Mining Activity Down in South Africa

ANGLO American nonexecutive director Jim Rutherford, an outspoken critic of SA, warned of the country's dwindling significance in global mining equity allocations. The diminishing importance of the sector was driven by bad decisions coupled with falling commodity prices, and SA needed urgently to tackle policy uncertainty to attract investment, he said at the Joburg Mining Indaba.

The sharp reversal in South African mining equity was, however, part of a broader global decline spurred by poor management decisions around capital allocation and to prop up balance sheets with debt and equity, he said.

Global mining equity market capitalisation had fallen 45% in the past 12 months, with the return on capital employed, a ratio that measures the efficiency of a company to generate profit, dropping from 43% between 2003 and 2006 to 14% in the next four-year period, and then to a negative 12% between 2011 and 2014, Mr Rutherford said.

Until 25 years ago, SA accounted for 40% of the world's mining industry. It has now fallen to 4%. Globally, mining makes up 1% or less of the world's equity markets, meaning SA was equivalent to 0.04% of global equity markets, down from 1.75% two or three decades ago.

"When you are a fund manager, that is what you call statistically irrelevant," he said.

PwC's latest annual mining report, which surveys the world's top 40 mining companies had no South African companies compared to seven in 2003 when the report was first published, he said, though Anglo American and Glencore, which had large exposure to South African minerals, were in the list.

The South African mining sector's market capitalisation had fallen R371bn since last June, dragged down by the slide in global commodity prices, PwC said in a report.

Slow global economic growth, a slump in commodity prices, volatility and regulatory uncertainty, were blamed for the downturn, the report said.

"Where investors do not see the prospect of a return, they become cowards and they simply won't invest. When you look at SA, the one issue constantly being cited as a deterrent to investment is policy uncertainty," Mr Rutherford said.

"The incremental impact of that on SA has been very material," he said.

Policy uncertainty came in many forms and included the "inconsistent and what is perceived at times as somewhat arbitrary enforcement of existing legislation", he said, adding this included the way section 54 safety stoppage notices were used by the Department of Mineral Resources at mines.

Hulme Scholes, a lawyer who has approached the courts to overturn two mining charters, has claimed in his affidavit these notices were sometimes used to punish companies speaking out against the department a claim it has denied.

Efforts to legislate for the ring-fencing of yet-to-be-defined strategic minerals, developmental pricing to sell minerals cheaply to domestic industry to bolster growth, and continued rumblings around nationalisation of mines were contributing to the uncertainty, Mr Rutherford said.

"What is really needed here is a policy framework underpinned by clarity, consistency and certainty. It sounds simple, but it's hard to achieve in practice," he said, singling out Chile as an example where successive governments since the turbulent 1980s put policy in place that met those criteria.

Modernisation; updated operating practices including mechanisation; improved labour, community and government relationships; and strengthened linkages to suppliers of the industry that would meet the state's demands around beneficiation, were some of the changes needed in SA, Mr Rutherford said. The trust deficit between government, business and investors needed attention.

"The price of inaction here is very high," he said. Investment confidence was needed to drive growth and employment to tackle poverty and inequality, two leading problems in SA.

Joseph Mathunjwa, president of the Association of Mineworkers and Construction Union, said at the same conference, the industry could not be modernised until the "ills of the past" had been addressed. These included the wages paid to miners while improving their skills levels as well as the migrant labour system.

Companies failed to develop workers, so workers were always treated as a cost to the company and not a resource because not much had been invested in them, Mr Mathunjwa said.

The government's "liberal economic policies" were more geared towards business at the expense of workers and this was what Amcu wanted to overturn in its demands for wages and working conditions for the sector, Mr Mathunjwa said. "As long as we are still using these liberal economic policies I'm telling you South Africa will burn."

Amcu would not participate in the Mining Phakisa, a five-week government-led initiative starting to identify and remove bottlenecks to investment and growth but are understood not to include any policy or regulatory changes, Mr Mathunjwa said, saying these kinds of knee-jerk initiatives did not make sense.

He refused to be drawn on whether he would prefer to see higher paid workers at the expense of jobs or lower paid employees and a greater number of jobs.

"I can't take a choice. The government must realise its current system used to attract foreign investors does not work for SA," he told some 450 delegates at the conference.