Taming the Mining Masters

by Roger Moody and Andy Whitmore

FORTY YEARS AGO, the African National Congress (ANC) enshrined in its Freedom Charter the nationalization of the South Africa's mining industry. But, despite the efforts of some ANC members to reaffirm this policy in the months before the April elections, the party jettisoned its call for nationalization and adopted what party leaders called a "pragmatic" approach, designed to woo new foreign investment. The new South Africa is thus following a pattern already established elsewhere in the region, notably Zimbabwe and Namibia, where some former enemies — nationalist, anti-racist and anti-colonialist activists on the one hand, and big mining interests on the other — become friends overnight.

Prospects in a pragmatic era

One intense concern of South Africa's new leaders is that the country will not regain ground lost to other mineral producers during the period of sanctions. Gold has long made up the foundation of the South African economy, but ore grades are reported to be declining and costs are rising as new technology reduces the labor force. In 1980, the metal earned about 45 percent of the country's foreign exchange, but by 1991 the proportion had dropped to 20 percent, while employment in the gold mining industry had fallen from a peak of 550,000 in 1985 to 400,000 in 1991. On the other hand, the country's mining sector remains diverse, with the value of base metal exports, such as iron, steel and non-ferrous metals, quadrupling between 1984 and 1993. Analysts expect that metal exports will grow by more than 19 percent over the next two years to reach 12 billion rand in 1996. And South Africa is still a leading world provider of strategic mineral sands (titanium, zirconium), chromite, manganese, platinum-group metals, asbestos and antimony. However, sales of some of these have suffered, particularly in the face of Russian competition, and South Africa's uranium industry has virtually collapsed.

Mining is equally prominent in the other countries of the region. In the Southern African Development Community (SADC) — previously comprising the 10 regional countries other than South Africa — mining accounts for 11 percent of gross domestic product and generates 60 percent of all foreign exchange earnings. There are especially significant mining industries in Botswana, Namibia, Zambia and Zimbabwe. Foreign multinationals have recently expressed a renewed interest in the region, due in part to modern technologies that make mining "frontier areas" feasible. Multinational corporations are also responding to the rise of a regional "new pragmatism" in accepting foreign capital and structural adjustment programs. Many foreign investors are hoping a pragmatic South Africa will provide them with a financial window of opportunity to all of Africa. The expected rush of foreign investment, endorsed by the ANC, could establish the relatively developed Johannesburg stock exchange as the entrypoint for African investment, mirroring Honk Kong's status in relation to mainland China.

Corporate strategies

South Africa and its neighbors are dominated by the same companies, most notably the two global giants Rio Tinto Zinc

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Mining Houses Bleed South Africa of Profits

SOUTH AFRICA'S HANDFUL of giant mining houses have been impervious to heavy criticism, typically ignoring traditional ANC denunciations with disdain. It took a bombshell in February from the Southern African Economic Research Unit (SAERU) to awaken slumbering executives of Anglo American, Gencor, JCI, Anglovaal, Goldfields, Rand Mines and other big corporations.

SAERU's Peter Robbins, a leading ANC adviser and former precious metals dealer, claims transfer pricing of platinum and other minerals constitutes massive capital flight from South Africa. Robbins' thesis is simple: transfer of profits to low taxation areas occurs by pricing minerals well below the market price to marketing agents, and padding the difference through the sellers' commission, who then splits the proceeds with the producer.

In support of his claims, Robbins points to the exorbitant commissions paid to metals sellers. According to Robbins, Rustenburg Platinum pays its major sales agents a commission fee of 7 percent. Rustenburg's commissions on platinum group metals to Johnson Matthey (UK), Degussa (Germany), Engelhard (U.S.) and Tanaka (Japan) amount to $40 million, which Robbins says is seven times the standard commission for the services performed.

SAERU also cites Chromcorp Technology payments of 6 percent for world-wide ferrochrome marketing services to dealer Marc Rich of Zug, Switzerland, effectively three times the international norm. Also in Zug, Transcoal and Minerals are paid as much as $2 per tonne to market South African coal, and this is up to 10 times the going rate. Another Zug company, Newco, is handling metals sales for Samancor.

