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WE LIKE THE MINES IN PRIVATE HANDS
THE BENEFITS OF THE SOUTH AFRICAN
MINING INDUSTRY

Report by the Solidarity Research Institute

February 2012

In times when talk of nationalisation is commonplace, and when the owners of capital are often casually denounced, it is not uncommon to come across highly negative treatments of the mining industry. Exposure to these sentiments might give the impression that the mining industry benefits only a very few, already very rich, owners, and that for the rest it is responsible for too few jobs, inequality, ecological ruin, an undermining of community vitality and any number of other ills.

But such a one-sided and often inaccurate treatment obscures the modernising and wealth-creating effects of an industry on which much of our modern standards of living rest. Because Solidarity believes that relations between employers in the mining sector and mine workers can be mutually beneficial, the Solidarity Research Institute undertook a brief study to serve as a reminder of the benefits of the mining industry.

As with any other economic activity, appraisal of the mining industry's value depends on appreciation of both costs and benefits. Whether these costs take the form of money expenses, pollution, disruption of community lifestyles or any of an infinite number of other possibilities, the fact is that the mining industry, like any other industry, comes with costs *in producing its benefits*. As long as mining companies properly internalise the costs of their activities by not shifting some bills to third parties – to which institutions like property rights, a union like Solidarity and organisations like AfriForum's GreenForum contribute – their continued operation means that their added value outweighs the costs.

In this report, the Solidarity Research Institute points to some of those benefits that generally outweigh the costs. The study is not representative of the entire mining industry and is only intended to provide some stylised indications. Five well-known, large public mining companies were selected for closer inspection based largely on the availability of data and for demonstrative purposes. They are Anglo American Platinum, AngloGold Ashanti, Harmony Gold, Exxaro Resources and Gold Fields, but the report includes references to other companies where topical events make it appropriate.

Rewarding investors

Who receives a mining company's profit? In the case of publicly traded mining companies, like the ones examined in this report, the answer is: everyone who owns shares. The two primary channels through which shareholders are rewarded are increases in share value, reflecting value created over time within the company, and dividend pay-outs, representing profit distributed to shareholders directly.

In this sense, a piece of a mining company's profit is available to anyone willing to forgo some consumption today and invest these savings in mining shares. Naturally, those who wish to have a slice of the potential profits of a company also have to bear the risk that the company might run a loss.

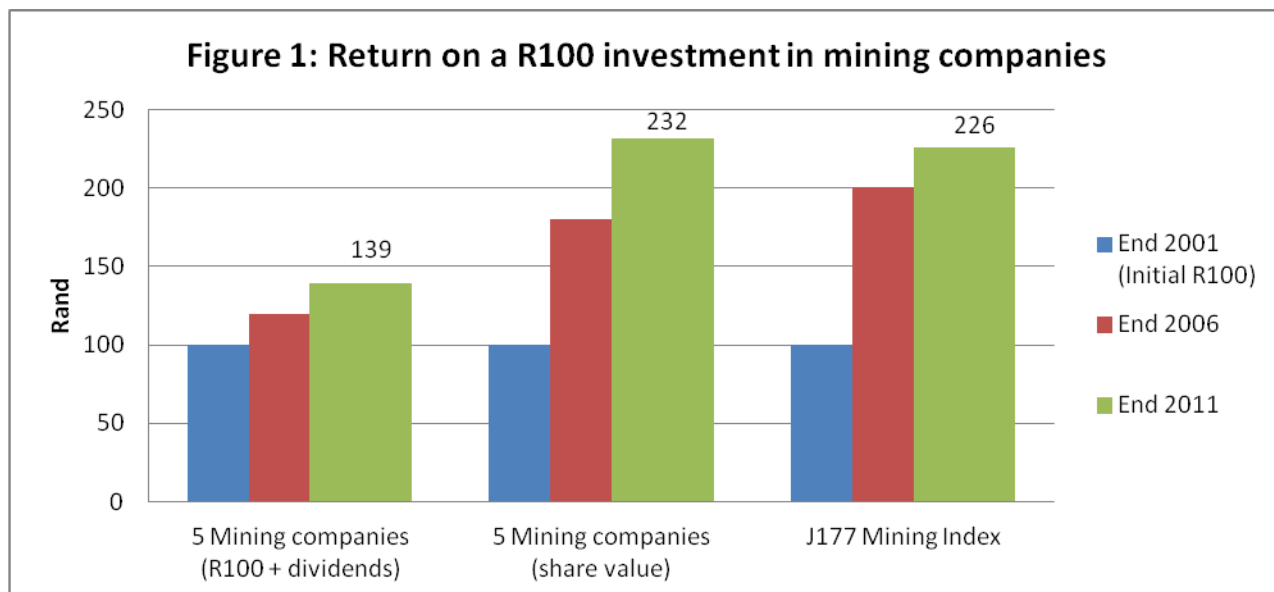
It is important to note that one of the major sources of investment in mining companies is institutions such as pension and provident funds and insurers. One estimate puts ownership of mining shares by these institutions at R407 billion, or 42% of all listed mining shares¹. Since it is estimated that 6,5 million of almost 9 million people in formal employment provide for their retirement² and that much of this provision is likely through the institutional channels mentioned, "the mines" are clearly owned in a very large part by "the people".

