address restructuring 'in at least five key areas':

1. The extremely poor wages, working and living conditions of the majority of gold miners.
   - a. Wages: Underground work is stressful and dangerous. All over the world, mining wages are above manufacturing wages for this reason. This was always the case for white workers, but not for blacks until recently. Black mineworkers' wages are now comparable with those of workers in manufacturing – although they do not appear yet to command the premium accorded to miners in other unionised countries.[2]
   - b. Profit sharing and gold bonus: Not reflected in the article is the interesting – but abortive – effort in the mid-1990s to design and implement an innovative profit sharing scheme for gold mines that workers could understand and that employers would honour.
   - c. Safety and health: In 1990, for every ton of South African gold production, one mineworker died and fourteen were seriously injured in mine accidents. While safety issues remain unsatisfactory there have been notable improvements in mine safety in the last 20 years. In 2008 and 2009, there was a fatality for every 2.5 tons of gold production. The Mines Health and Safety Act was the first substantial piece of legislation passed by the democratic government in 1994. This law was inspired and driven by the NUM and it integrated training with safety in a path-breaking manner that still distinguishes mining from all other industrial sectors. The Mining Qualifications Authority (the mining industry SETA) was created by this law, long before the Skills Development Act was finalised.
   - d. Housing: No new reflection: hostel conversions for family use have been combined with many workers (and former mine workers) living in informal settlements in the vicinity of mines.
   - e. Hours of work: long working hours for workers remain the norm on South African mines. The 'logical' development would have been to combine lower working time requirements for individuals with higher wages and continuous operations for the mines. South African gold

mines are extremely unusual from a global perspective in not operating seven days a week.

f. Racial discrimination: No new reflection – despite the Mining Charter, NUM members still feel that racial discrimination is a strong feature of the sector as a whole.

2. The low productivity of the industry, which is integrally related to the poor conditions of service and lack of training experienced by miners.
   a. Productivity: The article stated that 'A necessary condition for this to occur [productivity bargaining] is that agreements between managements and workers be entered into which provide for security of employment when labour displacing technologies are introduced'.

      While labour productivity on the gold mines continued to rise, this was without union participation and at the expense of jobs. The NUM tried unsuccessfully to promote the concept of a 'social plan law', copied from European countries, that would guarantee employment security for workers (but not the security of a particular job) when a large industry moved into restructuring mode. The call for legislation was rejected by the 1996 Labour Market Commission and Nedlac inspired a watered-down and entirely inappropriate programme that was used to create jobs in the Department of Labour.
   b. Training: The article proposed a thorough training approach for all mineworkers, from ABET through to technical skills. This would both provide skilled workers for the mines and allow those who lost their gold mining jobs to find employment in other sectors. This was a pipe dream. The new government gave no support at all to ABET. Its over-ambitious skills policies thoroughly gutted the remaining vocational training capacity that mines had previously provided.

3. Co-ordinated efforts to increase the demand for gold.

In the late 1990ss the gold mines and the NUM went on a world tour to ask the IMF and central banks to limit their gold sales, which were a disturbing feature of the decade. There was a central bank agreement on this issue in 1999.

4. The downstream processing of gold products to create a gold beneficiation industry in South Africa.

   None of the numerous initiatives in this area have borne fruit. It is one of the myths to which we remain captive that because we have raw materials, we ought to have a competitive advantage in downstream manufacturing (Hausmann et al 2008).

5. The lack of incentives for investment in new goldmines and obstacles to exploration.

The article had a strong focus on gold mining taxation. It argued for generous tax breaks and subsidies for the gold mines to preserve the mines and employment until the gold price recovered. The gold mine owners – who had fish to fry with other commodities – did not want to cross-subsidise gold mines from more profitable sectors. The NUM trusted the ANC and did not use the considerable political muscle that it had to influence mining policy beyond what could be achieved by consensus.

The article called for an overhaul of the whole system of mineral rights. This was achieved successfully in the Mineral and Petroleum Resources Development Act of 2002. But the new system – never more than shaky – is now unraveling. The integrity of mineral rights administration has been proved wanting. This is evidenced by the fiasco over Kumba and Arcelor Mittal and the ability of rent seekers in a company without mining capacity to secure rights over ore deposits in the Northern Cape.

