



**The impact of the proposed nationalisation of South African mines on
employment in the platinum sector**

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Abstract

Many forums have been recently organised in South Africa to discuss the level of State intervention in the minerals sector, the expropriation of private mining companies, and the transfer of mineral wealth to the people. The objective of this research was to explore the possible impact that the nationalisation and the introduction of a resource rent tax will have on the capability of platinum mining companies to create sustainable employment while remaining profitable in South Africa.

The research was qualitative and exploratory in nature. The sampling frame included major platinum group metals companies, which constitute an industry concentration of more than 50 per cent. Semi-structured interviews were conducted with 13 senior managers and executives from the platinum mining industry.

The results have shown that nationalisation of platinum mines, where the government has total ownership or majority control of the company, will not create sustainable employment in South Africa. In addition, nationalisation of mines will isolate South Africa from external capital because private investors have been reluctant to put their money where mining companies were nationalised, especially in Africa. Although the introduction of a resource rent tax may be viable in a short term, it is believed that the competitiveness of mining companies operating in South Africa will be compromised.

Keywords: Nationalisation of mines, resource rent tax, job creation

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Makunga Daudet Seke

Signature _____

Date _____

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Table of Contents

Abstract.....	ii
Declaration.....	iii
Acknowledgements.....	iv
Chapter 1: Introduction to the research problem.....	1
1. Problem definition and purpose.....	1
1.1. Problem definition.....	1
1.2. Background to the proposed nationalisation of South African mines.....	2
1.3. Relevance to South Africa.....	6
1.4. Objectives.....	7
Chapter 2: Literature review.....	8
2.1. Introduction.....	8
2.2. Nationalisation and privatisation of mines in Chile.....	8
2.3. Nationalisation and privatisation of mines in Peru.....	12
2.4. Nationalisation and privatisation of mines in Zambia.....	13
2.5. Principles of resource rent taxation.....	16
2.6. Unemployment in South Africa.....	18
2.7. State intervention in the minerals sector (SIMS) in South Africa.....	22
2.7.1. Nationalisation of mining companies.....	23
2.7.2. Capturing the resource rents.....	23
2.7.3. Job creations opportunities.....	25
2.8. Conclusion to literature review.....	25
Chapter 3: Research propositions.....	28
Chapter 4: Research methodology.....	29
4.1. Research design.....	29
4.2. Scope.....	30
4.3. Population and sampling techniques.....	30
4.4. Data collection and analysis.....	31
4.4.1. Research instrument.....	31
4.4.2. Data collection.....	32
4.4.3. Analysis of data.....	32
4.5. Research limitation.....	33

Chapter 5: Results	35
5.1. Introduction.....	35
5.2. Research proposition No. 1: Sustainable employment cannot be created if mining companies are not profitable	36
5.2.1. Creation of sustainable employment in the past five years	36
5.2.2. The creation of sustainable employment in the next five to ten years	41
5.2.3. Creation of employment after nationalisation of mines	45
5.2.4. Reasons for the nationalisation of mines.....	46
5.2.5. Motivation for the nationalisation of mines	48
5.3. Research proposition No. 2: Nationalisation of mines can adversely impact the inflow of foreign capital in the host country	49
5.3.1. Wholesale nationalisation and State participation in the mining industry	49
5.3.2. Insulation to international capital and job creation	51
5.4. Research proposition No. 3: Mining companies are usually wary of investing in countries with unstable fiscal systems	52
5.4.1. The introduction of a resource rent tax	52
5.4.2. Certainty and stability of policy	55
5.4.3. Viability of the introduction of the resource rent tax.....	57
5.4.4. Proposed tax regime.....	58
5.5. Summary.....	59
Chapter 6: Analysis of results	60
6.1. Introduction.....	60
6.2. Sustainable employment cannot be created if mining companies are not profitable	60
6.3. Nationalisation of mines can adversely impact the inflow of foreign capital in the host country	62
6.4. Mining companies are usually wary of investing in countries with unstable fiscal systems.....	64
Chapter 7: Conclusion	68
7.1. Introduction.....	68
7.2. Summary of results	68
7.3. Limitation.....	69
7.4. Recommendations	70
7.5. Future research	71
References	72
Appendix 1: Interview guide	78

List of Figures

Figure 4.1: Coding and analysis of interview transcripts in ATLAS.ti	33
Figure 5.1: Average number of employees at work for four PGMs producers	38
Figure 5.2: Platinum net demand by industry	39
Figure 5.3: Monthly average metal prices	40
Figure 5.4: Average number of employees at work in the mining and quarrying industry	41
Figure 5.5: Annual capital expenditure of four PGMs producers	43
Figure 5.6: Net margin of four PGMs mining companies	53
Figure 5.7: Return on equity (ROE) of four PGMs mining companies	53
Figure 5.8: The most problematic factors for doing business in South Africa	57

Chapter 1: Introduction to the research problem

1. Problem definition and purpose

1.1. Problem definition

Several governments have shown their capability to create employment through State intervention in the minerals sector (Bozutzky, 2005; Champion, 2001; Petras, 1973). According to Shafer (1983), Third World governments have expected to generate major gains on a variety of issues through nationalisation of private companies. Shafer (1983) argued that these governments have expected to free themselves from the position of captive producers in private companies and to wrest over the control of national resources from foreigners. According to Shafer (1983), these governments thought that nationalisation would make rational economic planning possible and enhance the government's financial position and promote economic growth. They also wanted to generate greater employment opportunities and a more rapid advancement of their citizens to all levels of company management (Shafer, 1983).

However, many governments have not managed to sustain the economic growth, profitability of nationalised mines and employment in time of lower commodities prices and higher operating costs (Bozutzky, 2005; Champion, 2001; Petras, 1973). In many instances, nationalised mines had to be privatised in order to relieve the State from financial debts (Jeffery, 2007; Champion, 2001).

In 2010, the African National Congress Youth League (ANCYL) adopted a document that called for the nationalisation of South African mines in order to transfer ownership of the minerals wealth to the people (The African National Congress Youth League, 2010a). Although the presidency has stated that nationalisation was not government and ANC's policy, the African National Congress (ANC) asked a task team to study the possibility of State intervention in the mineral sector (SIMS) (The African National Congress, 2012). The recommendations of the SIMS report, which include the introduction of a resource rent tax in the minerals sector, are currently on the public domain and will be discussed at the 53rd National elective Conference of the ANC to be held in Mangaung in December 2012.

This research is informed on the call by the ANCYL to nationalise the South African mines in order to create employment for the people (The African National Congress Youth League, 2010a) and on the recommendations of the SIMS report (The African National Congress, 2012). The research aims to explore the views and opinions of the private mining sector on the issues of nationalisation and the introduction of a resource rent tax as discussed in the SIMS report (The African National Congress, 2012). To date, the views and opinions of the private sector have not been explored extensively and the mining industry has not been as vocal as it should be. This research will focus on the creation of sustainable employment and profitability of mines under the nationalisation environment.

1.2. Background to the proposed nationalisation of South African mines

Since 2010, the ANCYL has fuelled the debate around the nationalisation of mines in South Africa. Many debates and forums have been recently organised in South Africa to discuss the level of State intervention in the mining industry, the expropriation of private mining companies and/or the transfer of mineral wealth to the people. The nationalisation debate has created a bleak future for investment in the South African mining industry.

The ANCYL has defined the nationalisation of mines as “the democratic government’s ownership and control of Mining activities, including exploration, extraction, production, processing, trading and beneficiation of Mineral Resources in South Africa” (The African National Congress Youth League, 2010a, p. 2). The ANCYL also believes that the nationalisation of mines “should happen through a democratic, open and decisive legislation of Parliament, which will ensure that all Mineral Wealth is used for the benefit of the people, development and growth of South Africa’s economic activities” (The African National Congress Youth League, 2010a, p. 2). The ANCYL has argued that with nationalisation, South Africa will be able to achieve the following:

- Increase its fiscal capacity and better the conditions of its people (The African National Congress Youth League, 2010a, p. 12);

- Attract industrial investors, who will contribute to the growth of the economy, transfer skills, education and expertise to locals and give them sustainable jobs (The African National Congress Youth League, 2010a, p. 13).

The ANCYL has proposed that nationalisation of mines could be seen as 100 per cent public ownership, or 51 per cent or more owned by the State, or established through partnership arrangements with the private sector in which the State assume greater control (The African National Congress Youth League, 2010a). The African National Congress Youth League (2010a) has argued that depending on the balance of probabilities, the State can expropriate not less than 50 per cent of the existing Mines. In addition, depending on the merits of each case based on “balance of evidence”, nationalisation may involve expropriation with or without compensation. The ANCYL has proposed three different models, which on implementation should be accorded equal focus and attention without compromising or giving much attention to any of the three components (The African National Congress Youth League, 2010a):

- Establish a State Mining Company that will own and control South Africa’s mineral resources;
- Put in place a democratic, open and clearly defined expropriation (with and without compensation) model, and
- Amend the Minerals and Petroleum Resources Development Act to allow greater State participation in the exploration, extraction, production, processing, trading and beneficiation of Mineral Resources in South Africa. (The African National Congress Youth League, 2010a, p. 17)

The ANCYL has argued that the ANC’s Freedom Charter adopted in Kliptown on the 26th of June 1955, stipulates that: “*The People shall Share in the Country’s Wealth*”, and therefore (The African National Congress, 1955):

- *the national wealth of our country, the heritage of South Africans, shall be restored to the people;*
- *The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole;*
- *All other industry and trade shall be controlled to assist the wellbeing of the people.*

The ANCYL believes that this section of the Freedom Charter is a policy of the ANC and should be used to motivate the nationalisation of mines in South Africa. The African National Congress Youth League (2010a) believes that the Freedom Charter's commitment and objective that *"the mineral wealth beneath the soil, banks and monopoly industries shall be transferred to the ownership of the people as whole"* is understood in the ANC to mean amongst other things, nationalisation of mines (The African National Congress Youth League, 2010a,b). The ANCLY also believes that the Freedom Charter should be the foundation of any policy of the ANC government.

The call for nationalisation of mines has been supported by the Congress of South African Trade Unions (COSATU). COSATU's General Secretary, Mr Zwelinzima Vavi, said that nationalisation was the only thing that could bring South Africa out of a corrupt capitalist economy and bring money to the people (Sapa and Mail & Guardian, 2011). Mr Vavi added that COSATU was a strong proponent of the Freedom Charter and supported nationalisation of mines, the banks and monopoly industry (I-Net Bridge, 2011). Prof Christopher Malikane, COSATU's economist, stated that all COSATU affiliates were in favour of the nationalisation, including the National Union of Mineworkers (Prinsloo, 2011).

However, both Mr Jacob Zuma, the President of South Africa, and Ms Susan Shabangu, the Minister of Minerals and Resources, have argued that the nationalisation of mines was not a policy of the ANC. Ms Shabangu stated that the ANC would not nationalise the mines as it was not viable for South Africa (Sapa, Bloomberg and Faku, 2012). In the meantime, the ANC has requested an in-depth study on the intervention of the State in the minerals sector (SIMS) (The African National Congress, 2012). The SIMS report has argued that nationalisation of the mines would be an expensive option for the country and has proposed amongst other things, the introduction of a resource rent tax in the minerals sector (The African National Congress, 2012). The SIMS report has also argued that the mineral wealth of South Africa was transferred to the ownership of the people through the Minerals and Petroleum Resources Development Act of 2002 (The African National Congress, 2012).

In his State of the nation address (The Presidency of the Republic of South Africa, 2009); President Zuma acknowledged that the mineral wealth of South Africa was a national asset and a common heritage that belongs to all South Africans, with the State as the custodian. President Zuma said that South Africa had significant mining assets,

currently valued at \$2.5 trillion. By 2009, the mining industry contributed more than thirty per cent to the country's total export revenue, and employed 2.9 per cent of the country's economically active population (The Presidency of the Republic of South Africa, 2009). President Zuma also said that in order to take advantage of this potential; government had endorsed the African Exploration, Mining and Finance Corporation (AEMFC) as the state-owned mining company that would undertake the mining of minerals of strategic significance (The Presidency of the Republic of South Africa, 2009). The president has argued that government should prioritise the adoption of a beneficiation strategy (The Presidency of the Republic of South Africa, 2009).

Roger Baxter, the Chamber of Mines Chief economist, cautioned against “killing the goose that lays the platinum eggs”. Baxter indicated that nationalisation could put South Africa back by 30 to 40 years (Prinsloo, 2011). This is supported by the Kwazulu-Natal Treasury’s economist Clive Coetzee (2010), who concluded that nationalisation of the mine would increase unemployment, poverty and inequality, and government would not be able to react to the free-falling domestic economy (Inggs, 2010).

Speaking at a "Mining for change" seminar in Johannesburg organised by AngloGold Ashanti and Motjoli Resources, Bobby Godsell, former CEO of AngloGold Ashanti, said the underlying problems in South Africa were lack of jobs and the inequality of income distribution in the South African economy (Ryan, 2011). Godsell stated that the demand for nationalisation was based on outdated notion of how capital was formed in advanced industrial capitalist societies, as well as an outdated notion of "what government is and how government works". He also emphasised that South Africa needed growth instead of nationalisation (Ryan, 2011).

Mining law expert Hulme Scholes of CJB Investment Advisers presented, during September and October 2010, his “Road to Nationalisation” talk to mines and banks in South Africa (Ho, 2010). Scholes warned that mines need to separate their fear of being victimised by the State through actions such as having conversion rights or other rights rejected or delayed, and to educate government on the consequence of nationalisation (Ho, 2010). Scholes argued that government was not getting the full picture and industry has not been as vocal or clear as it should be (Ho, 2010).

1.3. Relevance to South Africa

Mining is one of the most important sectors in South African's economy. South Africa is the world's first-largest producer (77 per cent) of platinum and produces a large proportion of the world's chrome, manganese, iron ore, coal and gold. The Chamber of Mines of South Africa has reported that:

The mining sector, which accounts for over seven per cent of the country's gross domestic product (GDP), provides employment to approximately 500 000 workers and has mineral resources estimated at US\$2.5-trillion – the largest in the world – is facing economic and other challenges that are likely to impede its growth if not managed properly. (The Chamber of mines of South Africa, 2010, p. 3)

One of the major challenges facing South Africa is the high unemployment rate of its labour active population (Altman, 2006; Robbins, 2010). Unemployment has been in the front end of government policies since 1994. From 1996-2000, the government came up with an open market and privatisation policy called "the Growth, Employment and Redistribution" (GEAR) (The Presidency of the Republic of South Africa, 2004). GEAR was followed by another macroeconomic policy called "the Accelerated and Shared Growth Initiative" (ASGISA) which also aimed to decrease the unemployment rate, improve economic growth and equity (The Presidency of the Republic of South Africa, 2004).

The framework of the New Economic Growth Path (NGP) is a policy aimed at enhancing growth, employment creation and equity (Republic of South Africa, Economic Development Department, 2010). The NGP has promised to create approximately 500,000 jobs every year over the next 10 years. The NGP advocates looser monetary policy, promotes social expenditure and youth employment. Although the NGP seems to support partnership between government and the private sector, there is strong evidence of State intervention in the implementation of its objectives

(Republic of South Africa, Economic Development Department, 2010). The National Planning Commission (2011) has argued that employment can be raised through faster economic growth. Its National Development Plan has proposed the creation of approximately 11 million jobs by 2030 (The National Planning Commission, 2011).

Since South Africa produces approximately 78 per cent of the world's platinum and has approximately 80 per cent of the World's platinum reserve; the Platinum Group Metals (PGMs) can be classified as strategic mineral resources of South Africa. Therefore, it is imperative to explore the opinions and views of the platinum group metals (PGMs) industry on the nationalisation of mines and the introduction of a resource rent tax in South Africa.

1.4. Objectives

This research aims to explore the possible impact that nationalisation and the introduction of a resource rent tax will have on the capability of platinum mining companies to create sustainable employment while remaining profitable in South Africa.

Chapter 2: Literature review

2.1. Introduction

Mohr, Fourie and Associates (2008) have defined nationalisation as the situation where the government takes ownership or management of private enterprise with or without compensation. This chapter will review the nationalisation and privatisation of various companies in Chile, Peru and Zambia in order to gain an understanding on the nationalisation of mines. The ANC's report on the State intervention in the minerals sector (SIMS) in South Africa, which calls for greater taxes from mining companies, will also be reviewed in order to understand its impact on the creation of sustainable employment in the South African's mining sector. The nationalisation's lessons from Chile, Peru and Zambia can be applied to the platinum companies operating in South Africa. The perception of trade unions members such as National Union of Mines workers (NUM) and COSATU can have a different outcome on the objective of nationalisation of mines as seen by the ANC's government. Literature on unemployment and job creation opportunities in South Africa will also be reviewed.