But just how much is the wealth created and "redistributed" in the form of share value appreciation and dividend pay-outs to the shareholders of mining companies?

Figure 1 gives an indication of potential returns on investments related to the mining industry. It depicts the share value appreciation and dividend yields on an equally spread R100 investment done at the end of 2001 for 5 and 10 years in the five selected mining companies; as well as the performance of a R100 investment linked to the JSE Mining Index (J177).

¹ Jac Loubser, Sanlam Group Economist, *State Intervention in the Mining Sector*, (2011)

² Accessed online on 17 January 2012 at <http://www.businessday.co.za/articles/Content.aspx?id=134887>



Between the end of 2001 and the end of 2006³, dividend yields would have fetched shareholders an annual return of 3,6% and for the ten-year term ending at the close of 2011 the annual return would have been 3,4%. Dividends alone would have seen an investor up almost 40% ten years later.

Over the same five-year and ten-year periods, share value appreciation (excluding any dividends paid) of the spread investment in the five mining companies would have resulted in an annualised return of 12,5% and 8,5% respectively. Every R100 would have turned into R232 ten years after the investment.

Return on investment in the five selected mining companies more or less matches that of growth in the JSE Mining Index J177, spanning 21 listed mining companies. An index investment over the same five-year and ten-year periods as above would have delivered annual returns of respectively 14,9% and 8,5%. Substantial as it is, this does not account for dividend income which would have further bolstered the investment return.

To be sure, factors like inflation, investment timing, business cycles and ordinary business risk should all come into play for a decision on whether this return makes an

³ Source: Own calculations based on data from Sharenet.co.za and Marketwatch.com. Dividends included according to dates declared. No brokerage fees included.

investment worthwhile or not, but sharing in this “profit redistribution” is nonetheless open to anyone willing to buy a share. And indeed, millions of South Africans do share in it, either through direct share ownership, or through institutional share ownership.

Rewarding employees

According to the Quarterly Employment Statistics released in December by Statistics South Africa, the Mining and Quarrying sector provided employment to 521 000 persons or more than 6% of formally employed South Africans. Additionally, the mining sector was one of the fastest to recover in terms of employment numbers after the 2008 global slowdown.

Events since 2006 indicate increased efforts by public mining companies to foster employee and public support – especially in communities located around mining activities. Firstly, a number of employee share ownership programmes (ESOPs) were put in place and secondly, corporate social investment (CSI) almost doubled in some mining companies.

At its core, an ESOP serves to align the interest of company and employee by including shares in the company in the broader employee remuneration package. In this way, employees share in the rewards of company growth, while also carrying some of the risk should the company underperform. That substantial rewards can accrue to employees through an ESOP is demonstrated by the experiences at Kumba Iron Ore.

In an ESOP launched by Kumba Iron Ore in 2006, 3% of the shares in the Sishen Iron Ore Company were transferred to Envision, a broad-based employee participation scheme. When phase one of this ESOP came to an end towards the end of 2011, 6209 permanent employees (including 5800 non-management employees) of Kumba Iron were each eligible for a cash pay-out option of R576 045. This added up to almost R2,7 billion to employees who had been with the company for the previous five years.

Naturally, not all ESOPs would render these spectacular results, but at companies like AngloCoal (via access to Anglo American shares) and Northam Platinum employees have nevertheless reaped or still stand to reap substantial rewards for contributing to

success at these companies. What is clear from these ESOPs is mining companies' willingness to share company profit not only with those who contribute capital, but also with those who contribute labour. In bringing the benefits of proper remuneration and incentive alignment for employees to the attention of mining companies, unions like Solidarity can and do play an important role in furthering this process.

