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Mining - nationalisation uncertainty hampering growth

By Warrick Robertson

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The end of 2011 had mining output decline for the fifth consecutive month; however results for the fourth quarter of 2011 showed an improvement over the previous quarter. Only four of the 12 mining sectors posted positive growth rates.

The overall decline in mining production continues to be driven by negative growth in the three largest mining sectors, namely coal, gold and platinum group metals, all accounting for almost 70 percent of total mining production. Mining contributes 1 percent less to the country's total GDP than it did a decade ago, indicating that the mining sector has been unable to grow as rapidly as other sectors of the economy.

Decreased production

The challenges resulting in decreased production include labour regulations, employment agreements, work disruptions and mining fatalities. Last year the local mining sector was disrupted by strike action and safety stoppages due to fatalities. There were 116 fatalities in the sector compared with 128 in 2010 and 168 in 2009.

The mining industry has also had to contend with rising input costs from electricity prices and wage settlements. Above-inflation wage settlements of between 8 to 10 percent have been agreed upon. The slowing global economy presents another major obstacle to the industry, due to the Euro zone debt crisis. Demand for commodities is expected to soften in Europe and remain flat in Japan and North America.

Investor concerns

2012 should provide clarity on the government's stance on nationalisation. The issue has raised investor concerns and hampered investment in the sector. The call for the nationalisation of mines is fuelled by the belief that only with state intervention will South Africa be able to cure rising inequality, unemployment and poverty.

The South African government has assured investors that nationalisation does not form part of its policy, as this was just a proposal to assist with the maintenance of recent mismanagement of smaller entrepreneurial mines and will not be beneficial to the large players, which represent the majority of the sector.

Not the best way forward

In a review of nationalisation commissioned by the ANC, it was confirmed that this is not the best way forward. The report recommended an alternative could be increasing mineral taxes, as well as increased benefication.

Providing there are no unforeseen disturbances in 2012, production in the mining sector should stabilise. Increased safety regulations and newly negotiated wage agreements should ensure less disruption than in 2011. Confidence in the sector should also return to normal, once the issue of the nationalisation of mines is put to rest, returning foreign direct investment back to previous levels.

ABOUT THE AUTHOR

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