2.2. Nationalisation and privatisation of mines in Chile

According to Kragt (2005), Chile is endowed with rich mineral resources, especially copper, and the copper industry has provided the base for the Chilean's economic growth and development for more than 150 years. Petras (1973) studied the nationalisation, socio-economic change and popular participation in Chile. Chuquicamata and El Teniente copper mines were expropriated from the United States of America (USA) foreign investors when president Salvador Allende, a Marxist activist, took office in 1970 and implemented widespread nationalisation. Allende introduced the state-owned copper producer which was later named the Corporation National de Cobre de Chile (CODELCO) through Decree Laws 1,349 and 1,350 on 1 April 1976 (Singh, 2010). Allende was Chile's first socialist president who promised to nationalise the mineral industry and redistribute the land. While the nationalisation of mines was celebrated throughout Chile as a historic national occasion, in Chiquicamata workers went about their routine business (Petra, 1973). There was fear that they would lose

their social gains. Most workers felt that government should pay little or no compensation to previous shareholders of the mines (Petra, 1973). While more mine workers in El Teniente favoured nationalisation of mines, their perception of nationalisation was different to the leader of the Left (the Socialist Party, the Communist Party and the Radical Party). For the workers it was seen as a means of substantially improving their economic levels -not a stimulus to national development- though the national development outlook was being promoted by trade union leaders (Petra, 1973). Petra (1973) concluded that while trade unions leaders tend to perceive nationalisation as a means of capitalising the economy and developing new industries, workers tend to perceive it in terms of better living standards and other immediate benefits. In addition, Edwards and Edwards (2000) argued that the conflict between unions and the private sector increased during the Allende administration, when many unions used force to take possession of the companies where they worked and gave government an excuse to nationalise.

However, the Allende's Chilean Road to Socialism ended violently on September 11, 1973, when General Pinochet took control of the government. Pinochet government was based on the application of market economics ideas, known in Chile as neoliberal ideas, which called for a reduction of the State's social functions and a transfer of economic functions to the private sector through a set of policies known in Chile as modernisation (Borzutzky, 2005). The involvement of a group of Chilean economists trained at the University of Chicago was important in the development and implementation of these policies. Although Pinochet did privatise most of the state-owned enterprises, CODELCO was not privatised. Throughout the Pinochet period CODELCO was managed by a military and saw copper as emblematic of patriotism. Pinochet retained CODELCO whilst aiming to bring in foreign capital by making mining attractive for foreign investment (Singh, 2010). Singh (2010) argued that mining liberalisation led to the most interesting outcome in Chile. Despite nationalisation of copper, about 70 per cent of Chilean mineral production is produced by the private sector whereas 30 per cent is produced by CODELCO and Enami (Singh, 2010).

Kragt (2005) argued that the establishment of CODELCO, the state-owned copper producer, increased government's revenues. In addition, the revenues from the mining sector were carefully managed. According to Kragt (2005), the appropriate economic policies and political changes following the restoration of democracy in Chile,

contributed to the positive results that were observed. These positive results can be summarised as follow (Kragt, 2005):

- Political harmony was restored when Chile returned to democracy in 1990. Following the return to democracy, the Chilean government introduced an open market system with a transparent legislative and regulatory framework and a stable economic and political climate. These changes improved investments in Chile.
- The Chilean government reaped the benefits of mineral exploitation through a mixed private and public ownership of the mineral sector. Private investors were allowed to undertake new mineral investments despite the establishment of CODELCO. Kragt (2005) argued that this economic policy has constantly attracted foreign investments in Chile. This attractive investment climate in the mining sector also increased investments in other sectors of the Chilean economy.
- The credibility of the Chilean government was increased following limited government's spending during windfall periods. In addition, Chile established a Copper Stabilisation Fund (CSF) in 1985. This fund was used to reduce public debt and the country's exposure to copper price fluctuations.

Lüders (1993) studied 20 years (1973-1993) of Chilean experience with privatisation. He argued that at the beginning of Chilean's military regime (early 1970s), state-owned enterprises (SOEs) used the same rules and same management criteria as private enterprises. However, employment level tumbled more quickly in the SOEs than in the private sector. He also argued that during the second half of the 1970s, growth rate accelerated and employment increased much quicker in the private than in the public sector. According to Lüders (1993), the levels of employment were affected by efficiency rather than privatisation of companies. Lüders (1993) believed that Chile's experience helped to clarify the association of employment levels to internal efficiency and growth rates of the enterprises.

Edwards and Edwards (2000) studied the economic reforms and labour markets in Chile from the 1960s to the 2000s. They argued that Chile's labour market history was divided into four different phases:

- The first phase, from 1966 to 1973, was characterised by increasing government intervention and regulations. During this period, there was growing political unrest, an increased macroeconomic disequilibrium and many private companies were nationalised. In addition, inflation increased rapidly. Edwards and Edwards (2000) argued that Chile's traditional labour legislation provided ample employment protection and used three tools to provide employment security:
 - a) Advanced notice to workers in case of impending dismissal;
 - b) Limitations to the use of fixed-term labour contracts; and
 - c) Severance payments in case of dismissal.
- The second phase, from 1974 to 1979, corresponded to the early years of military regime. The military government implemented a temporary public work programme, the Minimum Employment Programme (MEP), in order to fight unemployment. However, unemployment increased to unprecedented levels because employment protection was reduced. During this period, labour union activities were also suppressed mainly for political repressive reasons.
- The third phase, from 1980 to 1990, was known as the last ten years of military regime. During this period, Chile continued to modernise its economy and social security was privatised. The New Labour Plan was used to regulate labour relations.
- The fourth, from 1991 to 1998, covered the democratically elected administration of President Patricio Aylwin (1990-1994) and Eduardo Frei Ruiz-Tagle (1994-2000). A new reform to labour legislation was implemented in the early stage of this phase. Unions were given a bigger role in the collective bargaining process and employment protection was increased.

2.3. Nationalisation and privatisation of mines in Peru

Champion (2001) studied the public policy regarding the relative places of government and private enterprises in Peru for the period of 1968 to 2001. During this period, Peru first nationalised private enterprises; then returned to privatisation and later pursued some sort of workable compromise (Champion, 2001). Peru had a history of clashing images of appropriate policy in the context of political power struggles and a volatile economic environment.

In 1925, Haya de la Torre, founder of the Peoples' Revolutionary Alliance of America (APRA), which was the first major political party in South America, stated that "good government was not possible if it was not based on the organisation of the national economy". In 1931, the first National Congress of the Party called for the progressive establishment of a cooperative system of production and consumption, nationalisation of the transport system and insurance services, with selective expropriation of land, the extractive industries and other natural resources (Champion, 2001). The National Congress argued that the nationalisation of Peruvian resources was the only guarantee to the liberty of the people. In 1968, three quarter of mining, one-third of fishing, one-half of the manufacturing industry, and two-third of the banking were under direct foreign control. However, extensive foreign ownership in practically every sector was unacceptable. General Juan Velasco, under the presidency of Fernando Belaúnde, declared that Peru had to insure that the resources of the country be used for national interests instead of foreign business. The military government progressively nationalised a large number of private enterprises and created state-owned enterprises (Champion, 2001).

According to Champion (2001), the aggregate value of the State grew eightfold, and employment grew almost nine fold between 1955 and 1975. Champion (2001) argued that the Peruvian government share in national investment increased from 13 per cent in 1965 to approximately 50 per cent in 1971. However, the government lacked private investment despite allowing the economy to expand gradually through revived export income, increased State investment, tight credit, import restrictions and price control (Champion, 2001). This led to disequilibrium, inefficiency, inflation and food shortage.

Morales Bermudez, from the conservative wing of military, was worried about the serious condition of the economy, and seized power in 1975 in an effort to save the

situation. He called for an increased foreign investment to exploit Peru's natural resources and develop the manufacturing plants (Champion, 2001). In his second term in office, President Fernando Belaúnde argued that the nationalisation by the military government had hindered industrial and social development, and returning state-controlled industry to private companies would provide one million new jobs (Champion, 2001).

In 1987, President Alan Garcia called for a State takeover of Peru's financial system, including banks, financial institutions and insurance companies. Congress approved the nationalisation of the financial system handing government ownership of private banks, finance and insurance companies. However, the government of President Fujimori reverted back to privatisation when it came to power in 1990 (Champion, 2001).

Solfrini (2001) reviewed the Peruvian labour movement under president Fujimori. Solfrini (2001) argued that although the neoliberal reforms implemented under president Fujimori's government managed to stabilise the economy and slow inflation, they failed to solve the issue of unemployment in Peru. According to Solfrini (2001) factors such as long-term economic recession, drastic changes in labour relations, ineffectiveness of traditional union strategies, and political violence, were responsible for the demise of workers organisations.

2.4. Nationalisation and privatisation of mines in Zambia

Shafer (1983) has argued that Third World leaders sought first the political kingdom in the early 1960s, and then pursued the permanent sovereignty of the State over its natural resources and all economic activities. At independence, in 1964, the national economy of Zambia was based on foreign copper mining operations. Companies such as Zambian Anglo-American Corporation of South Africa (Zamanglo) and Roan Selection Trust, a subsidiary of American Metal Climax, controlled the major mining concessions in perpetuity (Shafer, 1983).

According to Negi (2011), political energies after independence were directed towards the Zambianization of the State, which meant the gradual replacement of expatriates by local Zambians. In addition, the country's strong labour unions demanded greater material rewards of political independence than those they perceived were being given

to them by private companies. The ruling United National Independence Party (UNIP) promised that the nationalisation of the economy will bring access to resources that could be used to shape a strong one-party State (Negi, 2011). Between 1968 and 1971, Zambia did nationalise key mining industry as part of the so-called Mulungushi Reforms (Negi, 2011). According to Negi (2011), State employment increased from 22,500 in 1964 to over 51,000 in 1969.

In 1968, President Kenneth Kaunda limited company remittances to 50 per cent of after tax profits in order to retain more copper earnings. A year later, the Mines and Minerals Act declared all mineral rights to belong to the State. According to Limpitlaw (2011), the Zambian State acquired a 51 per cent stake in Zambia's two main copper producing companies, Roan Selection Trust and Rhodesian Anglo American Corporation, in 1969. The former became Roan Consolidated Mines Ltd (RCM) and the latter became Nchanga Consolidated Copper Mines Ltd (NCCM). In the year they were nationalised, the mines produced at least 720 000 t of copper and employed approximately 48,000 workers (Limpitlaw, 2011).

The nationalised copper mine was named Zambia Consolidated Copper Mines (ZCCM). ZCCM was a vertically integrated firm run by State bureaucrats and technocrats and was responsible for all operations from mining to smelting and refining to transportation (Negi, 2011). ZCCM followed a "cradle to grave" policy of social welfare, a model that anthropologist James Ferguson called "socially thick" (Negi, 2011). It internalised the reproduction of the workforce as well schools and colleges. Clinics and hospitals also operated under the umbrella of ZCCM.

In 1970, the Zambia government changed its tax system and passed a tax provision which granted government 87 per cent of all company profits (Curry, 1984; Shafer, 1983). After nationalisation, Roan Selection Trust Consolidate Mines (RCM) and Zamanglo became Nchanga Consolidated Copper Mines (NCCM). Foreign shareholders were compensated through bonds that were issues for the book value of nationalised shares. However, a ten year management and sales agreement left the mining corporations effective control of those operations (Shafer, 1983). In 1973, Zambia redeemed the bonds by borrowing in international capital market and formed the Metal Marketing Corporation of Zambia to be the sole agent for Zambian metal production (Shafer, 1983). The management contracts were paid off between 1974 and 1975, leaving the Zambian mining industry self-managing.

Curry (1984) argued that from 1973 onward, production problems and transport bottlenecks began to harm Zambia's capacity to export what was produced. Few years later, 20 per cent of the country's copper production capacity was paralysed due operational breakdowns (Curry, 1984). Limpitlaw (2011) argued that by the mid-1970s, the mines were experiencing poor profitability due to a combination of lower copper and management's focus on sustaining the level of employment and the delivery of social services. According to Shafer (1983), Zambia could not afford to cut back production or close down loss making mines during the period of depressed copper price because of its dependence on revenues from minerals.

Shafer (1983) argued that nationalisation surprisingly reduced Zambian insulation in the international capital market. In the early stage of nationalisation, Zambia seemed to have more freedom of choice amongst various source of investment capitals. However, the period of nationalisation overlapped with the beginning of a period of rapidly rising costs and sharp growth in the capital needs of the copper industry. As these costs increased, Zambia struggled to raise capital because of the country's limit to indebtedness. According to Shafer (1983), nationalisation had two different consequences for Zambia's efforts to finance the expansion of its mining industry. It had to raise the cost and lowered the ceiling on available funds. From 1973 onwards, Zambia's mining companies struggled to borrow, and were limited to short maturity loans at very high rates, sometimes as much as 20 per cent higher than prime industrial borrowers (Shafer, 1983).

According to Jefferis (2007) fiscal indiscipline was central to many of Zambia's economic problems: excessive deficit financing in the 1980s and early 1990s which contributed to inflation rising to very high levels, reaching 183 per cent in 1993. In 1993, Zambia introduced the cash budget and inflation decreased below 50 per cent in 1995. The Zambia Revenue Authority was established in 1993, and VAT introduced in 1995; however, the government did not manage to significantly increase resource mobilisation. According to Jefferis (2007), there were frequent relapses to deficit, because of a lack of political commitment to fiscal discipline and the burden of servicing Zambia's foreign debts. The result was monetisation of deficits, rising domestic debt, and rising arrears on payments to suppliers (Jefferis, 2007).

Jefferis (2007) argued that ZCCM became an enormous liability to the country, with the need for subventions to cover continuing losses causing major fiscal problems. ZCCM was in a downward spiral with no resources for investment, hence further losses and

fewer resources. However, the privatisation of ZCCM was delayed for many years, during which time the value of ZCCM was steadily declining as losses mounted and production fell. According to Jefferis (2007), the delay in privatising ZCCM and the lack of investment in mines over many years further undermined macroeconomic performance through its impact on fiscal.

2.5. Principles of resource rent taxation

According to Saidu (2007), taxes represent a considerable cost to mining companies and therefore have a significant impact on investment decisions. According to Solomon (2012), a resource rent is a surplus operating profits over and above a fair rate of return, which are required to incentivise private investment in the high-risk exploration and development phases of mining after the deduction from revenues of directly productive costs. A resource rent is calculated by adding the fiscal flows and other statutory rents to the direct productive costs of the enterprise. The surplus (if it exists) between this aggregated cost and the revenue is the resource rent, which is then split between the mining company and the host government (Solomon, 2012). Countries such as Iran, Russia and Venezuela do have resource rent tax on oil for the use of non-renewable natural resources (Gurvich, Vakulenko, & Krivenko, 2009).

Garnaut (2010) argued that the resource rent tax should allow a mining company a deduction for all expenditure against revenue in the year in which the expenditure was incurred. It focuses on net cash flows, drawing no distinction between capital and recurrent expenditures (Garnaut, 2010). Stability is important for neutrality and government revenue maximisation. According to Saidu (2007), a potential investor in mining would require a stable, predictable, and transparent fiscal regime because of the high risk associated with geological conditions of mining, the capital-intensive nature of mining investment, the low rate of return, and the non-renewable nature of minerals.

Garnaut (2010) discussed the taxation of mineral rents from the perspective of governments seeking to maximise some conception of national welfare. According to Garnaut (2010), an accepted ideal in any system of taxation is that it should as far as possible be 'neutral'. The ideal of neutrality is that, without good reason, the tax should not alter decisions on investment, production or trade. Garnaut (2010) argued that under the constitutions of Australia and of most other countries, most minerals are

owned by the State, and their extraction is dependent on an exclusive licence provided by the State. When the State allocates land to a private firm, or privatises a state-owned business; the community has a reasonable expectation that the private party will pay its full value. According to Garnaut (2010), there are two reasons to expect Australian governments to seek to extract the economic rent as revenue: it has lower economic costs than other forms of taxation; and it represents the value of public property that is being transferred to private ownership.

However, resource taxation can distort and inhibit investment and production at four margins. It can constrain investment in exploration; investment in new mines; investment in expansion of old mines; and production from each established mine (that is, the 'cut-off grade' applied in the mine) (Garnaut, 2010). According to Saidu (2007), investors need the assurance that taxes on which they have based the economic evaluation of their projects will not change significantly over the life of those projects.

Saidu (2007) analysed the tax climate and tax burden on mining operations in the Republic of Niger and Republic of Indonesia and found that, although it is probably true that an unattractive mining tax regime can drive away investment, it is equally true that an attractive mining regime will not necessarily attract and sustain investment. Saidu (2007) argued that despite both Niger and Indonesia sharing the common characteristic of ownership of minerals being vested in the State, and both operating a royalty system of taxation of minerals resources, there seems to be a high level of foreign investment in Indonesia. The low level of foreign investment in Niger was due to mining companies preferring to invest in countries with minimal level of uncertainty and restrictions. Saidu (2007) also acknowledged that while capital investment in mining may not necessarily be hindered by a high level of taxation, it can be hampered by significant instability in taxation. According to Saidu (2007) and Garnaut (2010), royalties are attractive to governments because they are applied to the volume or value of production, are certain and reasonably predictable, and they ensure a stable flow of revenues over the life of mine.