Says Robbins, "The use of tax havens is extremely important. The laws of South Africa's main trading partners in Europe, Japan and the United States require companies to reveal many details about their operations such as ownership, capitalization and financial performance. However, in Switzerland, it is an offense to reveal such information to an outside party."

Secrecy is not the only advantage. Taxation itself is minimal for profits made outside Switzerland. Swiss banking laws allow such profits to be divided up clandestinely. And at that stage, says Robbins, "There is no way of telling whether a South African company is taking part of an inflated sales commission and depositing it in a tax-haven bank. Once such revenue is outside the country, it is unlikely to return."

Robbins' claims raised sufficient interest within the ANC-linked Macro Economic Research Group (MERG) to generate a recommendation for the establishment of a state minerals marketing board.

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Loading ore outside Phalaborwa, South Africa.

"Revenues earned from mineral exports have been considerably depressed, expertise in marketing has been limited and commissions paid for handling exports have been excessive," argues MERG's "Making Democracy Work." "It will be possible to coordinate world markets in some instances, legally if subject to state direction. Excluding gold and coal, it has been estimated that by enforcing changes through a state marketing board, an extra 3 billion rand in foreign currency could be realized by 1997. Possibly an extra 1 billion rand could be earned through more and better priced coal exports."

Opponents counter that even existing mineral revenues are now seriously threatened, because the operator of the biggest global minerals cartel, De Beers, appears to be panicking over Russian diamond sales of $200 million to $300 million outside the cartel, and is attempting desperately to raise a $3.5 billion loan for Moscow to stem their hemorrhaging into the world market. The Russians have collateral backing in diamond stocks, which are as high as $7 billion, twice De Beers' own stocks. But whether or not its diamond cartel splits into fragments, De Beers has its funds locked safely away in Switzerland, where it located its international operations less than a month after Nelson Mandela was released from prison.

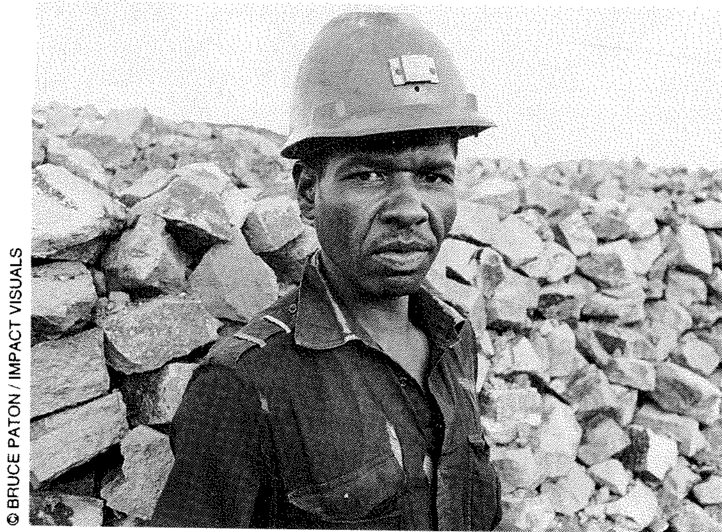
The mining houses went into quick revolt against suggestions for greater state regulations and control of the industry. The Chamber of Mines slammed the ANC at a JCI-sponsored conference in late January when Trevor Manuel and Paul Jourdan of the ANC Department of Economic Planning suggested that trade-related loss of capital could be traced to the minerals sector. Mining executives like Clem Sunter claim the South African Reserve Bank is already well equipped to handle such capital flight.

It is true that the Reserve Bank should be capable of investigating, largely through identifying anomalies in tax returns, but if a quote from a Reserve Bank official to Robbins is anything to go by, the bureaucrats in Pretoria are out of the loop on transfer pricing: "Due to legal constraints, we do not communicate with the tax authorities."

Even an investigation by the Reserve Bank of capital flight may have little effect, given its competence and corruption problems within the Reserve Bank itself. One ex-Reserve Bank official, Christoffel Lombard, apparently was involved in $1 billion in foreign exchange fraud (he lost an appeal against his 1992 conviction early this year). And a Witwatersrand Attorney General's probe in March revealed that in 1987 and 1988, almost every financial rand application involved bogus information approved by Reserve Bank management as well as the staff of commercial banks. Total fraud for the cases studied exceeds $60 million.