Operating in a healthy environment

Each of the five mining companies examined contributed substantially to Corporate Social Investment⁴ between 2006 and the end of 2010. Spending patterns vary, but are concentrated in categories such as HIV/Aids, health infrastructure, sport support services, recreation and culture, adult education, university education, housing development finance, black economic empowerment and community development.

While it is difficult to compare and combine the CSI spending of different companies due to variations in their CSI initiatives, certain highlights are informative. For 2009, Anglo Platinum reported a CSI total of R175,8 million and for 2010, R118,7 million – hefty amounts that appear not even to account for substantial expenditure on black economic empowerment procurement and similar items. Harmony Gold reported a combined total of R82 million's worth of spending on CSI and Local Economic Development for 2010 – and again, this appears not to account for much of the company's black economic empowerment initiatives.

In encouraging CSI, it is often requested that mining companies plough something back into communities where they operate. But since mining company and community already both gain through the voluntary transactions (like employment contracts) on which the mining company's very existence rests, CSI is in reality much more than merely putting something "back".

Properly considered, CSI activities like skills development, the funding of arts, culture, sports and recreation and community health promotion are simply sound business

⁴ Company annual reports and company reports detailing corporate social investment and sustainability initiatives, 2006 – 2010.

decisions that add to the viability of the mining company by invigorating the relevant communities from which the company must draw its human resources. Once again, unions like Solidarity are well placed to alert mining companies to mutually beneficial possibilities in this regard.

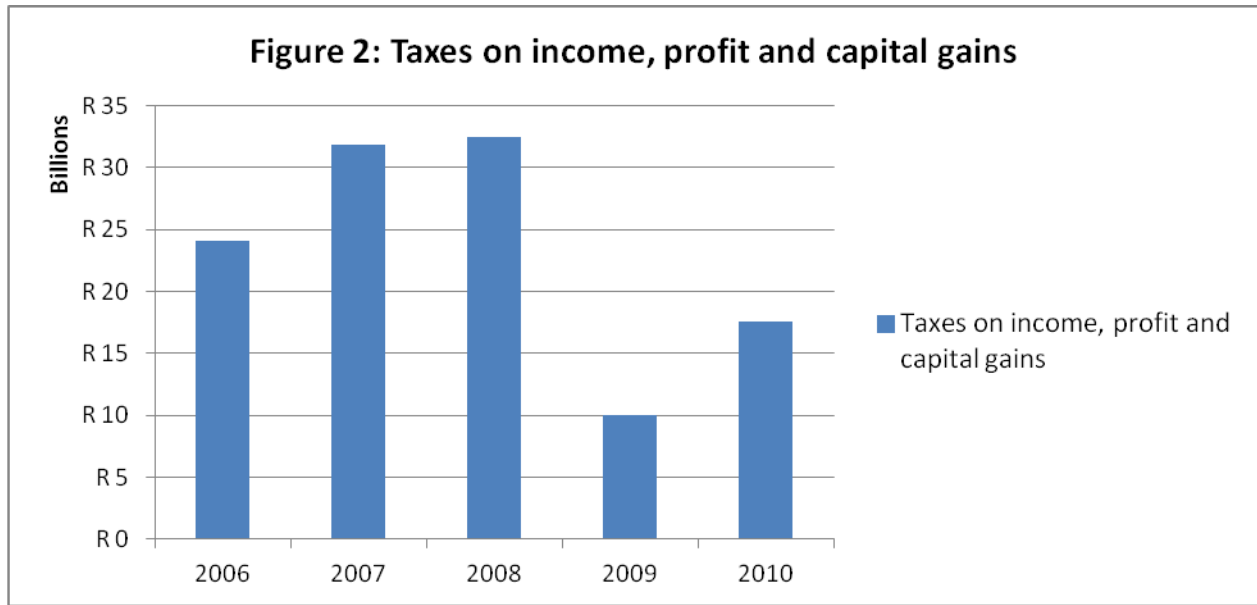
Of course, not all things that pass for corporate social responsibility are beneficial to company and community alike – as is most likely the case when mining companies are pressurised into accepting black empowerment deals that benefit only a small number of politically connected individuals at the expense of both the mining company and the relevant communities.⁵

Taxes and wealth reallocation

Taxation is one of the primary means by which governments finance their expenditure, by imposing charges on citizens and corporate entities. One of the most important reasons taxes are said to be collected, is to finance public goods and services. Necessarily, taxes collected by the government are not spent on taxpayers in proportion to their contribution, hence the notion of income redistribution through taxation. The substantial taxes paid by South African mining companies are therefore a contributing factor to the dispossession and reallocation of wealth in South-Africa through government's fiscal activities.