In Zambia, the government changed the tax regime affecting the copper mines after nationalisation. The new tax structure, which became effective in 1970, included the mineral tax of 51 per cent on company profits and an additional 45 per cent income tax on profit after payment of mineral tax (Curry, 1984). Although the new tax regime raised revenue for the government, the mining companies argued that such high taxes

(approximately 73 per cent) on profit discouraged investments and growth of the mining industry (Curry, 1984).

O’Faircheallaigh (1986) argued that developed countries have to balance their need for mineral revenues with their requirement for continued private investment in the host country. According to O’Faircheallaigh (1986), mines which fail to make super profits will not contribute to government revenues under a resource rent tax regime.

2.6. Unemployment in South Africa

According to calculations from Statistics South Africa (2012), during the period of 2008-2011, the unemployment rate of South Africa averaged 24.1 per cent with a minimum of 21.8 per cent in the fourth quarter of 2008 and a maximum of 25.7 per cent in second quarter of 2011. In the fourth quarter of 2011, the labour force of South Africa was approximately 17,740,000 individuals with 13,497,000 being employed and 4,244,000 being unemployed (Statistics South Africa, 2012). According to Robbins (2010), unemployment levels have been high in South Africa for many decades, despite periods of high economic growth in the mid-1980s, mid-1990s and mid-2002. Robbins (2010) focused on municipal government’s role in tackling persistent high levels of unemployment beyond the economic growth-oriented local economic development strategies favoured by most of the larger city administrations. Robbins (2010) explored recent responses to employment related challenges by the eThekweni Metropolitan Municipality in Durban and concluded that despite their firm’s commitment to increasing employment, municipality authorities see their role as secondary to national programmes. As such, the government’s goal of halving unemployment from approximately 26 per cent in 2006 to 13 per cent by 2014 will not be possible without a comprehensive and more creative response by local municipalities (Robbins, 2010). This is supported by Altman (2006) who explored two scenarios for employment creation in the service sector. Altman (2006) argues that since 2004, new employment has mainly been found in the formal and non-formal services, and the future employment will probably come from such sectors as business services, trade, finance and tourism. According to Altman (2006), rising unemployment and slow employment growth have been explained by a range of factors such as rapid labour market entry, rising wages demand from trade unions, and insufficient formal sector demand. Under scenario one (based on a status quo, with employment growth proceeding in a similar fashion to the 1997-2003 period), Altman (2006) predicted that total employment would

expand to 13.86 million people by 2014. Unemployment would remain at approximately 26.2 per cent. However, under scenario two (where employment is primarily driven by private sector growth, especially in the service sector with subsequent expansion of the developmental social welfare) 15.07 million people would be working and unemployment rate will decrease to 20.1 per cent by 2014.

In order to encourage the labour-absorbing sectors, Altman (2006) recommended that government need to intensify its policies in respect of exchange rates, infrastructure reform, improvements in economic efficiency and competition, human resource development and the promotion of the global flow of skilled personnel. Altman (2006) also recommended that government must consider expanding the developmental social welfare programmes as a way of employing large numbers of lower-skilled workers, whilst intensifying social delivery.

According to Rodrik (2008), South Africa has undergone a significant transformation since 1994, but economic growth and the level of employment have been unsatisfactory. Rodrik (2008) argued that high unemployment and low growth are both the result of contraction of the non-mineral tradable sector and of manufacturing industry. Rodrik (2008) concluded that economic growth can be higher and more jobs can be created if the South African manufacturing sector expands rapidly. Borat and Cassim (2004) have also argued that the welfare challenges in post-apartheid South Africa are best represented by the triumvirate of poverty, income inequality and unemployment. They believed that the generally accepted mechanism for overcoming these challenges is for an economy to realise sustained level of high growth (Bhorat & Cassim, 2004). Borat and Cassim (2004) argued that important areas that constrained growth in many developing countries included legal enforcement capacity and bureaucratic capacity.

Simkins (2004) studied the employment and unemployment in South Africa and recommended five policy measures which have potential for alleviating unemployment. According to Simkins (2004), the first policy was quality improvement in education and increased throughput at the higher education level. The second comprised an increase

in public works programmes. Third was a careful reconsideration of labour market regulations which lead to an increase in the costs of labour to employers. Fourth was stimulation of the investment rate, which leads to higher rates of output growth. Fifth was the stimulation of reverse migration by a serious land reform which encourages high labour-absorbing smallholder agriculture (Simkins, 2004).

According to the National Planning Commission (2011), achieving full employment, decent work and sustainable livelihood is the only way to improve the living standards and ensure a dignified existence for all South Africans. This can be achieved by expanding the economy to absorb labour and improving the ability of South African people and institutions to respond to opportunities and challenges (The National Planning Commission, 2011). The National Planning Commission (2011) argues that in order to create full employment, the country has to create 11 million more jobs in the next 20 years and the economy should have grown by approximately 5.4 per cent every year over this period (Table 2.1).

Table 2.1. Objective for employment and growth to 2030 (The National Planning Commission, 2011)

	2010	2015	2020	2030
Non-working age population (million)	18	18.2	18.8	20.6
Working-age population (15-65)	32.4	35.1	36.5	38.8
Labour force participation rate	54%	57%	60%	65%
Labour force (million)	17.5	19.8	21.9	25.3
Unemployment rate	25%	20%	14%	6%
Employment (million)	13	15.8	18.9	23.8
Net new employment needed (million)	0	2.8	3	4.9

In order to create decent employment, nationalisation of mines should support economic growth. According to the National Treasury (2010), policies that support accelerated and sustained economic growth are important because a growing economy boosts labour demand and decent employment opportunities.

According to the National Treasury (2010), South Africa created about 2 million jobs between 2003 and 2008 as GDP growth averaged about 4.9%. The National Treasury (2010) has argued that much of this job creation was concentrated in sectors of rapid growth such as construction (13.9 per cent, 500 000 jobs) and finance (9.6 per cent, 520 000 jobs) with almost 90 per cent of the job creation in the formal sector (The National Treasury, 2010).

The National Treasury (2010) has highlighted that South Africa's Expanded Public Works programme (EPWP) comprises a range of short-to-medium term programmes aimed at providing short-term jobs and training for the unemployed. The EPWP is a national programme covering all spheres of government and state-owned enterprises. In its first phase the EPWP created 1.6 million short-term jobs. However, the success of the programme was diluted by the limited duration of jobs, lack of training, and low labour intensity that increased the cost per job created (The National Treasury, 2010). The second phase, which began in 2009, was designed to increase both job duration and labour intensity of projects (The National Treasury, 2010).

The fight against unemployment is not for South Africa alone. Cameron and Fawcett (2005) studied the economic policies for growth and employment in Europe (the Lisbon Agenda of March 2000) and argued that systematic reform of the budget, progress on the trade reform, along with a better investment climate, offer the opportunity to reallocate resources on the basis of the people's skills and competencies. The Lisbon Agenda did set out an ambitious plan to make the European Union (EU) the most dynamic and competitive knowledge-based economy in the world (Cameron and Fawcett, 2005). The Agenda suggested a need for macro and micro-economics policies, and employment guidelines. According to Cameron and Fawcett (2005), the macroeconomic policies needed to create conditions for more growth and jobs in a dynamic and well-functioning Euro era. These policies were designed to make Europe a more attractive place to invest and work, and enhance the climate for knowledge-creation and innovation. Third, under the employment guidelines, policies needed to attract and retain more people and modernise social protection and increase investment in human capital through better education and skills (Cameron and Fawcett, 2005).

2.7. State intervention in the minerals sector (SIMS) in South Africa

The 2010 meeting of the ANC's National General Council took a resolution on the role of the State in the economy and commissioned a study on the State Intervention in the Minerals Sector (SIMS) (The African National Congress, 2012). The SIMS task team was supposed to study the best options to leverage South Africa's mineral wealth and other natural resources. According to the African National Congress (2012), the main objective of the SIMS study was "to maximise the developmental impact of minerals through labour absorbing growth and development" (p.27).

In 2010, the ANC embarked on an economic transformation path that promised to "*...ensure that our [South African] national resource endowments, including land, water, minerals and marine resources are exploited to effectively maximise the growth, development and employment potential embedded in such national assets, and not purely for profit maximisation*" (The African National Congress, 2012, p.2). The study also focused on how South Africa can capture the resource rents and invest in long term knowledge, physical infrastructure; and create more jobs (The African National Congress, 2012).

The SIMS report (The African National Congress, 2012) argued that mineral resources have long been viewed as having special strategic significance. According to the African National Congress (2012), the minerals sector is an area in which the State often believes it must have a high degree of control over strategic minerals or minerals that dominate the national economy (e.g. copper in Chile and Zambia and diamonds in Botswana). In a number of countries, this control has been exercised through direct State participation.

The SIMS study came up with proposals that will generate resource rents and capture them for social and economic development (The African National Congress, 2012). After reviewing State interventions in Latin America (Brazil, Chile and Venezuela), Africa (Botswana, Namibia and Zambia), Asia (China and Malaysia) and OECD countries (Norway, Finland, Sweden and Australia), the task team has proposed the following (The African National Congress, 2012):

2.7.1. Nationalisation of mining companies

The SIMS report has defined State participation to include 100 per cent equity participation, partial or carried equity arrangements, and equity participation without financial obligation (The African National Congress, 2012). This definition is similar to the nationalisation of mines as proposed by the African National Congress Youth League (2010a).

Both the African National Congress (2012) and the African National Congress Youth League (2010a) argued that Section 25 of the South African's Constitution allows for nationalisation for a public purpose or in the public interest, but requires compensation for expropriation at the market value of such property. According to the African National Congress (2012), the complete acquisition of listed and non-listed mining companies will cost South Africa over one trillion rand, which exceeds the government budget. The SIMS report has argued that South Africa's fiscal sovereignty may be lost if the country embarks in either complete or partial nationalisation (The African National Congress, 2012). According to the SIMS report, nationalisation of private mining companies without compensation would require a Constitutional change and would result in a near collapse of foreign investment and access to finance, as well as widespread litigation by foreign investors domiciled in States that South Africa has trade and investment (protection) agreements with, which would ultimately likely result in the payment of compensation, all the same (The African National Congress, 2012). Since South Africa has many bilateral agreements with other countries, nationalisation of mines would be an unmitigated economic disaster for the country and its people (The African National Congress, 2012). The SIMS report has proposed that South Africa pursue rent share, growth and development instead of nationalisation of mines (The African National Congress, 2012).

2.7.2. Capturing the resource rents

The African National Congress (2012) argued that a much greater share of the resource rents and the development of all the mineral economic linkages for accelerated job creation was the desired outcome for the country. The current taxation instruments in the South African mining sector are as follow:

- Royalties: According to the Mineral and Petroleum Resources Royalty Act of 2008 (The Presidency of the Republic of South Africa, 2008), the royalty rate is calculated based on the Earnings before Interest and Taxation (EBIT) and

gross sales of the mineral resources during the year of assessment. The maximum royalty's rates for refined and unrefined mineral resources are five and seven per cent of gross sales, respectively (The Presidency of the Republic of South Africa, 2008).

- Corporate Income Tax: South Africa has a standard corporate tax rate of 28 per cent and a secondary tax on companies (STC) at 10 per cent on net dividend declared. The secondary tax on companies will fall away with the introduction of the dividend withholding tax which came into effect on 1 April 2012. The dividend withholding tax will be at 15 per cent to local shareholders.
- Expensing of Capital Expenditure (Capex): Mining companies can benefit from an upfront deduction of all capital expenditure. However, this deduction can only be claimed when the company is in the production stage and makes sufficient mining taxable income.

The African National Congress (2012) believed that South Africa was not getting a fair share of the resource rents from its mineral assets and has proposed a resource rent tax of 50 per cent on all mining companies. The SIMS report has recommended that the resource rent tax be triggered after a normal return on investment has been achieved. The African National Congress (2012) has suggested a normal return of 15 per cent, which is defined as the South African's Treasury long bond rate plus seven per cent. Revenues from the resource rent tax should be kept in an offshore sovereign wealth fund and should be used for social and economic development (The African National Congress, 2012).

The African National congress (2012) has also proposed that once the resource rent tax has been implemented, the mineral royalty rates should be reduce to one per cent of gross sales to enhance optimal resource extraction. The remaining royalties should be ring fenced and used to (The African National congress, 2012):

- Fund the Minerals Commission;
- Fund the rehabilitation of ownerless mines and remediation of historical; and
- Invest in local sustainable economic development (both mining and sending communities).

Solomon (2012) has studied the impact that the proposed resource rent tax will have on project Net Present Values and Internal Rates of Return. Solomon (2012) believed that the principle of resource rents during times of high commodity prices was a fair concept. In addition, it was important for the State, as the owner of the natural resources, to benefit from the upside windfall. However, Solomon (2012) was concerned by the fact that the SIMS report has not clarified whether the threshold of 15 per cent was nominal or real. According to Solomon (2012), the proposed threshold was unrealistically low because it failed to provide sufficient profit headroom for the investor and might not be seen as an attractive return.

2.7.3. Job creations opportunities

The SIMS report (The African National Congress, 2012) argued that South Africa's rich and diverse mineral resources endowment could underpin growth, development and job creation but this will not happen through "market forces" alone. According to the African National Congress (2012), South Africa need to begin to apply the concept of a democratic developmental State to the governance of its mineral assets, to ensure that the development of all the mineral linkage sectors is maximised to stimulate industrialisation and job creation and to capture an equitable share of the resource rents. Therefore, the SIMS report has proposed the creation of employment in the steel, polymers, base metals, scrap based industries, and agriculture (The African National Congress, 2012).

According to the African National Congress (2012), iron ore, coal and copper should be classified as a strategic minerals and mining licenses should obligate local sales at cost plus. The ANC need to ensure that steel, scrap-based ferrous and non-ferrous metals, polymers and nitrogenous fertilisers are supplied into the South African's economy at competitive export parity prices. The SIMS argued that these proposals will create thousands of downstream jobs.

2.8. Conclusion to literature review

The literature review has highlighted the complexity involved in creating sustainable employment following the nationalisation of private companies. The nationalisation of private companies is usually motivated by the need for the resources of a country to be used to serve national interests instead of foreign businesses. Employment can be

created by increasing government's intervention and regulations. It is relatively easy to create mass employment if nationalised companies are not managed efficiently and the government has enough financial resources to continue financing the operation and expansion of the mines.

In many instances, nationalisation of private companies was followed by lack of international capital market and mismanagement of revenues from mineral companies by the government. In few cases, like CODELCO, the management of the state-owned companies was as competitive as the management of private companies. Since nationalised companies cannot escape market pressure, external factors such as declining prices of commodities and financial depression can affect the intended benefits of nationalisation.

The literature has also highlighted that nationalisation of multinational corporations can hinder the inflow of foreign direct investment. The lack of foreign capital can adversely impact future cash flow and growth of mining companies in the absence of local sources of funding. Without future growth of mining companies, it is not possible to create additional employment in the mining sector.

The literature has highlighted that resource rent taxes are usually implemented in order to maximise government's revenues from the extraction of mineral resources. However, investors in mining industry do require a stable, predictable, and transparent fiscal regime because of the high risk associated with the capital-intensive nature of mining investments. In addition, mining companies prefer investing in countries with minimal level of uncertainty and restrictions.

The SIMS report has acknowledged that the current government cannot afford to nationalise South African mines with compensation because of lack of fund. The SIMS report has argued that nationalisation without compensation is not allowed for by the Constitution of South Africa.

The literature review has also shown that the challenges of unemployment, poverty and inequality in South Africa can be resolved through mechanisms of high economic growth. Although the SIMS report has proposed the creation of employment in some mineral sectors, it failed to highlight if the South African's unemployment rate can be halved through State intervention in the mineral sector. In additional, the SIMS report has not discussed the efficiency in the potential nationalised mines. The case of

The impact of the proposed nationalisation of South African mines on employment in the platinum sector

Zambia showed that as nationalised mines became inefficient; both direct and indirect employments were reduced.

Chapter 3: Research propositions

The purpose of this research was to explore the possible impact that nationalisation of South African mines will have on the capability of platinum mines to create sustainable employment while remaining profitable. The impact of nationalisation of mines and/or the implementation of a resource rent tax on the creation of sustainable employment in the platinum sector was also explored.

The literature review has indicated that the creation of sustainable employment following the nationalisation of private mining companies is usually very challenging. Mass employment can be created if a nationalised mining company is managed inefficiently or its profitability is not a priority for the shareholders. Mass employment can also be created in the presence of a protective labour legislation, where the use of contract workers is limited and the dismissal of permanent employees is a lengthy process. There is enough evidence in the literature to suggest that nationalisation of private mining companies was usually followed by lack of international capital for further growth, especially when the companies were managed by government officials. However, it was still possible to still attract foreign capital when investors were offered attractive incentives, through various tax regimes, to invest in mining operations despite the presence of nationalised mines in the host country.

