NSP 13

CHAMBER OF MINES OF SOUTH AFRICA
Serving South Africa's Private Sector Mining Industry since 1889

5 Hollard Street
Johannesburg 2001
P O Box 61809
Marshalltown 2107

Telephone: (011) 498-7100
Industrial Relations Telefax: (011) 834-3176
Internet: http://www.bullion.org.za

16 October 2009

Ms Teboho Sepanya
The Committee Secretary
P O Box 15
Cape Town
8000

Via E-mail: tsepanya@parliament.gov.za
Via Fax: 086 519 0436

Dear Ms Sepanya

SUBMISSION ON THE GREEN PAPER ON NATIONAL STRATEGIC PLANNING.

The Chamber of Mines welcomes the approach in the Green Paper, in particular the fact that more integrated planning is envisaged, that the implications of policy decisions will be better determined, and that coordinated implementation will be monitored.

The stakeholders in the mining industry, i.e. business, labour and government have embarked on a process to develop a Vision 2025 for the mining industry. The parties' intention is that this should form an important building block of the National Vision 2025. This is because the mining industry is in many respects a critical component of the South African economy, but especially from the point of view that it is directly and indirectly responsible for more than half of the merchandise exports of South Africa.

The process towards developing this Vision for the mining industry is explained in the attached memorandum. Some other comments on the Green Paper are also provided in the document.

The Chamber of Mines also wishes to make a verbal presentation on the Green Paper.

Yours sincerely

M G DILIZA
CHIEF EXECUTIVE

C H A M B E R O F M I N E S O F S O U T H A F R I C A

Serving South Africa's Private Sector Mining Industry since 1889

5 Hollard Street
Johannesburg 2001
P O Box 61809
Marshalltown 2107

Telephone: (011) 498-7100
Industrial Relations Telefax: (011) 834-3176
Internet: http://www.bullion.org.za

16 October 2009

SUBMISSION REGARDING THE GREEN PAPER: NATIONAL STRATEGIC PLANNING

1. INTRODUCTION

The Chamber welcomes the publication of the Green Paper and also the broad approach of the Green Paper. In particular, it supports the need for a long term vision and proper planning to address the various challenges the country faces. The Green Paper quite rightly refers to the dangers of ad hoc planning and of ad hoc solutions which are not thought through.

The emphasis on integrated planning and on co-ordination between Government departments is fully supported, because as the Green Paper points out, such coordination has in the past been inadequate.

The Green Paper also refers to the fact that there is no central agency to drive overall monitoring and evaluation from the centre of government. The Chamber strongly welcomes these sentiments, as the Chamber has long been of the view that some government policies have unintended consequences that are not always considered or acknowledged when the relevant policy is considered from a narrow perspective. Furthermore, some government policies are also not sufficiently monitored in respect of impact and/or implementation, and the approach in the Green Paper will go a long way in addressing these shortcomings.

The Chamber also fully supports the view that the long-term plan (or Vision 2025) should have broad support of society and the major actors in society. The Chamber is making some comments in this submission as to how support by the major stakeholders could be further enhanced.

2. VISION 2025 FOR THE MINING INDUSTRY

The Green Paper refers to the outcomes of planning of each department feeding into the development of the national strategic plan, and the sector plans in turn having to take account of the national plan. This approach is fully supported.

In this regard the stakeholders in the mining industry have already embarked on a process to develop a Vision 2025 for the mining industry, which could serve as an important input into the development of the national plan. In this regard the stakeholders envisage the mining industry contributing to the objective outlined in the Green Paper, namely that all social partners should fully appreciate their role and contribute, jointly and severally, to lifting growth and development to a higher trajectory.

South Africa is blessed with a rich resource endowment, which can provide major advantages in terms of economic growth and national wealth creation:

¶ *Firstly,* the industry is a very large net generator of foreign currency earnings, accounting for about 50% of merchandise exports and attracting significant capital inflows to South Africa (estimated to be 35% of all financial inflows in 2008). This is a critically important contribution as it helps keep the country's current account deficit manageable and attract the foreign savings that finance this deficit.

¶ *Secondly,* the industry is a significant generator of employment in the economy. In 2008 about 518 000 people were directly employed in mining, and through the indirect multipliers combined with the induced effect of mining expenditures another approximately 500 000 people hold mining-related jobs in the rest of the economy. These 1 million jobs account for 12% of all formal, non-agricultural employment in the economy.

¶ *Thirdly,* mining through various multipliers and the induced effect of mining accounts for about 18% of GDP, which is substantial by any standard. The critical issue here is that there is a substantial cluster of supplier industries that serve the mining industry, and there is a substantial cluster of downstream industries that use mining outputs. These industries combined with mining are a key force for investment and growth in South Africa.

Even after the recent economic downturn, with most commodity prices going into a freefall by end of 2008, the long term, upward trend still seems to be intact driven by demand from emerging markets such as China and India. Therefore, resource-rich countries should have a bright economic future, being able to enjoy economic growth and wealth creation through their mining industry.

However, this is not necessarily the case for all resource-rich countries, as experience during the last commodities boom has shown. There has been little or no growth in the mining sector of South Africa over the last four years, indicating that South Africa has not been able to benefit from the recent global commodity boom. In the period 2001 to 2008, the average compound annual growth rate in mining GDP for the top 20 mining countries is estimated with 5% in real dollar terms. By contrast, South Africa's mining sector declined by more than 1% per annum over the same period. This missed opportunity for our mining industry has lowered overall economic growth, exports and slowed socio-economic development. If the South African mining industry had grown at a similar pace to its foreign counterparts another R50 billion in real GDP and more than 40,000 direct mining jobs could have been created.