Capital flight is still bleeding South Africa dry. Whether through debt repayments or transfer pricing and other nefarious means, $3 billion left South Africa in the last half of 1993, and another $1.2 billion in the first quarter of 1994. And South Africa's major banks — nearly all connected to the mining houses — have opened offices in the Cayman Islands, Panama, the Isle of Man and other hot money centers in the past two years, while closing township branches.

— Patrick Bond



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Chrome mining co-op near Mt. Darwin, Zimbabwe.

(RTZ) of the United Kingdom and the South African Anglo-American Corporation/De Beers. Anglo-American controls most of the region's nickel and diamond production. Another large mining house, Gencor, has led the way in "unbundling," or selling off its non-mining assets that were acquired to diversify and avoid the brunt of economic sanctions, so that it can take part in new investment opportunities abroad. Believing its unrivaled size will give it market dominance, Anglo has shied away from unbundling, but in March 1994, agreed to sell its Johannesburg Consolidated Investments (JCI) subsidiary.

RTZ was infamous for its sanctions busting, and along with Anglo, was the dominant company operating in pre-independence Zimbabwe and Namibia. Along with two other multinational mining companies, Lonrho and Union Carbide, RTZ has maintained its interests in post-independence Zimbabwe, while newer, more aggressive Australian and Canadian companies — for example, BHP, Auridium Consolidated and Namco — are joining the regional gold and diamond rush, even displacing De Beers in Zimbabwe and Namibia.

A threat to corporate dominance

The ANC's approach to the giant mining companies has yet to be finalized, and divisions within the organization over mining policy have not been fully resolved. The more stridently left-wing Macro Economic Research Group (MERG) advocates closer government control over industry and the nationalization of the Reserve Bank. When a MERG report was leaked to the public late in 1993, it caused consternation in the mining houses and in the media; this confrontational stance has since been retracted in favor of a more conciliatory approach. The ANC is still pushing for a shift in ownership of unmined minerals, presently held largely by the companies, to the state and promoting the idea of small-scale mining, which would encourage black entrepreneurship and be more labor-intensive.

The industry and mining houses are strenuously resisting these proposals, which they view as a threat to their status; Nick Seagal of the Chamber of Mines has described ANC policy in the *Financial Times* as "entirely flawed" and "potentially highly injurious to the industry." The industry claims that small-scale operations are not viable to mine South Africa's gold reserves, which are already overworked and geologically difficult to mine. While there may be some truth to this claim with respect to gold, supporters of the policy point out that other minerals deposits in South Africa would lend themselves to small-scale mining; neighboring Namibia, for example, has a successful small-scale wollastonite operation.

Many of the potential opportunities and pitfalls facing the ANC as it devises a mining policy are suggested by the experiences of its neighboring countries. Examining the policy successes and failures of Zimbabwe, Zambia, Namibia and Botswana yields valuable insights into the possibilities for nationalization, the degree of power wielded by the giant mining companies, the importance of mining-related jobs in the regional economy and the role of small-scale mining.

Cleaning the Mining Mess

PRESERVING THE ENVIRONMENT has never been high on the agenda of South Africa's mining industry. The Republic's environmental regulations are few and have previously allowed self-regulation. In most cases, wealth creation has taken precedence over other issues, especially environmental concerns. All this is currently changing, as a new bill aims to pull the country's environmental regulations together under one Waste Act by the year 2000. This law will put the onus on the defendant to prove no negligence in environmental damage.

It also appears that the ANC intends to put environmental issues high on its agenda, despite its other pressing problems of development. This is heartening, considering that in the country's past, conservation has meant whites excluding blacks from national parks. ANC support in the environmental battle against a mineral sands mine proposed by Richards Bay Minerals (an RTZ subsidiary) at St. Lucia in Natal shows that the environmental lobby may at last, through mobilizing public concern, be gaining the upper hand against the mining industry.