In order to gain an insight on the impact of the nationalisation of South African mines and implementation of a resource rent tax on the creation of sustainable employment, expert interviews will be conducted with selected mining executives from the platinum sector. The following research propositions will be tested:

1. Sustainable employment cannot be created if mining companies are not profitable.
2. Nationalisation of mines can adversely impact the inflow of foreign capital in the host country.
3. Mining companies are usually wary of investing in countries with unstable fiscal systems.

Chapter 4: Research methodology

4.1. Research design

The research was qualitative and exploratory in nature. Qualitative research is fundamentally interpretative because the researcher makes interpretation of the data (Creswell, 2003, p. 182). According to Corbin and Strass (2008, p. 1), qualitative analysis is a process of examining and interpreting data in order to elicit meaning, gain understanding, and develop empirical knowledge. The rationale for the choice of a qualitative approach was based on the sensitivity and dynamic around the issues of nationalisation of mines and State intervention in the mineral sector in South Africa. The objective of this research was to gain an understanding on these issues and get an inner view of the various mining senior managers and executives.

Saunders and Lewis (2012) have argued that exploratory research was about discovering general information about a topic that was not clearly understood by the researcher. An exploratory research may provide tentative answers to initial questions, which need to be followed up with more detailed research to provide more dependable answers. Saunders and Lewis (2012) also have highlighted that while exploratory research could provide insights into, and a fuller understanding of, an issue or situation, definitive conclusions should only be drawn with extreme caution. According to Saunders and Lewis (2012), the most usual ways of conducting exploratory research includes:

- Searching the academic literature;
- Interviewing 'experts' in the subject; and
- Conducting interviews.

The difference between interviewing experts in the subject and general interviews lies in the knowledge of the respondent on the issues and/or themes of the interview (Saunders & Lewis, 2012, p. 110). When conducting general interview, the knowledge and in-depth understanding of the subject by the respondent might not be required. According to Welman and Kruger (2001, p. 161), semi-structured interviews are usually considered when:

- The topics are of very sensitive natures;

- The respondents come from divergent backgrounds; and
- Experienced and expert interviewers are available for conducting the interviews.

The methods used in this research included in-depth interviews of key stakeholders. Semi-structured interviews were conducted with expert in the operation and management of platinum mining companies in order to explore the views of the platinum sector on the level of State intervention in the minerals sector.

4.2. Scope

The scope of this study was limited to the interviews with key experts in the platinum mining industry on the capability of platinum mines in creating sustainable employment while remaining profitable. The impact of nationalisation of mines and the proposed introduction of a resource rent tax on the creation of sustainable employment in the platinum sector was also explored.

4.3. Population and sampling techniques

The population of this research included all listed platinum mines operating in South Africa. The sampling frame included major PGMs companies, which constituted an industry concentration of more than 50 per cent of the platinum sector. These companies have a full beneficiation value chain that included mining the PGMs ore and processing it into refined saleable metals. In addition, these companies have been investing in major capital projects that will increase the production of PGMs and create direct and indirect employment in South Africa.

Non probability sampling technique was used in this study. Saunders and Lewis (2012, p. 134) have defined non-probability sampling technique as a technique where a complete list of the population was not required. Probability sampling was defined as a sampling technique where the research could randomly select his/her sample from a complete list of a population (Saunders & Lewis, 2012, p. 134). Purposive sampling technique was used to identify individuals who could have some insight on the level of State intervention in the minerals sector. According to Saunders and Lewis (2012, p. 138), purposive sampling was frequently used to select a small sample when collecting qualitative data. In this case, researchers used their judgement to actively choose those who were best able to help answer the research question and met the objectives (Saunders & Lewis, 2012, p. 138).

The unit of analysis was the individuals that were interviewed. These individuals were selected because of their knowledge and experience in the mining industry. Therefore, their view and opinions were useful in addressing the objective of this study.

In total, 15 interviews were scheduled with mining executives and senior managers. 13 interviews were conducted and two were cancelled due to the wildcat strike in the platinum sector. The following categories of people were interviewed:

- Members of Executive Committee;
- Corporate Affairs executives who understood the social labour plan of the mine, the need of the community, and the interests of the shareholders;
- Operation managers who understood the need to employ human capital in order to produce the required output;
- Financial managers who understood the short term and long term profitability of the organisation;
- Strategic and Planning managers who understood the long term investment of the organisation and the subsequent return on investment;
- Investor's relations and legal representatives of mining companies.

4.4. Data collection and analysis

4.4.1. Research instrument

Semi-structured interviews were conducted to collect data from various respondents. The various respondents were visited at their place of work for a face-to-face interview. Prior to the visit, an official permission from the various companies was obtained from the relevant authorised persons in order to interview their employees. A personal consent letter was also obtained from the respondent. Participating companies and respondents were guaranteed anonymity. Interviewee's responses to questions were aggregated. This type of interview was also considered because the topic of mines nationalisation and State intervention in the mining industry is currently a sensitive topic in South Africa.

According to Welman and Kruger (2001) and Huysamen (2002), an interview guide should involve a list of topics and aspects which have a bearing of the given theme and

which the interviewer should raise during the course of the interview. The three most important topics of this research were as follow:

- Creation of sustainable employment by platinum mines operating in South Africa;
- Nationalisation of South African's mines and the insulation to international capital;
- The introduction of a resource rent tax in the South African's mining industry.

Welman and Kruger (2001) argued that although all interviewees are asked the same questions, the researcher may adapt the formulation to fit the background of the respondent. In addition, the order in which the questions are asked will also vary from one interviewee to another depending on the responses from the participant (Saunders & Lewis, 2012). Open ended questions were asked to interviewees and the context of the interview included the three topics described in this section. In addition, probes were used in order to clean up vague responses, and interviewees were asked to elaborate incomplete responses (Welman & Kruger, 2001). The interview guide and interview's questions are presented in Appendix 1.

4.4.2. Data collection

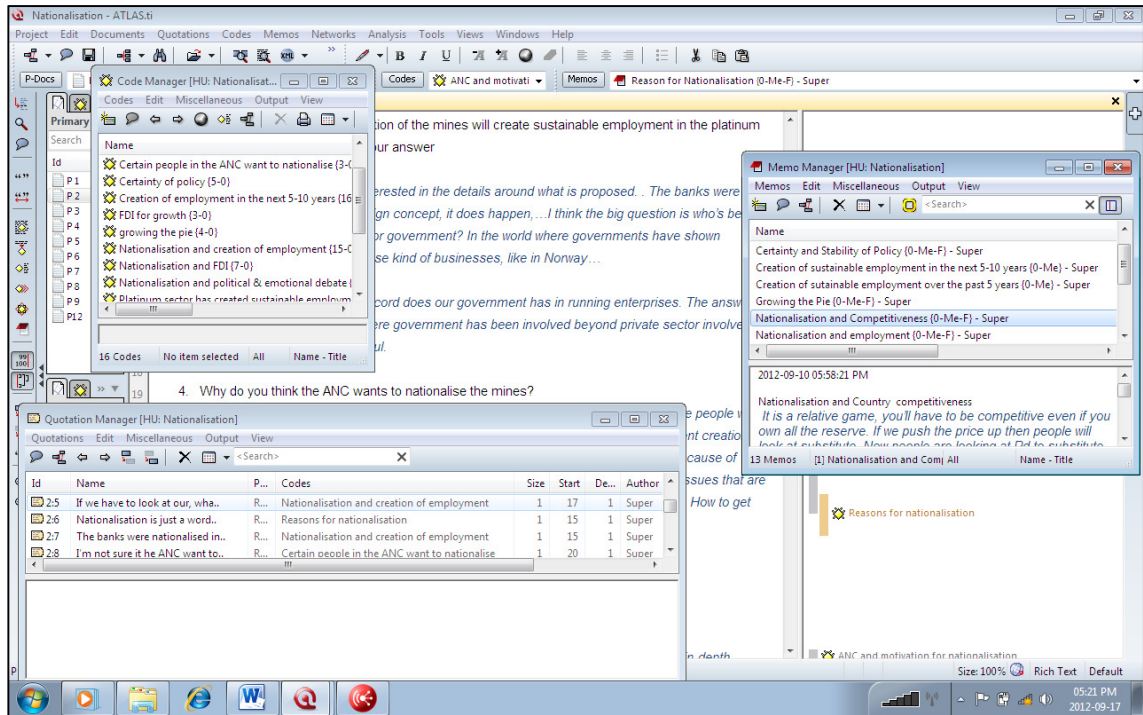
Data were collected electronically using audio recording devices. A digital audio recorder, Phillips Voice Tracer LFH0884, was used to record the interviews. After each interview, the sound file was transferred from the voice recorder to a computer for easy storage as MP3 audio format. The audio recording was transcribed into a text document for further analysis of the interview's content.

4.4.3. Analysis of data

According to Corbin and Strauss (2008), "analysis involves what is commonly termed coding, taking raw data and raising it to a conceptual level" (p. 66). Analysis of data also involved interacting with data using techniques such as asking questions about the data, making comparison between data in order to develop concepts to stand for the data (Corbin & Strauss, 2008). The audio recording of the interviews were transcribed and word-processed. The text document of interview transcripts was coded and analysed using ATLAS.ti 7 software, which is computer-aided qualitative data analysis

software (CAQDAS). All interview transcripts were loaded into ATLAS.ti as primary documents. Codes were created in ATLAS.ti based on various common themes from the respondents. The responses of various interviewees were analysed for common themes. All common themes were compiled in a memo using ATLAS.ti, and then word processed to eliminate repetition of statements from various respondents. A dump screen of the analysis of data using ATLAS.ti software is shown in Figure 4.1.

Figure 4.1. Coding and analysis of interview transcripts in ATLAS.ti



Themes were sub-divided and aligned with the research propositions described in Chapter 3. The level of agreement and/or disagreement with the research propositions was assessed during content analysis of interview's transcripts.

4.5. Research limitation

This study was limited to the platinum mines that are listed on the Johannesburg Stock Exchange (JSE) and that constituted more than 50 per cent of the industry concentration by platinum's production. As a result of only using the platinum sector, the findings of this study were not generalised to the mining industry in South Africa. This study only represented a limited view of the platinum sector.

The impact of the proposed nationalisation of South African mines on employment in the platinum sector

Since limited in-depth interviews were conducted with a small number of mining executives from platinum mining companies, their views and opinions might not be representative of the whole platinum sector.

Chapter 5: Results

5.1. Introduction

This chapter summarises the views and opinions of various respondents on the possible impact that nationalisation could have on the capability of platinum mines to create sustainable employment while remaining profitable in South Africa. Three key issues were debated:

- The creation of sustainable employment by the platinum sector;
- The impact of nationalisation of mines on the creation of employment and inflow of foreign capital; and
- The introduction of a resource rent tax and its impact on the profitability and creation of sustainable employment in the platinum sector.

The profile of the interviewees included senior managers and senior executives in the platinum sector. In total, 13 interviews were conducted. 12 interviews were recorded with the consent of the interviewees and one was not recorded due to the sensitivity around the employment status of the interviewee. However, the interviewee allowed the use of a computer in order to capture the responses on a word processed document. Notes were also taken during the various interviews. Written letters of consent were obtained from the company before any interview was scheduled because of the sensitivity of this research topic. Individual's written consent was also obtained from the respondent before conducting the interview.

The respondents were selected based on their expertise in managing mining operations and/or creating shareholders value. The expertise varied from technical, financial, legal, investor's relationship, human resources and transformation, to operational. Four of the interviewees were members of executive committees (EXCO) of their various organisations. These interviewees have influenced various investment decisions in their respective organisations.

The various recording of the interviews were transcribed into a word processed documents. These transcripts documents were uploaded as primary documents into ATLAS.ti7 software. The interview contents were analysed and common themes from various respondents were coded. The analysis approach was thematic. Quotes from

the same theme were consolidated in a memorandum using ATLAS.ti7 software. The common themes from various interviewees were clustered under the three main research propositions of this study which are described in Chapter 3.

5.2. Research proposition No. 1: Sustainable employment cannot be created if mining companies are not profitable

This section summarises the collective view of respondents on the creation of sustainable employment by the platinum sector in the absence and presence of nationalisation. Respondents were asked to give their views and opinions on the creation of employment over the past five years and the creation of employment in the next five to ten years assuming that the mines will not be nationalised. The reasons and motivation for nationalisation of mines were discussed followed by the impact of nationalisation on job creation. The responses of various respondents were analysed in order to either support or reject the research proposition.

5.2.1. Creation of sustainable employment in the past five years

This section summarises the collective view of respondents on the creation of sustainable employment by the platinum sector over the past five years. During the interviews, some respondents (EXCO members) highlighted that sustainable mining operations have to include, the economics, the environment, and people. As such, people will include local communities where the mines are operating. There was also a great understanding from most of the respondents that the people of South Africa must benefit from the natural resources of the country.

When responding to the question about the creation of sustainable employment, most respondents argued that it was important to acknowledge that the platinum mining operates in a cyclical environment of “*boom and bust*”. In time of boom cycle, the fundamentals of PGMs demand and the PGMs prices are both high and platinum mining companies can generate decent profits. However, in time of bust cycle, either the metals prices are depressed or the demand for the metals is low due to external forces despite the long-term fundamentals of PGMs demand being sound. During the bust cycle, platinum mining companies can make either less profits or losses.

Most of the interviewees believed that the platinum sector in particular has created employment in the past five years, despite being in the bust cycle. Although some interviewees argued that the jobs created were sustainable, others thought that the sustainability of jobs created could still be debatable. The following statements were made by two respondents:

“As a company, the numbers suggest that we have created employment compared to where we were about five years ago”

“It is clear that the platinum sector has created sustainable employment. And the statistics have indicated that there is a good uptake in the number of people employed in the mining sector with very few massive lay off following the 2008 financial crisis.”

There was some agreement that the level of employment created was not as high as it could have been due to the financial crisis of 2008. The level of employment that was created over the past five years can be explained by the slow recovery of the platinum was group metals (PGMs) market after the financial crisis of 2008 with the subsequent retrenchment. Other interviewees also highlighted that since the nature of the mining industry is labour intensive, there is an opportunity to create more jobs once the industry had fully recovered from the bust cycle that started in 2008. One respondent made the following statement:

“...2008 was the big crush and we retrenched people. From 2008 to date, all these jobs have been created.”

Some respondents have argued that although people might focus on the numbers of direct jobs created, it was important to also consider the numbers of indirect jobs that the platinum sector has created through empowerment of local community and the creation of special vehicle that have empowered small businesses.

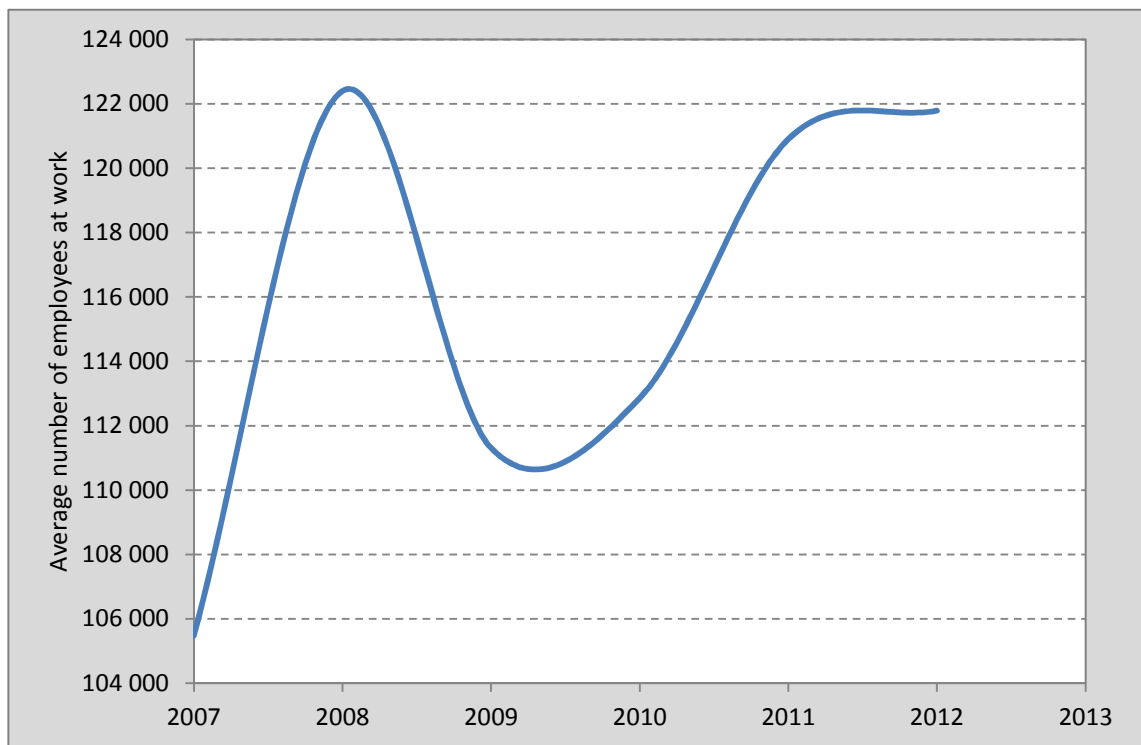
Few interviewees argued that a lot of growth in employment has come from junior PGMs mining companies. However, these junior companies were more likely to be impacted by the current environment of lower PGMs prices. They believed that it was not the big companies that have created more jobs, but the platinum industry has grown with the presence of junior mining companies.