The article stated that: 'A new structure of ownership and control needs to be developed that will incorporate worker participation and state involvement and promote the development of the minerals sector for the benefit of the people as a whole'. The outcome here was the Mining Charter. This took a further decade to negotiate – by way of the Presidential Labour Market Commission[3], the Green Paper on Mining and several further summits. The purpose served by the Charter has not been to protect workers or the national interest but to promote a particular model of 'Black economic empowerment'. This has had (and continues to have) perverse effects that were completely unforeseen. Today the most publicised challenges to the new mining dispensation do not come from the NUM or from Cosatu, but from the ANC Youth League who are taking advantage of the 'lack of transformation' in the mining sector, and the confusion on ANC economic policy, to promote their own highly questionable agenda.

## The new challenges

When we met last year to consider this reflection paper for the *Transformation* conference, our question was how SA could take proper advantage of the amazing gold price to grow its gold sector again? Our cursory research has convinced us that even to safeguard the existing 160,000 gold mine jobs that remain will be extremely difficult. South Africa is faced with the very real threat of losing most of the industry and most of these jobs over the next 20 years unless deep level gold mining can be made attractive to new capital investment. Our concern remains with employment, the most urgent issue in South Africa today.

However high the gold price – and costs have edged up fourfold almost in pace with the price – we face the reality of low grade gold reserves, a shortage of critical inputs (skills and electricity) and an institutional environment that is increasingly characterised by unpredictability and corruption. The gold that remains in SA requires huge investments and profitability requires a long pay-back period. Five to 10 years will pass from conception before a new mine starts limited production, let alone be paying its way. New major gold mining investments – of the order of R20 billion for a new mine – are unlikely by private sector investors in the present economic and political climate.

The question to consider now is how we can safeguard what we have? These are the five critical areas for gold mining:

1. Organisation of work and skills, particularly continuous operations;
2. BEE and the Mining Charter – creating obstacles for investors;
3. Electricity;
4. Exploration;
5. Corruption and weakened capacity of the state (including the lack of maintenance and deterioration of public infrastructure).

Can gold mining be attractive to private investors? We believe it can be, given the increased price levels of gold.

Two changes could greatly improve investment returns:

1. Continuous operations. Currently productivity is curtailed by the eleven shift fortnight, a legacy of struggles of white miners, whereby mines do not work on Sundays and work alternate Saturdays. In broad terms, the productivity of the industry could be increased by 14/11, that is an additional return of 27 per cent;
2. To deal with the 26 per cent BEE Mining Charter requirement so that it is not a free carry. This would represent a 100/74 improvement in return, that is an additional 35 per cent.

Taken together, these two factors would improve returns by (14/11) x (100/74) = 1.72 that is a 72 per cent improvement in return.[4]

It is highly ironic that the new South Africa, with its constitutional wonders and pro-worker legislation, has forced into the margin the issues of worker development, worker participation, benefit sharing and even concerns on health and safety, housing and racism. Employment remains the key issue; if it is to be maintained, new investment has to be attracted.

## Notes

1. Non-gold mining employment, after two decades of stagnation, increased from 204,918 in 2001 to 353,123 in 2008, a respectable compound growth rate of 8.1 per cent a year. Employment has fallen by about 30,000 from the 2008 level in the wake of the world recession.
2. This is a hypothesis inferred from the Quarterly Employment Statistics (P2070) and DMR (2009) – we have not reviewed racially segmented data at mine level.
3. The NUM made extensive representations to the Commission, which declined to recommend their implementation, but did propose a social contract between government, business and labour.
4. The taxation framework theoretically has flexibility to allow for pre-tax revenues to be used for funding new mines. We have not researched to what extent special tax dispensations and exemptions are allowed for non-contiguous operations. If pre-tax earnings are allowed to fund new mines, this represents an improvement of approximately 100/70, that is an increase of 43 per cent.

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