— *R.M. & A.W.*

Zimbabwe and Namibia: broken promised lands

Both Robert Mugabe's ZANU in Zimbabwe and Sam Nujoma's SWAPO in Namibia fought wars of independence on the promise of driving the colonial and neocolonial masters from their countries. In both nations, this promise has failed to come to pass. RTZ, through Rio Tinto Zimbabwe and the notorious Rossing uranium mine in Namibia, and the South African mining houses continued to operate in the countries, largely unscathed, even after the success of the liberation movements; and now both economies are opening up for more overseas investments.

A lack of capital and expertise forced the hands of both governments. The companies had woven themselves into the fabric of the economy, which relied on mineral exports for foreign exchange earnings. The companies had systematically failed to train blacks and had refused to sink capital into the development of secondary industries, leaving the fledgling governments at the

mercy of their former masters. The economies were simply too poor and too dependent on export earnings to rely on redistribution of wealth to better the living standards of the majority of the population. The mining multinationals have maintained the upper hand, so that, for example, in Namibia, trade unions are still having difficulty winning official government recognition.

South Africa is already further down the road of diversification, despite the importance of mining to the economy, but the ANC is in no better position with regard to the power of the mining multinationals. The ANC must also grapple with the pent-up expectations of an impoverished majority. And the ANC carries unique burdens as well; the nature of the democratic transition means the new government will have to negotiate continuously with the corporate elite. It will be an extraordinary feat if the ANC is able to convince the mining houses to see the future in terms of all South Africans.

Botswana — success at a price

Botswana is seen as an economic success in the African minerals world. Although many of the country's economic accomplishments in the mining sector are due to reliance on the De Beers-controlled and environmentally damaging diamond industry, the Botswana government has placed a heavy emphasis on small-scale mining, especially as a means to create jobs.

Job creation is certainly a central concern in the new South Africa. (Finance Minister Derek Keys summed up National Party economic electioneering with the phrase "It's jobs, stupid.") But even as the unemployment rate in the formal sector remains at 53 percent, the modern mining industry is becoming less labor intensive and laying off workers. Although the big companies may supply taxes to rebuild the economy and indirectly create jobs, only small-scale mining holds out the possibility of making a dent in the national unemployment crisis.

The type of mining is also crucial in the question of who benefits from mining operations. Modern large-scale mining often involves the forced removal of local people from their land and an influx of migrant laborers, causing social disruption and disempowerment, along with environmental and health problems. In contrast, small-scale mining, as demonstrated by alluvial gold mining in Zimbabwe, can empower and offer direct financial benefit to local people, including women, who can supplement their incomes while maintaining their ties to the land. In order for it to be productive and not damaging to the environment, however, small-scale mining needs to be promoted and regulated.

The Botswanan experience also shows that nationalization of mineral rights can facilitate the development of a small-scale mining sector, by ensuring that small operations can gain control of lands that would otherwise remain in the control of the major mining companies.

Zambia — the demise of nationalization

Nationalization is certainly not a cure-all, however. In Zambia, the worsening performance of nationalized mining operations is fueling calls for the privatization of the Zambian government's majority share in its critically important ZCCM copper company. Mining companies, such as Gencor and Anglo-American — already a minority shareholder at 27.3 percent — and Rio Tinto Zinc, are lining up to become partners. While ZCCM is in

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Namibia's Rossing mine is the world's largest open caste uranium m

desperate need of new capital and there have undoubtedly problems with ZCCM management, many of the comp problems are due to the falling price of copper over the las decades. Privatization (now encouraged by the likes of the W Bank, which decades earlier encouraged Zambia to expa nationalized operations) would do nothing to solve the pr of depressed commodity prices, and there is little proof t increases efficiency through better management, rather tha cost cutting, primarily at the expense of African workers.

A generation of wealth?

The ANC has an unusual opportunity to learn from the l of post-independence Southern Africa's mining policies ov last few decades. It may well note that state control alone do necessarily ensure that mineral wealth will benefit the p Whereas the ANC appears to have more room to mar because of the dominance of South African production in markets, it is this very importance that gives the companie bargaining strength. It would be unwise to underestima power of South African mining houses to control and set th terms of the debate, so that the majority of South African ci are still excluded from the benefits of policy thinking. ■