One respondent believed that the level of employment has stayed constant and that by increasing the number of employed people from a baseline of 2008, the industry has only sustained the baseline. However, if the financial crisis of 2008 never occurred, the answer would probably have been different.

Few respondents argued that the current environment of depressed metal price and lower demand for platinum is adversely impacting the platinum sector. All the major platinum producers operating in South Africa have cut back on their capital expenditures for the next two to three years (2013-2015). Therefore, it is more likely that the sector will be embarking in another phase of retrenchment if the situation does not improve.

The employment statistics of the mining sector for the period of 2008 to 2012 was used to validate the responses of all respondents with respect to the creation of employment in the past five years. Figure 5.1 shows the aggregated number of employees at work (excluding contractors) for four PGMs producers in South Africa.

Figure 5.1: Average number of employees at work for four PGMs producers



These data were sourced from the various companies' annual reports (look for performance statistics). Figure 5.1 indicates that employment in the platinum sector was on the rise until 2008 and started dropping in 2008/2009 due to the financial crisis of 2008, before recovering again late 2009 and early 2010 onwards.

Figure 5.2 shows the platinum net demand by industry from 2002 to 2011 (Johnson Matthey, 2012). Automotive industry demand plays an important role in physical demand of platinum and palladium. As shown in Figure 5.2, there was a lower demand for platinum in 2009, which was due to the crisis in the American's automotive industry. 2009 Since most PGMs mining companies operating in South Africa generate more than 50 per cent of their revenues from platinum sales, a drop in the platinum price will affect the profitability of these companies.

Figure 5.2: Platinum net demand by industry (After Johnson Matthey, 2012)

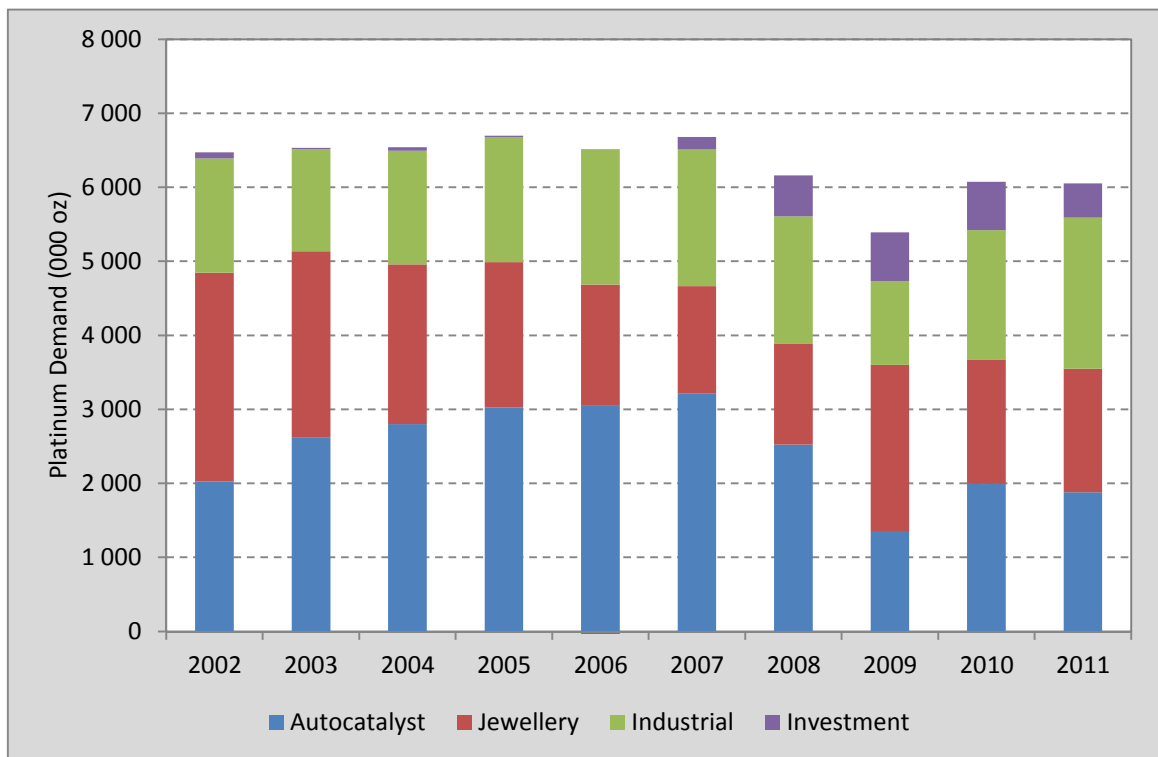


Figure 5.3 shows the monthly average metal prices from 2002 to 2012. Between 2008 and 2009, the platinum mining sector was adversely impacted by low platinum demand in the automotive industry and the depressed metal prices; which forced many

companies to retrench employees and also put their non-profitable operations on care and maintenance. Despite the slow recovery from the financial crisis, PGMs demand in the automotive industry is still facing some pressure from lesser sales in Europe due to the current crisis in the Eurozone (Figure 5.2).

The view of the vast majority of respondents and the results presented in Figure 5.1 are in agreement with the number of employment created in the South African's mining and quarry industry over the past five years (Figure 5.4). Data presented in Figure 5.4 were sourced from the Quarterly Employment Statistics (Statistics South Africa, 2010 & 2012b). From the data presented in Figures 5.1 and 5.4, it can be concluded that the platinum industry has created sustainable employment over the past five years, although the number of job created is still in line with the base line of 2008. However, the sustainability of employment seems to be cyclical due to the demand of PGMs in the automotive industry, metal prices, and the profitability of mining companies.

Figure 5.3: Monthly average metal prices (After Johnson Matthey)

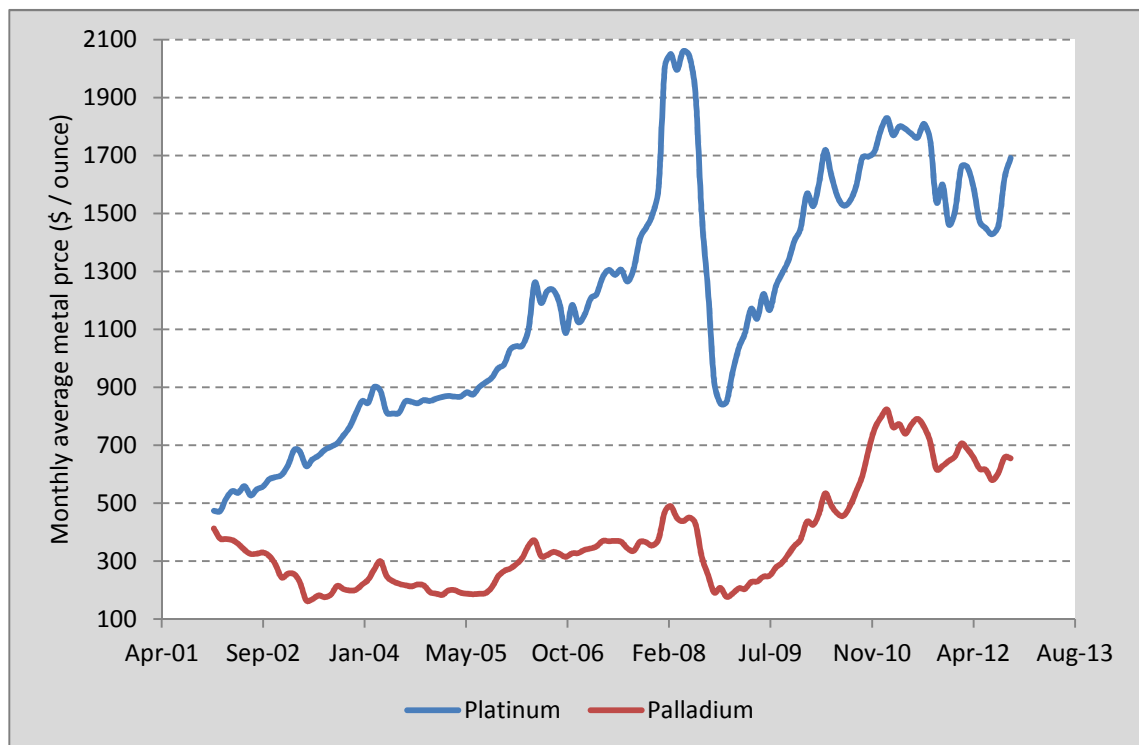
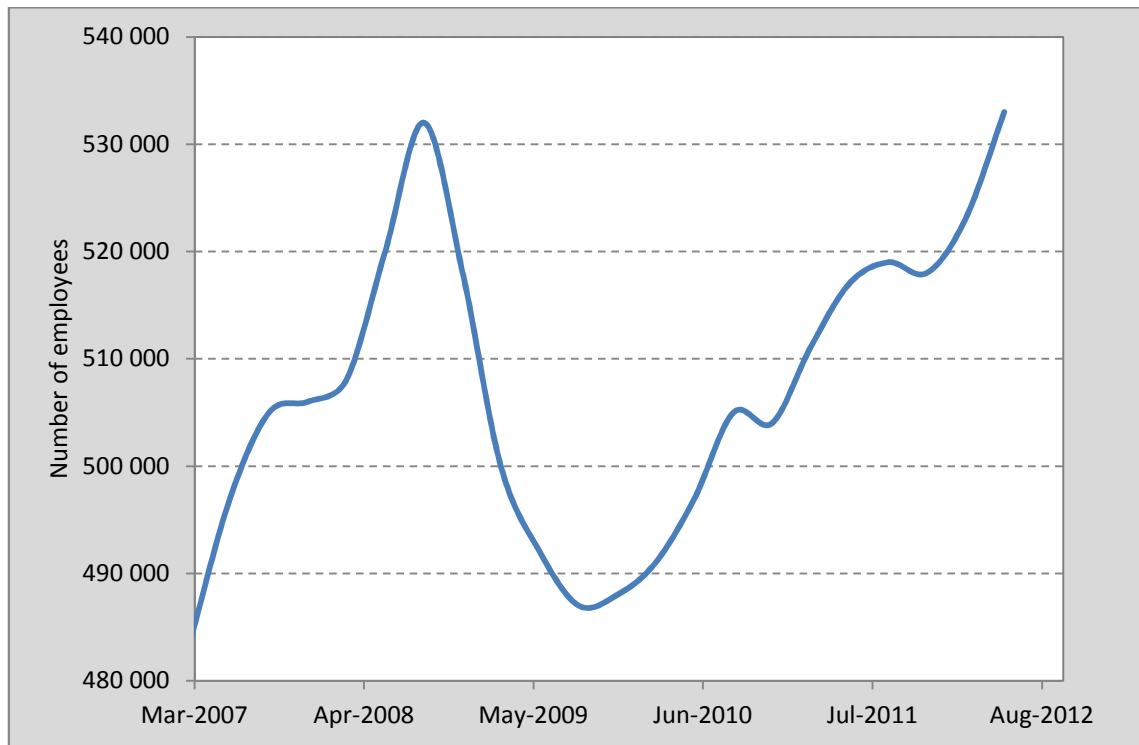


Figure 5.4: Average number of employees at work in the mining and quarry industry. (After Statistics South Africa, 2008 & 2012b)



5.2.2. The creation of sustainable employment in the next five to ten years

Most respondents argued that from a historical point of view, the platinum sector has been active in creating employment and going forward, the sector was able to create sustainable employment. These respondents still believe that in the medium to long term, the fundamentals of PGMs are still sound. The outlook for PGMs indicates that demand will surpass supply as new emission limits such as Euro 5 and Euro 6 standards¹ come into force. Therefore the platinum sector will be able to increase its production and employ more people. One respondent stated that:

“We believe that in medium to long term, the fundamentals of PGMs are still sound, so that when Europe recovers, we’ll be back and we’ll employ on a sustainable basis.”

¹ Euro 5 and Euro 6 standards have been introduced for cars and light commercial vehicles in order to reduce the emissions of pollutant such as carbon monoxide, nitrogen oxides and particulates.

Since mining is a long-term business, the platinum sector will always have a long term view on its employment strategy. However, most respondents highlighted that given the current economic situation in the world; the platinum market might not grow substantially. Most platinum mining companies have been considering downsizing, putting operations on care and maintenance, and reducing capital expenditures. A member of EXCO and a financial executive stated that:

“Our plan was to spend more capital in the next four years..., but because of the depressed price we have to cut back on capital. Therefore, our growth has been delayed.”

“...the capability of the sector in creating employment in the next five to ten years will depend on the price of platinum, which is really out of our control, and the ability of the platinum mines to continue to operate profitably in South Africa.”

The majority of respondents believed the platinum sector will experience some contraction and jobs might be lost in the next two to three years if the current economic climate does not improve. Although big platinum companies might survive the tough economic cycle, it is more likely that junior platinum mining companies with weaker balance sheets will be the most impacted by the current depressed metal price and lower demand for PGMs. Some respondents have argued that platinum mines have to right size in order to retain their flexibility such that when the market turns, the sector will be able to grow again. Two respondents highlighted the following:

“Our prospect of increasing our numbers in the next two years, if the environment stays as it is, is zero. Therefore going forward, if this depression sustains, there might be questions on the current number of people that we employ.”

“...some growth might be seen again three to four years from now, but it will not be the kind of super cycle that everyone is expecting.”

However, the respondents argued that the ability of the platinum sector to create employment can be limited by factors such as high wage demand, increasing cost of electricity and steel. Eskom’s latest proposal to double tariffs by 2017 will impact the

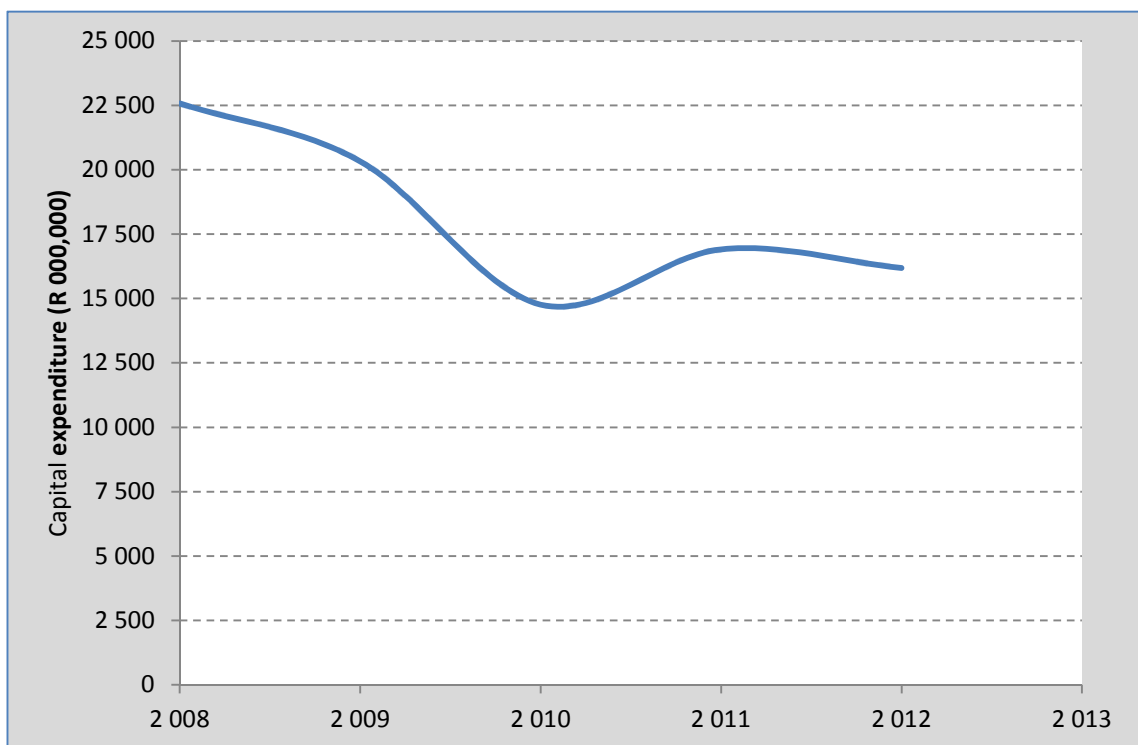
mining industry. The platinum sector will have to control its cash operating cost in order to remain competitive. A respondent argued that:

“...On the one hand we have a sector that can create employment within reason. But you have these other factors that can limit the ability to create jobs... and wage can affect it over and above the mining inflation.”