2.1 International experience of the outcome of resource endowments

Although there seems to be an intriguing logic between resource endowment and economic growth, history shows that countries struggle to turn this logic into reality. For each success case (e.g., Chile and Australia), there are examples of states where the natural resources have only benefited a small elite, cementing autocratic structures (e.g., Guinea) or caused wars and destruction (e.g., Sierra Leone and DRC). In that context, people even speak of the "resource curse".

There are a number of success stories where resource-rich countries have been able to convert their resource wealth into economic prosperity. Countries such as Chile, Australia, Canada, Tanzania, Botswana and in certain respects, South Africa, are such examples.

In the 20 years to 2006, Chile's poverty rate fell from 45% of the population to just 13.7%. During this time, copper output grew by over 7% annually, contributing significantly to the economy. Today, Chile is highly rated as an investment location due to good quality reserves coupled with favourable legislation and operating conditions.

Australia, similarly has seen a boom in their mining industry due to large amounts of investment in a number of commodities (e.g., iron ore, coal). In 2004, Australia embarked on a programme called 'Enduring Value' – their framework for Sustainable Development, with the aim that investments in minerals projects be "financially profitable, technically appropriate, environmentally sound and socially responsible". In this way, they have been able to grow value add by 7 percent p.a. in real terms from 2001-2008 while delivering a high level of sustainable development.

Botswana has seen similar success over the years, with Debswana widely recognised as one of the most successful public-private partnerships in the global mining industry. Mining and quarrying contributes almost 40% to Botswana's GDP.

2.2 Vision for the South African mining industry

The South African mining industry is a global leader and a large contributor to the local economy. Currently, the mining industry contributes directly to around 7% of SA's GDP (18% through the indirect and induced contributions) and to around 50% of merchandise exports. In 2008, it employed more than half a million people, 25% more than in 2001.

Progress has been made in this industry on some dimensions of transformation, e.g., raising employment, wage levels, and driving black economic empowerment, but the industry is still far from being fully transformed and socially acceptable, e.g. in terms of safety. Moreover, total production volumes have been stagnant over the last years and thus, South Africa has not been able to benefit from the past commodity boom. In addition, a large part of South African mining requires long lead times to develop green or brown fields, and often entails high financial risk due to the technological and other challenges of mining. These challenges are not always found to the same extent in other countries with rich resource endowments.

Consequently, the South African mining industry is at a crossroads today. The mining industry has not been able to realise its full potential as a key contributor to economic growth and national wealth creation, despite a favourable resource endowment. As it stands, the industry missed the last resource boom and is unfavourably positioned to leverage long term demand growth trends.

In order to re-position the industry, the underlying reasons and key issues restricting the mining industry from developing its full potential should be addressed through Mining Vision 2025. The Department of Mineral Resources, the Chamber of Mines, the National Union of Mineworkers and SAMDA have agreed on a joint process to develop Vision 2025 for the mining industry. It is envisaged that this Mining Vision would eventually form a critical input into the national Vision 2025.

The above mentioned stakeholders are currently in the process of drafting position papers on two issues, namely –

- Global competitiveness
- Transformation

The purpose of these position papers is to serve as a basis for a stakeholder engagement process that will commence towards the end of October 2009. It is hoped that this engagement process will lead to the stakeholders being aligned on a Mining Vision 2025 early in 2010.

3. OTHER COMMENTS ON THE GREEN PAPER

3.1 Role of stakeholders

The Green Paper in various sections refers to the importance of a partnership between the public and private sectors. Reference is made to the intention to have "extensive consultations" with worker and business leaders. As the Green Paper quite rightly points out, the involvement and support of stakeholders are critical for the success of the long term vision and plan.

The mechanism for involving the stakeholders is less clear. It appears as if the Minister for National Planning will be responsible for this task. The Green Paper proposes a National Planning Commission to develop a national plan for the country, but stakeholders do not serve on this commission. The Green Paper proposes that "respected thinkers" serve on the Commission ("prominent individuals with expertise and intellectual capacity to develop a long-term vision"). The Minister for National Planning will thus "facilitate between the commission and broader society". In addition, the Green Paper foresees that institutions such as the Presidential sector forums and Nedlac will be used for consultation with stakeholders.

The exclusion of business and labour stakeholders from the Planning Commission might lead to the marginalisation of the most important contributors to economic growth, namely business and labour. Even though the Green Paper lists some concerns about the involvement of stakeholders (namely that attempts to develop joint strategies usually become national negotiations with the lowest common denominator being the outcome), there are mechanisms to address these shortcomings. The importance of obtaining the full support of these stakeholders is simply too overwhelming to marginalise their role to mere consultation. It would also not be sufficient to simply consult through other bodies or structures, when the primary work and planning is done in the National Planning Commission.

It is thus proposed that organised business and labour should also be represented on the National Planning Commission. However, there is also a role for individual experts on the Commission - the potential shortcomings of the stakeholders negotiating on narrow interests can be addressed by the involvement of such individual experts.

3.2 Planning not necessarily a panacea

The Chamber supports the comment in the Green Paper that planning is not necessarily a panacea, and that there are examples of major countries where planning had directly led to poor outcomes, which often took many decades to rectify.

The Green Paper lists four requirements for good development planning, namely solid institutions, a highly capable state, strong relationships between major social forces, and clear focus on the strategic objective across the board. The Chamber fully supports these sentiments, but would like to add a fifth critical element, namely an appropriate balance between planning and market factors. Only if the right balance is achieved, can the shortcomings of an overly centralised planning system and that of an unbridled free market system be overcome, which will lead to economic growth and development for the benefit of the country as a whole.

The remarks in the Green Paper that weaknesses cannot be put right through the spontaneous agency of the market, or that markets on their own cannot initiate and lead such fundamental change, are fully supported. What is required, however, is the right mix between the agency of the market and the role and scope of national planning.