Figure 2 shows income, profit and capital gains taxes from 2006 to 2010.

⁵ Black economic empowerment programmes are often mentioned as part of corporate social responsibility or investment. See, for example, Harmony Gold's 2008 Sustainable Development Report.



The estimated total amount of income, profit and capital gains tax (hereafter ‘tax’) paid by companies in the mining and quarrying industry amounted to R116 billion over the five-year term. This is approximately enough to cover a whole year’s worth of what the National Treasury budgeted for items relating to basic education or more than a year’s worth of health items. In 2008 the industry paid tax in excess of R32 billion, more than two-thirds of the 2008 budget for consolidated housing and community development items.⁶ Taxes aren’t earmarked in this way, but comparing companies’ tax bills to government budget sizes provides perspective on the magnitude of the amounts of tax levied and paid.

For three of the years 2006 to 2010, tax paid by the mining and quarrying industry amounted to 5% or more of government expenditure for those years⁷.

Economic benefits

Besides providing investment returns to people ranging from wealthy investors to low-income pensioners, besides rewarding employees for value added and besides coughing up for substantial tax bills, the mining industry has economic effects that are much more profound and deeper, even if less obvious.

⁶ Own calculations from Quarterly Financial Statistics by Statistics South Africa, period 03/2006 to 12/2010.

⁷ Own calculations based on projected consolidated government expenditure in the national budgets 2006 –2010.

Firstly, the products of the mining industry are in most everything around us. Digging up and refining minerals and other resources from deep below the surface of the earth enables industries downstream in the manufacturing sector to provide today's rich diversity of consumer goods. These downstream activities – from basic beneficiation to final manufacturing – open up whole new frontiers for entrepreneurs and employees to find novel ways of adding value. Rough output first produced by those in the mining industry is in refined form in every computer, book, house, car, hospital and school, and so one can go on.

Secondly, each additional role player and each new innovation in the mining industry lowers the price of the commodities produced. The satisfaction of the consumer is the *sine qua non* – the indispensable element – of any production process and the mining industry exists because it causes the end users of its products to be better off. Through the lowering of prices – that is, making scarce resources less scarce – virtually every person on earth can acquire more means to his disposal in the pursuit of his dreams.

Thirdly and incredibly, all these benefits accrue to consumers even if they have no part in ownership of the means of production – of the capital – that is the mining industry. Without having to care for or take any risk in any mining company, without having to have had any part in its production, even people of meagre means today have access to life-sustaining and life-improving products, like cell phones, that only decades ago were unimaginable. As the 20th century economist Ludwig von Mises explained, customers who have no share in the means of production still share in its fruits:

To have production goods in the economic sense, i.e. to make them serve one's own economic purposes, it is not necessary to have them physically in the way that one must have consumption goods if one is to use them up or use them lastingly. [...] All means of production render services to everyone who buys or sells on the market.⁸

⁸ Von Mises, L. (1981). *Socialism: An Economic and Sociological Analysis*. Indianapolis: Liberty Fund: p. 31 *in* Huellsmann, J.G. (2007). *Mises, the Last Knight of Liberalism*. Alabama: Ludwig von Mises Institute: p. 408 –409.

In comparison with the pure for-profit business activities of mining companies – delivering products at cheaper rates than virtually ever before in history – the combined share value increases, dividend pay-outs, employee remuneration, CSI and taxes may very well pale, noteworthy as they are.

Conclusion

The intention with this brief investigation was to serve as a reminder of the value of the mining industry. That mining activities come with negative consequences to many persons and interest groups is not in dispute, but this investigation does provide reason to allow for generous appreciation of the positive aspects of the mining industry. It is clear that over the last 10 years mining companies have, through dividend pay-outs, share value accumulation, employee compensation, CSI and tax payments, made valuable contributions to the lives of their shareholders, employees and the communities in which they are active, and have also had to deposit much in the state's coffers.

Less often noted – but none the less dramatically real – mining companies have created wealth and enriched the lives millions of people all over the world through their for-profit business activities.

Lest it seem odd that a labour union is praising mining companies, it should be mentioned that Solidarity believes in a complementary relationship between employer and employee. Our members – through the value they add – and their employers, both the managers providing leadership and the shareholders who provide the necessary capital, all deserve credit for the achievements in the mining industry. And we look forward to a complementary relationship through the value we add in what seems to be turbulent times ahead.