The majority of respondents argued that the problem of unemployment and poverty in South Africa, which is a socio-economic issue, could not necessary be addressed through the creation of direct jobs in the corporate sector, but also through entrepreneurship.

The view and opinions of these respondents with regards to the creation of employment in the next five to ten years were validated by analysing the capital expenditures and company’s outlook of PGMs mining companies. Information sourced from four PGMs producers latest annual reports indicates that the total capital expenditure has amounted to at least R100 billion over the past five years (Figure 5.5).

Figure 5.5: Annual capital expenditure of four PGMs producers



These companies are expected to spend more than R50 billion in the next three to five years. However, they have slowed down on capital expenditures due to short term instability in the platinum market. In 2012, four companies made the following statements in their interim and/or annual reports:

“The current depressed price has reduced operating margins and consequently capital investment in sustaining current and increasing future production has reduced significantly (Company A, 2012. p. 10)².”

“In the medium term, however, we have no reason to doubt that emerging market demand will translate into more robust pricing. I am confident that increasing industrialisation and the anticipated boom in vehicle ownership in China, India and other emerging markets will underpin growing demand for our environmentally critical metals in the decades to come. (Company B, 2012. p. 9)³”

“Whilst we believe that the long term industry fundamentals for PGMs demand remain sound, the current lacklustre demand for PGMs and the weak pricing environment, may persist for longer than we had previously anticipated... We have also taken the decision to reduce the capital spend in the 2013 and 2014 Financial Year... We continue to identify and implement other cost saving measures that can be taken while retaining sufficient flexibility to enable us to respond to improved market conditions when these occur. (Company C, 2012. p.3)⁴”

“Despite the current short term challenges, [company name] believes that the longer term supply demand outlook for the platinum business remains attractive. ...The key objective of the strategic review is to thoroughly assess the options available to establish a long term portfolio with sustainable competitive advantage that will deliver superior through the cycle value for shareholders and stakeholders. (Company A, 2012, p. 10)”

² Company’s name was kept confidential in this research study

³ Company name was kept confidential in this research study

⁴ Company name was kept confidential in this research study

“Given the low metal price environment, the extent of capex requirements at both [mine names] in the year ahead, shareholders will appreciate the board’s decision to pass the final dividend (Company D, 2012, p. 13)⁵”

The statements of these mining companies are in agreement with the views of the majority of respondents, who have stated that the platinum sector has the capacity to create employment in the next five to ten years. However, the creation of sustainable employment will depend on the medium and long term fundamentals of platinum demand and the profitability of mining companies.

5.2.3. Creation of employment after nationalisation of mines

The debate on nationalisation of mines, which was mainly fuelled by the ANCYL leadership, has promised the creation of employment in order to reduce the level of unemployment, alleviate poverty and decrease the gap of inequality in South Africa. The majority of respondents acknowledged that the nationalisation of private companies was not a foreign concept in the world. Many countries have nationalised mining companies, banks and financial services, insurances, land, and health care.

Most respondents believe that nationalisation of mines, where the government has total ownership or majority control of the mining company, will not create sustainable employment in South Africa. The respondents also argued that mining is a capital intensive business and if mines were to be nationalised, it would mean that government will have to invest in businesses and put its capital at risk. In a capital intensive industry like platinum mining where there are boom and bust cycles, there is a need for foreign capital. The inability to attract capital, especially in time of bust cycle, will limit the mining company’s ability to invest and ride the various operating cycles, thus eroding its ability to create employment.

Some respondents insisted on the fact that in general government was not as efficient as private sectors in running profitable businesses, although there have been some exceptions. The respondents argued that many South African state-owned enterprises and governmental departments have been inefficient for the past 15 years. The current government has limited financial resources to be allocated to various sectors such as

⁵ Company name was kept confidential in this research study

education, health, science and technology, and social services. The respondents further argued that in time of bust cycle, government will not have the necessary resources to keep the mining sector alive due to other priorities. In addition, the national government will not be in a position to cut jobs and contain cost because of conflicting agenda. In the end, many mining companies will become unsustainable and will close down. If one was to consider the current scenario, where platinum mining companies are making quicker decisions in containing cost, slashing capital expenditures for the next two to three years, it is not evident that the ANC and South African government can be in a position to act as quickly as the private mining companies are doing.

Few respondents still believed that even if nationalisation meant that government will take control of the private mining companies, it might still create employment in the short term, even if it was not sustainable. These respondents argued that there will be more pressure on the ANC to employ more people despite the decreasing efficiency in the operation of the mines.

However, if nationalisation involved a public-private partnership, where platinum mining companies were allowed to continue as efficient and profitable businesses, then government will get a share of the business and employment will still be created based on market forces.

5.2.4. Reasons for the nationalisation of mines

Respondents argued that there were various reasons for the call to nationalise the mines. These reasons could be summarised as follow:

- The ANC has promised a better life to the people of South Africa when it came into to power in 1994. However, the ANC, as a ruling party, has not been able to deliver on many of its promises including “*a better life for all*”, while mining companies are exploiting the country’s mineral resources and paying lower wages to South African citizens.
- People of South Africa, especially poor communities, have higher expectations about poverty alleviation, employment and reducing the income gap. The

people are tired of living in poverty and are expecting the ruling party and government to intervene.

- There is a belief that most mining companies are making a lot of money and external investors are benefiting from the country's natural resources, while citizens of the country are still living in poverty. In addition, these mining companies have their primary listing and major shareholders outside South Africa. Therefore, the profit made by these mining companies should not exit the country. If these revenues and/or profits are captured by the ANC, they could be used to solve the various socio-economic issues in the country.
- South Africa is endowed with various mineral reserves that are wanted by the world. The ANC can create more jobs if it nationalises private mining companies.
- Some people within the ANC, who acquired equity in mining companies as recommended by the Mining Charter, have not been able to leverage on their black economic empowerment (BEE) assets and want a bail out from government.

A Financial executive stated that:

“Unfortunately it is political. The people out there are tired of inequality, poverty and they want the government to do something. We'll probably see what is in the SIMS report and the ANC has no choice... they are under social pressure.”

However, the majority of the respondents also believed that the ANC was aware that wholesale nationalisation was not a viable option for South Africa. They argued that there are people within the ANC who understand economics and know that the mining industry should not be sacrificed. They know that mining is a capital intensive business and requires an initial capital investment. This initial capital investment usually comes from external private investors and financial institutions. Even when huge profits are declared by mining companies, a portion of the profit is re-invested in the company for future growth. Therefore, the net profit that exits the country is marginal to warrant the nationalisation of mines.

The current dilemma for the ANC is that partial nationalisation, which involves the acquisition of at least 51 per cent of private companies at market price will be

expensive and unaffordable by the State. The acquisition of private mining companies without compensation will require an amendment of Section 25 of the Constitution. However, changing the Constitution will not be an easy task for the ANC. The respondents believed that the ANC has already nationalised the reserves through the MRPDA, which has introduced the compliance to the social and labour plan. An executive with legal expertise stated that:

“Overseas companies will sue the South African government for taking their assets without compensation.”

5.2.5. Motivation for the nationalisation of mines

Most respondents argued that nationalisation has failed in many countries, especially in Africa, and it was not viable to motivate it in South Africa. They also believed that the ANC has not provided enough motivation in a structured and a consultative manner in which everyone understands the implication of the nationalisation of mines. There was some agreement that the people who are supporting the nationalisation of mines have given some motivation on the public domain. However, there are not enough details around the belief that the ANC and the State will efficiently manage nationalised mining companies. Respondents also argued that they were not aware of any plan on the source of funding to keep the mines operational once nationalised. Respondents have recommended that the people should be made aware of the cost of nationalisation instead of a simple argument about foreigners taking profits outside of South Africa. A senior executive stated that:

“In the public domain, no [there is not enough motivation for the nationalisation of mines]. In the public domain you have his [the leadership of the ANCYL] view that we all know and we don’t want. We have also heard a lot of “we don’t have the money to buy into private companies”, which gives you an idea that they don’t want to nationalise.”

The vast majority of the respondents viewed the current nationalisation of mines debate as an emotional and political debate instead of an economic question. Another senior executive commented that:

“The nationalisation debate was closed about five years after 1994 and it has recently been re-opened by the ANCYL and certain forces within the tripartite alliance. It is being used to gain popularity amongst the electorate.”

Some respondents argued that the ANC has tried to assure private investors in some “closed door forums” that nationalisation was not a viable option for the country. The mining industry has a lot of expertise that the country has to retain in order to promote economic growth. Therefore, there should be minimum support for the nationalisation of mines.

5.3. Research proposition No. 2: Nationalisation of mines can adversely impact the inflow of foreign capital in the host country

5.3.1. Wholesale nationalisation and State participation in the mining industry

The respondents believed that nationalisation of mines, in general, will isolate South Africa from external capital. They further argued that history has shown that many countries where mines were nationalised struggled to attract foreign capital into various sectors of the economy. Both private investors and financial institutions have been reluctant to put their money where mining companies were nationalised, especially in Africa. A senior executive from EXCO and a financial executive emphasised on the following:

“...Money is conservative, it is not going to affect the pension funds that seat behind it. The financial institutions are using other people’s money. Whether they are internal or external investors, they are looking for attractive returns...”

“I don’t think that investors will fund mining if it is run the same way these public sectors are run.”

Many respondents also indicated that various investors will want to understand the nature of nationalisation to be adopted in South Africa. If South Africa were to adopt the wholesale nationalisation or nationalisation without compensation, external investors will not put their money in the South African mining industry. Some respondents have argued that Africa has a bad reputation on nationalisation and expropriation of private assets. It is more likely that foreign investors will see another Zimbabwe if wholesale

nationalisation was adopted in South Africa. It should be noted that South African mining industry is competing for the same funds with other countries and other jurisdictions, which might become more competitive for the investors. There are mines all over the world where investors can get an attractive return on their investment. Most respondents insisted on the fact that the current platinum market was depressed, therefore raising capital after nationalisation will be challenging.

Some respondents were of the opinions that rating agencies such as Moody's and Standard and Poor's will probably downgrade South Africa if mines were nationalised. This will increase the cost of borrowing and potential investors in other areas of the economy will expect a much higher return if they were to invest in South Africa. This concern was confirmed a month later when Moody's Investors Service cut the government bond rating from A3 to Baa1 on the 27th of September 2012 (Reuters, 2012a). Moody's justified the downgrading to worries about South African institutions, future political stability and room for manoeuvring. Moody's argued that:

*"Investor sentiment has been soured by the recent illegal strikes in the mining industry and the criticism of the government as ineffective and out of touch."
(Reuters, 2012a, p.1)*

On 12 October 2012, Standard and Poor's Ratings Services (S&P) lowered South Africa's long-term foreign currency sovereign credit rating from 'BBB+' to 'BBB', and the long-term local currency rating from 'A' to 'A-' (Reuters, 2012b). S&P argued that:

*"In our view, the strikes in South Africa's mining sector will likely feed into the political debate in the run-up to the 2014 elections, which may increase uncertainties related to the African National Congress' (ANC's) future policy framework. We also expect South Africa's underlying social tensions to increase government spending pressure and reduce its fiscal flexibility."
(Reuters, 2012b, p.1)*

However, some respondents argued that private investors and financial institutions have their valuation models, and they always assess the risk and reward associated

with the investment. While some investors may exit the South African mining industry, others who are not concerned about nationalisation will enter for strategic reasons.

Some respondents also argued that if the nationalisation of mines was well negotiated with the private companies, external investors can still put money in the South African mining industry provided that the returns were attractive. They argued that if some maturity was shown around the nationalisation debate and a viable option (for both the State and the investors) was adopted, investors will still put money in the mining industry. They also argued that the current challenges in the country's education and health care systems indicated that the State might not have the necessary capacity to manage mining companies. Some of these challenges are related to mismanagement of funds, corruption, and irregularities in the procurement system.

5.3.2. Insulation to international capital and job creation

Respondents believed that South Africa's insulation to international capital will affect the creation of employment. Currently, a lot of investments in the platinum sector come from offshore, because South Africa doesn't have the money to invest in the country's mining operations. Since capital is needed to replace assets and fund expansion programme, the inability to expand and fund daily operations will affect the ability to create the jobs. One respondent with strategic planning expertise stated that:

"...South Africa will struggle to raise enough capital internally to fund all mining capital expenditures and keep the business going."

Some respondents argued that there will be a ripple effect, because some supply chain companies that provide goods and services to the platinum mining sector will be impacted by the lack of growth of mining companies. Therefore, indirect jobs will also be affected in the absence of foreign capital in the mining industry. Some respondents emphasised that labour costs were very high in the platinum mining sector and the cost escalation has been eroding the profitability of companies. In addition, the current South African labour regulation was seen as another factor that could slow down investment and job creation.

5.4. Research proposition No. 3: Mining companies are usually wary of investing in countries with unstable fiscal systems

5.4.1. The introduction of a resource rent tax

Although some respondents agreed with the proposed introduction of the resource rent tax as a means to redress the injustices of the past, there were three major concerns from most of the respondents.

The first concern was on “how” the 15 per cent of normal return was derived. Most of the respondents had an issue with the capping of normal return at 15 per cent. They argued that mining was a capital intensive and risky business to invest into. Therefore, the average expected return was supposed to be higher than 15 per cent. Since most mining companies operate in a boom and bust cycle, there was a concern about time of “*bust cycle*” when investors were not getting any profit from their investment or profit was below the rate of borrowing. The respondents believed that the capping of the normal return to 15 per cent meant that the actual return over the life of the mine was expected to be below 15 per cent. Usually, mining companies will use money from super profit for further growth. An additional tax will inhibit growth. Some respondents argued that investors will put money into mining because of the upswing. However, if the expected return during the upswing period was not attractive anymore; this will create some negative sentiments amongst investors, both locally and internationally. One financial executive argued that:

“We [platinum mining companies] are not making super profit and we will not make it for the next four to five years. Therefore, government will not see any money from resource rent tax.”

The net profit margins and return on equity of four platinum producers are presented in Figures 5.6 and 5.7, respectively. This study only focused on the results of the past 9 years.

Figure 5.6. Net margin of four PGMs mining companies (After McGregor BFA)

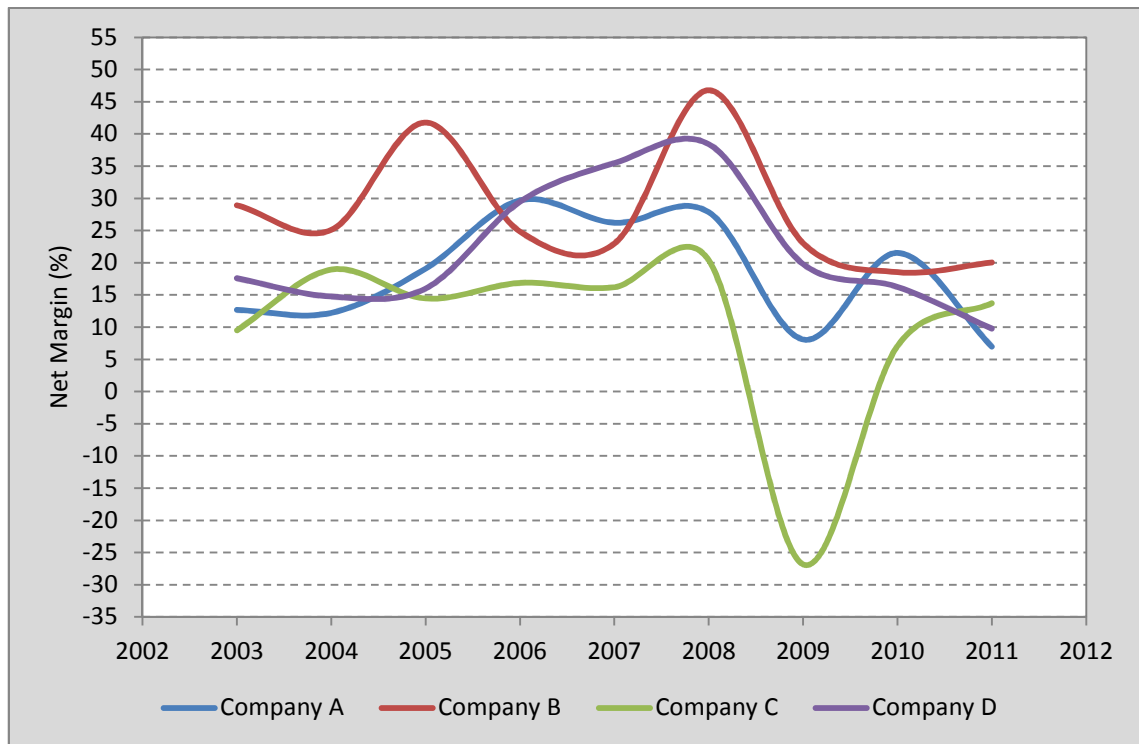
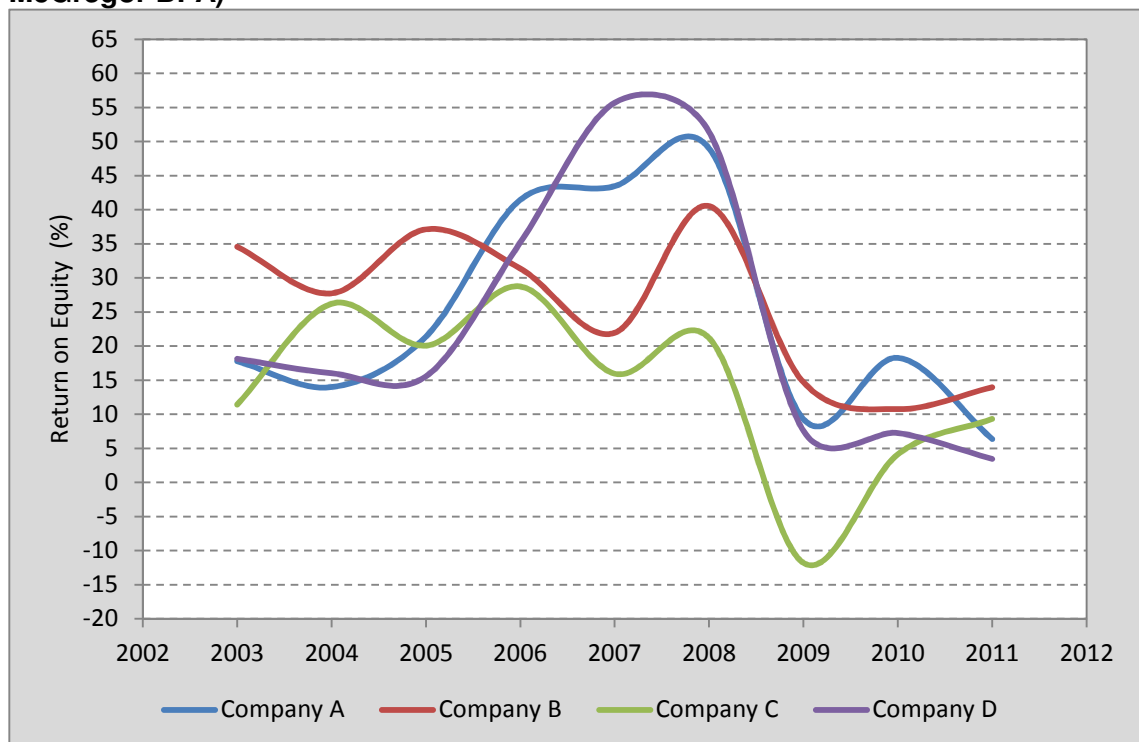


Figure 5.7. Return on equity (ROE) of four PGMs mining companies (After McGregor BFA)



These data were retrieved from McGregor BFA database. Figure 5.6 indicates that on average, the platinum sector has enjoyed net margin above 15 per cent from 2003 to

2008. However, margins have declined since 2009. Figure 5.7 indicates that shareholders of PGMs companies have enjoyed return on equity (ROE) higher than 15 per cent from 2003 to 2008 followed by a drop in ROE in 2009. Figures 5.6 and 5.7 have also shown that the profitability and return on equity of PGMs companies are cyclical.

The second concern from the respondents was the rate of 50 per cent to be applied on super profit. These respondents believed that this high tax rate will further erode the profitability of mining companies. With super profit taxed at 50 per cent, most of the respondents argued that the effective tax will be approximately 40-45 per cent. This will affect the expected returns for future projects and there will be fewer investors willing to accept marginal returns.

The general sentiment amongst respondents was that the proposed normal return was too low and the tax rate on super profit was too high. They argued that this will be negative for future investment and job creation. One executive with technical expertise stated that:

“I don’t have a problem in us all sharing in great profit, but it has to be reasonable and pegged properly. If we are in a super cycle, I don’t mind sharing a bit. But I should be able to have the benefit of the first five per cent and then share the rest. But not get taxed at 50 per cent.”

Some respondents argued that mining companies were already paying heavy taxes in South Africa if one was to consider the corporate tax, the royalty tax, withholding tax, and social taxes (social and labour plan). Other respondents believed that the current tax regime was fair and it was inappropriate to add another tax burden. Respondents argued that government and/or the ANC had to understand that mining companies usually retained some of the profit for growth and job creation during super cycles.

The third concern was on the spending of the resource rent tax. Most respondents have argued that there was no transparency on the way money collected from the current royalty tax was spent. Various questions were posed:

- *“How much money is collected from the current royalty tax?”*
- *“Is the current royalty benefiting the mining communities?”*

One respondent asked the following question:

“My question will be what are they currently doing with the royalty they’re collecting from mining companies? No one is telling us what is happening with the royalty. No one has told us what difference the royalty has made in the mining sector. They [ANC and government] haven’t even told us how much they’ve collected.”

5.4.2. Certainty and stability of policy

When debating the issues of nationalisation and resource rent tax, the vast majority of respondents cautioned that investors were very sensitive to the certainty and stability of policy of the host country. Because mining is a long-term investment business, certainty of policy of the host country is extremely important in decision making and evaluation of the risk associated to the project.

Respondents argued that if they were to sink a shaft, they wouldn’t expect a government to change the policy few years after the initial capital has been invested. It would be noted that certainty and predictability of policy is usually taken into consideration when calculating the return on investment in mining projects. A member of EXCO argued that:

“Equity investors will only back up government if there is certainty of policy. If there is no certainty of policy, investors will not put their money in the platinum sector and government will have to fund its investments through bond instruments, which might become very expensive.”

The above opinion was confirmed by two senior executives of different companies who stated the following:

“I was at an international forum and was discussing nationalisation of mines with the chief executive of [one of the top five mining companies in the world], and he said that they are looking at many ways of divesting because of uncertainty of policy...”

“All countries compete for international capital. Where there is uncertainty of policy there will be lack of investments followed by a knock on effect on employment, the Rand, the JSE, etc...”

These views are in agreement with Moody’s and Standard and Poor’s motivations to downgrade South Africa in September and October 2012. Standard and Poor’s warned that it could still lower the ratings if the diverging factions within the ANC impeded the formulation of a policy framework that was conducive to growth and job creation (Reuters, 2012b).

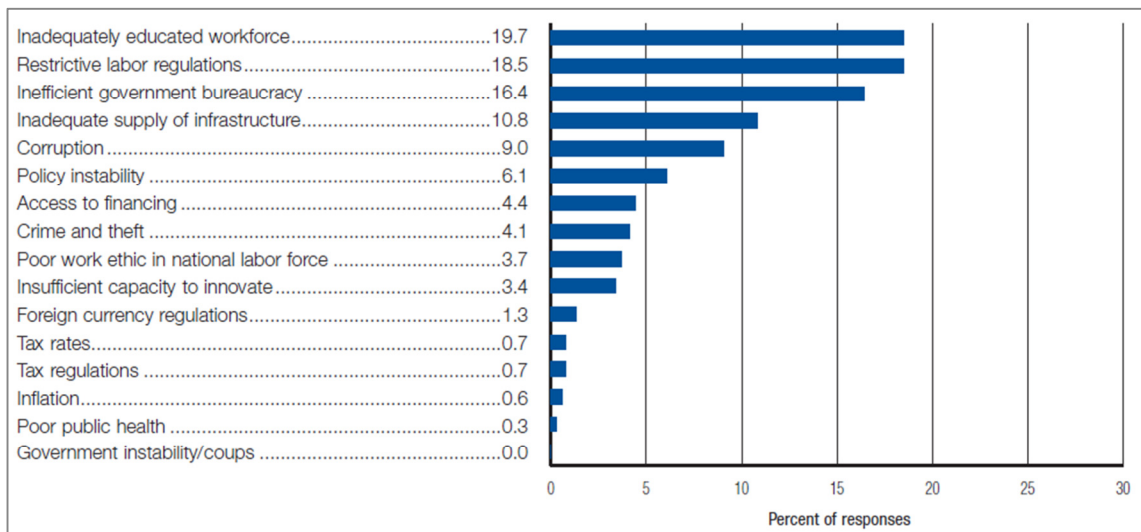
The introduction of a resource rent tax may be viable in a short term because government might increase its revenue. However, the competitiveness of mining companies will be compromised. In order to create sustainable employment, the platinum sector will have to be profitable and remain competitive.

Some respondents argued that if there is certainty of policy, even if it is not beneficial to the investors, they can still invest when they know what taxes and penalties to be taken into consideration in their calculations. Government will have to make the rules very clear for the investors to know what to work with. Most respondents argued that the lack of clarity in investment policies was not good for both the country and the mining industry.

These views are in agreement with the World Economic Forum report 2012/2013, which has ranked South Africa 52nd (a drop of two places from last year) out of 144 countries on the global competitiveness index⁶ (Schawb & Sala-i-Martin, 2012). The report has indicated that labour regulations and policy instability, amongst other factors, are two of the most problematic factors for doing business in South Africa (Figure 5.8). This can be validated by the recent string of labour unrests in the mining industry.

⁶ The World Economic Forum defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country (Schawb & Sala-i-Martin, 2012).

Figure 5.8. The most problematic factors for doing business in South Africa (Schwab & Sala-i-Martin, 2012)



5.4.3. Viability of the introduction of the resource rent tax

Most respondents argued that the introduction of the resource rent tax will affect investment for the growth of the mining industry in South Africa. They believe that with additional tax, certain projects will not be viable because of high weighted average cost of capital (WACC). Even some of the marginal projects might not be started. As decision makers, they wouldn't advise their organisations to invest in more projects for growth. Although some respondents appreciated that the ANC was trying to increase the money that the government has to spend on social infrastructure, they argued that the introduction of the resource rent tax was not viable for South Africa.

The respondents argued that the introduction of the resource rent tax should take into consideration the competitiveness of South Africa. They argued that South Africa has to be competitive even if it owns the PGMs reserve. If platinum mines were to lose their competitiveness due to high operating costs and lower profitability, the world might start looking at platinum substitute products. Most respondents believed that the timing of the nationalisation debate and the proposition to introduce the resource rent tax was unfortunate because the platinum mining sector was on the decline. Some respondents have argued that the proposition to introduce the resource rent tax was a substitute to the nationalisation debate. One respondent stated the following:

“I don’t think that government will have the necessary focus to drive cost down and plough money into business. In the long term, nationalisation will destroy employment.”

5.4.4. Proposed tax regime

Most respondents argued that they will not recommend a different one tax regime. They believe that the current taxation regime is within the range of others countries. Two respondents stated the following:

“...I think the current tax regime is more than enough.”

“...I wouldn’t change anything so far. I’ll try to make it easier for the guys to invest.”

They have suggested that government should focus on policies that are promoting the growth of the mining industry. Most of the respondents insisted that the ANC must focus on “growing that pie” instead of looking at a different taxation regime. There is a need for external capital in order to grow the mining industry. One respondent argued that:

“It is all about trying to get more from something that is not there, it does not make sense.”

Some respondents suggested that the ANC and government explore other avenues where companies could make more money and then pay tax (from increased profit). They argued that where there was an opportunity to beneficiate minerals in South Africa, companies should be taxed on a sliding scale. Other respondents argued that the current tax regime was too high. An EXCO member mentioned that:

“The way we get taxed now is too high, corporate tax, royalties and social tax (houses, hospital, schools for the communities etc....).”

5.5. Summary

The view and opinions of various respondents were clustered around the research propositions. These opinions were validated using additional information from various PGMs mining companies' annual reports and database such as McGregor BFA. The results can be summarised as follow:

- Nationalisation of platinum mines, where the government has total ownership or majority control of the company, will not create sustainable employment in South Africa. In addition, the current government does not have the human and financial resources required to operate profitable mines. The vast majority of respondents emphasised that most South African stated-owned companies are not managed efficiently; and it is more likely that the mining sector, if nationalised for the sole purpose of creating employment, might not be profitable.
- Nationalisation will isolate South Africa from external capital, because history has shown that many countries where mines were nationalised struggled to attract foreign capital into various sectors of the economy. Respondent argued that investors and financial institutions have been reluctant to put their money where mining companies were nationalised. There was some concern about rating agencies such as Moody's and Standard and Poor's downgrading South Africa if the mines were nationalised.
- Investors are usually very sensitive to the certainty and stability of policy of the host country. Respondents argued that certainty of policy of the host country was extremely important in decision making and evaluation of the risk associated with the project. Higher taxes will reduce the competitiveness of mining companies, which might result in less mining investment in South Africa and lost opportunities to create more jobs.

The following Chapter will discuss the results presented in Chapter 5 in terms of the research propositions and body of literature outlined in Chapters 3 and 2, respectively.

Chapter 6: Analysis of results

6.1. Introduction

As highlighted in Chapter one, the main objective of this study was to explore the possible impact that nationalisation of mines and the introduction of a resource rent tax will have on the capability of platinum mines to create sustainable employment while remaining profitable in South Africa. In total, 13 senior managers and executives from three companies operating in the platinum sector were interviewed. This Chapter discusses the results presented in Chapter 5 in terms of the research propositions and the body of literature.

6.2. Sustainable employment cannot be created if mining companies are not profitable

Most respondents believed that nationalisation of platinum mines, where the government has total ownership or majority control of the company, will not create sustainable employment in South Africa. These respondents have argued that nationalisation of mines has failed in many countries. The majority of respondents also emphasised that most South African state-owned companies are not managed efficiently; and it is more likely that the mining sector, if nationalised for the sole purpose of creating employment, might not be profitable. The loss of profitability will deprive the platinum mining companies from further growth opportunities unless the State funds are used to sustain the mining activities. In addition, it is known that the current government does not have the human and financial resources required to operate profitable mines. The respondents also argued that in time of bust cycle, government might not have the necessary financial resources to keep the mining sector alive due to other priorities such as education, health, science and technology, and social services.

However, some respondents have argued that if nationalisation involved a public-private partnership, where platinum mining companies were allowed to operate as

efficient and profitable businesses, sustainable employment can be created in the long run.

There is enough evidence in the literature to suggest that sustainable employment cannot be created if mining companies are not profitable, especially when they were nationalised. Bozutzky (2005), Champion (2001) and Petras (1973) have argued that many governments have not managed to sustain the economic growth, profitability of nationalised mines and employment, especially in time of lower commodities prices and higher operating costs.

According to Lüders (1993), Chile's experience helped to clarify the relationship between the level of employment, internal efficiency and growth rates of companies. Lüders (1993) argued that when state-owned enterprises used the same rules and same management criteria as private enterprises, employment level tumbled more quickly in the state-owned enterprises than in the private sector. However, when growth rate accelerated, employment increased much quicker in the private than in the public sector (Lüders, 1993). According to Petra (1973), Chilean mine workers perceived nationalisation of mines in terms of better living standards and other immediate benefits. Petra (1973) argued that these mine workers believed that nationalisation will significantly improve their economic wellbeing.

In Zambia, strong labour unions demanded greater material rewards after the nationalisation of foreign mining companies (Negi, 2011). According to Shafer (1983) the period of nationalisation coincided with the beginning of a period of rapidly rising costs and growth in the capital needs of the copper industry. Limpitlaw (2011) argued that few years after nationalisation; ZCCM was experiencing poor profitability due to depressed metal prices and management focus on mass employment and the delivery of social services. Curry (1984) highlighted that operational breakdown did paralyse approximately 20 per cent of Zambia's capacity to produce copper and state-owned mining companies became a liability to the country, with the need for subsidies to cover continuing losses.

The current string of wildcat strikes and demands for higher wages in the mining industry has indicated that South African mine workers, like their Chilean and Zambian counterparts, will support nationalisation in order to mainly improve their economic and

social conditions. Therefore, if South African mines were nationalised, mine workers will expect an improvement in their salaries, wages and living conditions. These high expectations and demands will increase the cost of labour and erode the profitability of mining companies. Lower profitability will impact the ability of mining companies to invest in project for growth and will adversely affect the creation of sustainable employment. In addition, since communities where mining companies are operating have higher expectations about poverty alleviation and employment; the South African government might not sustain the high cost of labour and mass employment in time of lower metal prices and depressed market due to lack of financial resources.

The results presented in Chapter 5.2 and literature reviewed in this study have shown that nationalisation of mines, when implemented for the sake of job creation only, can result in poor profitability, loss of plant capacity and further loss of employment. When mines are nationalised, employees are more likely to demand better living conditions and increased wages. The current challenge for the ANC, as a ruling party, is to still deliver on many of its promises including *“a better life for all”*, while private mining companies are exploiting the country’s mineral resources in poor local communities.

6.3. Nationalisation of mines can adversely impact the inflow of foreign capital in the host country

The majority of respondents believed that nationalisation of mines will isolate South Africa from external capital. They argued that many countries where mines were nationalised struggled to attract foreign capital into various sectors of the economy. Various respondents have emphasised that both private investors and financial institutions have been reluctant to put their money where mining companies were nationalised, especially in Africa.

Some respondents warned that rating agencies such as Moody’s and Standard and Poor’s will downgrade South Africa if the mines were nationalised. They argued that downgrading South Africa would increase the cost of borrowing and potential investors in various sectors of the economy may expect a much higher return if they were to invest in the country. Few months after collecting these views and opinions Moody’s Investors Service cut the government bond rating and Standard & Poor’s cut South

Africa's local and foreign currency sovereign, saying strikes and social tension could reduce fiscal flexibility and hurt growth.

The research proposition is supported by the results presented in chapter 5 and the body of literature which has shown that nationalisation of mines impacted the flow of foreign capitals in host countries like Chile, Peru, and Zambia. As reviewed in the literature, the Peruvian's government lacked private investment to sustain the growth of the economy (Champion, 2001). However, Morales Bermudez called for an increased foreign investment to exploit Peru's natural resources (Champion, 2001). President Belaúnde argued that the nationalisation by the military government delayed industrial and social development (Champion, 2001).

Shafer (1983) argued that during nationalisation, Zambia was faced with high demand for capital in order to grow the copper industry. However, Zambia's stated-owned mining companies struggled to borrow money, and were limited to short maturity loans at very high rates than prime industrial borrowers (Shafer, 1983). According to Shafer (1983), nationalisation of mines increased the cost of mining and lowered the ceiling on available funds. This resulted in lack of investment resources for these mining companies.

Most respondents stipulated that the current platinum market is depressed, labour costs are increasing, and the cost escalation is impacting the profitability of companies. Therefore raising capital after nationalisation of mines could be challenging for the government. Therefore, there is no certainty that nationalisation of mines will create more jobs as expected by those who do support it. Respondents believed that South Africa's insulation to international capital will affect the creation of employment due to its probable inability to raise capital from external investors and financial institutions.

According to Edwards and Edwards (2000), the era of government intervention and regulations in Chile was characterised by massive nationalisation of private sectors companies, an expanding macroeconomic disequilibrium and growing political unrest. This was followed by an increase in inflation wages and decline in wages. Few years later, the government of president Pinochet brought in foreign capital by making mining attractive for foreign investment. According to Singh (2010) the liberalisation of mining led to the most interesting outcome in Chile.

This positive approach to nationalisation supports the arguments of some respondents who believed that if the nationalisation of mines was well negotiated with the private companies; external investors can still put money in the South African mining industry provided that the returns were attractive. However, the maturity of this positive approach is still to be proven in South Africa.

The results presented in Chapter 5.3 have suggested that nationalisation of mines, when not managed properly, can adversely affect the inflow of foreign capital in the host country. This leads to the next research proposition which discusses foreign mining companies being wary of investing in countries with unstable fiscal regimes.

6.4. Mining companies are usually wary of investing in countries with unstable fiscal systems

The view and opinions of mining executives on the introduction of the resource rent tax into the South African's mining sector was presented in Chapter 5.4. According to Solomon (2012), a resource rent is a surplus operating profits over and above a fair rate of return, which is required to incentivise private investment in the high-risk exploration and development phases of mining after the deduction from revenues of directly productive costs. The SIMS report has proposed that the ruling party should aim to generate resource rents and capture these for social and economic development (The African National Congress, 2012).

Respondents have argued that one of reasons both local and foreign investors finance mineral resources such as PGMs is because of the high rate of returns that can be expected in time of boom cycle. The results presented in Chapter 5.4.2 have shown that the vast majority of respondents insisted that investors are usually very sensitive to the certainty and stability of policy of the host country. They have argued that certainty of policy of the host country was extremely important in decision making and evaluation of the risk associated with the project. It was important that both the South African ruling and opposition parties be aligned to certain investments policies. Some respondents have highlighted on the fact that equity investors will only back up government if there is certainty of policy. In addition to these views and opinions, rating agencies such as Moody's and Standard and Poor's (S&P) have downgraded South

Africa. Moody's reason to downgrade the South Africa bond was the uncertainty around ANC policies to be adopted in Mangaung⁷ (Reuters, 2012a). S&P has argued that the recent labour unrest in the South African's mining sector was likely to feed into the political debate in the run-up to the 2014 elections, which could increase uncertainties related to the ANC future policy framework (Reuters, 2012b).

Respondents argued that if there is policy certainty, even if it is not beneficial to the investors, they can still invest when they know how much taxes and penalties are to be paid to the host country. Therefore, the ANC and government will have to clarify the policies on nationalisation of mines and/or resource rent tax for the investor to know what to work with. Most respondents have requested more clarity on the following issues:

- The rationale on the capping normal return at 15 per cent;
- The high tax rate of 50 per cent to be applied on super profit; and
- The allocation of revenue from the resource rent tax to other sector of the economy.

Although results shown in Figure 5.6 have indicated that on average, the platinum sector has enjoyed net margin above 15 per cent from 2003 to 2008, margins have been declining since the financial crisis of 2008. The results presented in Figure 5.7 indicated that shareholders of PGMs companies have enjoyed return on equity (ROE) higher than 15 per cent from 2003 to 2008 followed by a drop in ROE in 2009. The results presented in Figures 5.6 and 5.7 showed that profitability of PGMs companies and return on equity are cyclical.

These arguments are supported by the relevant body of literature. Garnaut (2010) highlighted that the taxation of mineral rents is usually applied by governments in order to maximise revenue. According to Garnaut (2010), argued that taxation should as far as possible and the tax should not alter decisions on investment, production or trade.

The SIMS report has argued that the resource rent tax can generally be between 50 and 90 per cent of the excess profit (The African National Congress, 2012). However,

⁷ The elective conference of the African National Congress will take place in December 2012 in the city of Manguang (Province of Free State, South Africa).

the report does not give further details on the rationale for a proposed 50 per cent tax rate to be implemented in South Africa in spite of various other taxes. The report has also argued that Botswana captures the surplus value through a formula tax similar to the South African's gold formula tax, as well as a 50 per cent State holding in Debswana and Chile through a 100 per cent State holding in Codelco (The African National Congress, 2012). The SIMS report has also stated that Zambia was unable to introduce a windfall tax due to transnational corporation opposition and to fiscal stability clauses in many of their mining contracts (The African National Congress, 2012).

Saidu (2007) argued that a potential investor in mining would require a stable, predictable, and transparent fiscal regime because of the high risk associated with the various conditions of mining, the capital-intensive nature of mining investment, and the low rate of return. In addition, investors need the assurance that taxes on which they have based the economic evaluation of their projects will not change significantly over the life of those projects (Saidu, 2007). According to Kragt (2005), an attractive investment climate in the Chilean mining sector contributed to the expansion of other sectors of the economy. In addition, the mixed private and public ownership of the mineral sector helped the Chilean government in reaping the benefits of the mineral endowment (Kragt, 2005).

However, the ANC has not given a clear direction on the form of nationalisation and the introduction of the resource rent tax. Although the nationalisation of mines was discussed at the latest Mining Legkotla and the public was left to believe that nationalisation was no longer a viable option, the leadership and friends of the ANCYL have continued to call for the expropriation of mines, the increase of mine workers' wages and better living conditions around mining communities. The ANC has not spoken with one voice and there is a strong belief that the power in-fighting has signalled the uncertainty in policies to be debated at the ANC's elective conference in December 2012.

The ANC will have to decide if it will adopt the recommendations of the SIMS report and abandon the nationalisation of mines in favour of the introduction of a resource rent tax. If the resource rent tax were to be introduced, the ANC will have to convince the various stakeholders that capping normal returns to 15 per cent and taxing the super profit at 50 per cent are viable options for the growth and competitiveness of the

mining industry. However, higher taxes will reduce the competitiveness of mining companies, which might result in less mining investment in South Africa and lost opportunities to create more jobs.

Respondents have suggested that government should focus on policies that are promoting the growth of the mining industry. Most of the respondents insisted that the ANC must focus on “growing the pie” instead of looking at a different taxation regime. Since business people are rationale people; they will not make long term investment if there is fear of the unknown. Respondents have highlighted that beneficiation of minerals has been hampered by the limited availability of infrastructure such as power, water and transportation.

As discussed in Chapter 5.4.2, the introduction of a resource rent tax may be viable in a short term because government might increase its revenue. However, the competitiveness of mining companies will be compromised. In order to create employment, the platinum sector will have to be profitable and sustainable. The SIMS report has highlighted that investors base their decisions on risk adjusted rates of return. The SIMS report also emphasised that while governments aim to capture the resource rent, the unusual and substantial risks inherent in the mining sector has to be managed. These risks include (The African National Congress, 2012):

- Long exploration period with uncertain geological outcomes;
- Significant outlay of development capital that is not sunk once invested;
- Uncertain future revenues due to very volatile and unpredictable mineral prices;
- Long period of production to reach break-even point, which exposes the investor to political and policy instability; and
- Support to affected local communities during the production phase.

In light of the literature reviewed in this study, the results presented in Chapter 5.4 have supported the research proposition which argued that mining companies are usually wary of investing in countries with unstable fiscal system.

Chapter 7: Conclusion

7.1. Introduction

As highlighted in Chapter one, the main objective of this study was to explore the possible impact that nationalisation of South African mines and/or the introduction of a resource rent tax will have on the capability of platinum mines to create sustainable employment while remaining profitable. This research was informed on the call by the ANCYL to nationalise the South African mines in order to create employment for the people (The African National Congress Youth League, 2010a) and on the recommendations of the State intervention in the mineral sector (SIMS) report (The African National Congress, 2012). The scope of this study was limited to the interviews with key experts in the platinum mining industry on the capability of platinum mines in creating sustainable employment while remaining profitable. The impact of nationalisation of mines and/or the proposed implementation of a resource rent tax on the creation of sustainable employment in the platinum sector was also be explored.

7.2. Summary of results

The following research propositions were tested:

1. Sustainable employment cannot be created if mining companies are not profitable.
2. Nationalisation of mines can adversely impact the inflow of foreign capital in the host country.
3. Mining companies are usually wary of investing in countries with unstable fiscal systems.

The research has shown that nationalisation of mines, where the government has total ownership or majority control of the mining company, will not create sustainable employment in South Africa. The majority of respondents have emphasised that most South African stated owned companies have not been managed efficiently; and it is more likely that the mining sector, if nationalised for the sole purpose of creating employment, will not be profitable. In addition, the loss of profitability will deprive the

mining companies from further growth opportunities unless State funds are used to sustain the mining activities.

The research has also shown that nationalisation of mines will isolate South Africa from external capital. Respondents have argued that history has shown that many countries where mines were nationalised struggled to attract foreign capital into various economic sectors. Both private investors and financial institutions have been reluctant to put their money where mining companies were nationalised, especially in Africa.

The results presented in Chapter 5.4.2 have shown that the vast majority of respondents insisted that investors are usually very sensitive to the certainty and stability of policy of the host country. They have argued that certainty of policy of the host country was extremely important in decision making and evaluation of the risk associated with the project.

The general sentiment amongst respondents was that the proposed normal return was too low and the tax rate on super profit was too high. They argued that this will be negative for future investment and job creation.

The current challenge for the ruling party is how to capture the resource rent and create more jobs through maximising the mineral linkages without adversely affecting the investment climate in South Africa. Although the SIMS report has emphasised that government must establish certainty, predictability and transparency with respect to the terms and conditions of the private sector's participation, the current political and labour relations climate do not warrant this certainty of policy.

7.3. Limitation

Although the findings of this study have delivered on its primary objective, it is important to be aware that these findings only represent the views of a limited number of respondents. Therefore, the conclusion of this study may not be generalised to the whole platinum mining industry.

7.4. Recommendations

The results presented in this study have suggested that there is more work to be done in order to close the gap between those who advocate for the nationalisation of mines for the sake of job creation and those who believe that such decision will adversely affect the economic growth of the country. It is recommended that:

- State participation in the mineral industry should be clearly defined. Currently, the SIMS report has broadly defined State participation to include 100 per cent equity participation, partial or carried equity arrangements, and equity participation without financial obligation (The African National Congress, 2012). This broad definition is still creating confusion in the mind of the investors who would like to have some clarity on investment policies in South Africa.
- Government focusses on policies that promote the growth of the mining industry. The ANC government should focus on growing a competitive mining industry by proposing attractive incentives and developing infrastructure such as power stations, rails, roads and water supply considering that South Africa is an arid country.
- More work has to be done in order to align the proposals of the SIMS report with that of the National Development Plan and New Growth Path in order to create sustainable employment while maximising the developmental impact of minerals. This will take into account both the economic growth of South Africa and the creation of sustainable employment.
- Consultations with all stakeholders are required in order to clarify the introduction of the resource rent tax in the mining industry in spite of various taxation regimes that are currently implemented in South Africa. The impact of the social labour plan, which is supposed to alleviate poverty and improve the living conditions of mine workers and mining communities, has to be taken into consideration.

7.5. Future research

In light of the findings presented in this research study, it is further recommended that future research be conducted on the way revenues from mining royalties and resource rent tax can be utilised to improve the socio-economic conditions of the impoverished mining communities.

The possibility of South Africa leveraging its position in the BRICS in order to attract foreign direct investment from China and maximise the development impact of its minerals should be investigated.

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Appendix 1: Interview guide

1.1. Informed Consent Letter

I am conducting research on the Impact of the Proposed Nationalisation of South African Mines on Employment in the Platinum sector. This research aims to explore the possible impact that nationalisation will have on the capability of platinum mines to create sustainable employment while remaining profitable. Our interview is expected to last about an hour. Your participation is voluntary and you can withdraw at any time without penalty. Of course, all data will be kept confidential. If you have any concerns, please contact me or my supervisor. Our details are provided below.

Researcher name: Makunga Daudet Seke

Email: Daudet.Seke@lonmin.com

Phone: 083 294 0399

Supervisor Name: Dr Johan Olivier

Email: fish eagle@imagnet.co.za

Phone: 083 452 5539

Signature of participant: _____

Date: _____

Signature of researcher: _____

Date: _____

1.2. Data Collection

Element	Information
Interviewee's Company Name	To be kept confidential
Interviewee's Job designation	To be kept confidential
Interviewee to answers to all questions in Section 1.3.	Aggregated interviewees' responses to be used for Discussion and Content Analysis

1.3. Final questionnaires

Topic 1. Creation of sustainable employment

1. Could you tell me if the platinum sector has created sustainable employment for the past 5 years? Please substantiate your answer
2. Can you say more about the capabilities of the platinum sector in creating sustainable employment in the next 5-10 years? Please substantiate your answer
3. Do you believe that nationalisation of the mines will create sustainable employment in the platinum sector? Please substantiate your answer
4. Why do you think the ANC wants to nationalise the mines?
5. Do you think that the ANC has provided sufficient motivation for nationalisation?

Theme 2. Nationalisation and insulation to international capital

6. Do you think that nationalisation will affect the way investors put money into the platinum sector? Please substantiate your answer
7. Do you believe that external investors and financial institutions will not put money in the platinum sector if mines are nationalised?
8. Do you think that insulation to international capital will affect the creation of more jobs? Please substantiate.

Topic 3. Resource rent tax

9. Could you tell about the possible impact of the resource rent tax on the profitability of platinum mines?
10. Do you believe the ANC's recommendation of resource rent tax is viable for both the country and the platinum sector?
11. Do you think that the platinum sector will invest in more projects (for growth) if the resource rent tax is implemented? Please substantiate your answer.
12. If you were to recommend a different taxation method, what would you think about? Please substantiate your answer?

1.4. Consent letter for companies

Company name

Corporate Office

Company address

Att: The Executive Head – Corporate Affairs:

29 June 2012

Concern: Permission to access company information and interview key employees

Dear Sir / Madam,

Approval required

As an employee of Lonmin and a MBA student at the Gordon Institute of Business Science (GIBS) / University of Pretoria, approval is hereby required to access [company name] information for purposes of the MBA's research project.

Background

As part of the MBA programme which I have subscribed to via the Lonmin training and development programme, I am required to conduct research project for purposes of completion of a thesis for submission to the Gordon Institute of Business Science (GIBS).

My research topic is "***The Impact of the Proposed Nationalisation of South African Mines on Employment in the Platinum sector***". This research aims to explore the possible impact that nationalisation will have on the capability of platinum mines to create sustainable employment while remaining profitable.

I will require access to your company's employment and profitability history as outlined in its annual reports over the last 5 years. I will also require permission to engage with key employees involved in the management of the organisation in order to get their

opinions on the impact of State intervention in the mining sector. All private respondents' information obtained for the purpose of interviews will remain confidential and only aggregated information will be reported in the thesis. Company documents accessed for the purposes of this research will not be shared with third parties.

Yours sincerely,



Dr Makunga Daudet Seke, PhD

Manager: Metallurgical Accounting

Technical Services

Lonmin

Tel: 014 571 3244

Cell: 083 294 0399

Daudet.seke@lonmin.com

APPROVED / NOT APPROVED

Name:

Title:

Date : _____