Press Release

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South African Institute of Race Relations
The power of ideas

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Urgent policy interventions to revitalise mining a key economic priority for SA – IRR

Without urgent policy interventions to revitalise the mining industry, the country's entire economy will wither, like a gold rush town fallen into decay, according to the latest report from the Institute of Race Relations (IRR), *Why mining still matters, The socio-economic importance of the mining industry.*

The report identifies South Africa's mineral resources as 'the lifeblood of the economy', but warns that the extensive benefits well beyond the mines themselves will be lost to the country in the absence of reform capable of revitalising the sector.

Author of the report Ivo Vegter writes: 'The mining industry provides massive support for the surrounding economy, and conversely, the collapse of any mining sector has staggering consequences for the provinces, cities, towns and secondary industries that depend upon it.'

South Africa, he points out, is ranked second in Africa and 21st in the world for mineral potential. 'This is, perhaps, not surprising when it sits on R35 trillion in mineral reserves, one of the richest non-oil resource bounties in the world.'

But South Africa's 'unpredictable, uncompetitive and unstable policy environment' is costing it dearly.

Between 2013 and 2017, 'the global perception of the attractiveness of mining policies in South Africa has rapidly eroded. Out of 15 African countries with significant mining industries, it is now the third worst in which to own mining interests, after the Democratic Republic of Congo and Zimbabwe'.

The potential consequences are far-reaching.

Mining matters, Vegter notes, because of its extensive economic and social impact.

'Mining is a foundational industry that supports a very large number of people, companies and industries, including entire towns and cities. Its influence is far broader than mere industry data can reflect.'

Shareholding in the sector represents a wide range of individuals of all races, genders, ages and nationalities through investment and insurance companies and pension funds.

By far the largest share of value created by mining – 47% – went to employees in 2018. They number some 465 000 people, but the industry can claim credit for creating some 1.4 million jobs in other industries. Mining employees support some 4.5 million dependants. Applying a breadwinner/dependants ratio to all indirect jobs created by the mining industry, an estimated 13.5 million people depend on this income. That means up to 19.9 million people rely, directly or indirectly, on the mining industry, for their rent, clothing, food, education and healthcare.

Mining also makes major contributions to tax income and foreign exchange earnings, spends almost as much on goods and services as it contributes to GDP itself (in 2016, it contributed R291 million to GDP, and spent R245 billion on goods and services), is indispensable to revitalising manufacturing, and will likely remain critical – through coal in particular – to the energy sector for a long time to come.

But sustaining and growing these benefits means reforms are now essential.

The report recommends that steps be taken to

- **Simplify and ease regulations**. ‘Mining policy and regulations ought to be light-touch, predictable, competitive and stable. That’s the very opposite of the reality for the mining industry today.’
- **Evolve empowerment principles** to move away from ‘the sort of prescriptive policy that has enriched a few, but failed to benefit either the mines or the majority of the population’.
- **Reduce taxation,** to ‘boost the entire industry, from employees to shareholders (and) serve especially to save marginal mines that are at risk of closure today’.
- **Increase labour flexibility.** ‘It is essential, if mining is to remain competitive, that it is reasonably possible and inexpensive to adjust the size and expense of the workforce required in mines.’

Vegter singles out the fate of the once-thriving mining town of Welkom to illustrate the potential risks that face the greater economy should the decline of mining be allowed to continue.

He writes: ‘The fate of towns where the mining sector declines is grim. Welkom is one of the two hardest-hit towns in the country, and demonstrates the realities of such a decline.’ Welkom’s history, Vegter says, ‘shows in microcosm what might happen if the mining industry were to decline further’.

Welkom, founded in 1948 to serve the needs of Anglo American in the newly discovered Free State gold fields, was ‘the gold rush town of South Africa in the 1960s, epitomised by hosting the largest Porsche Club in the country’.

It has since declined sharply.

‘In total, 275 200 people were employed in the Welkom gold fields region in 1987. By 2010, that had declined to a mere 84 700. Some 190 500 jobs had been lost across the economy.

‘The Lejweleputswa District Municipality, which has its seat in Welkom, hosted fully one third of the entire Free State’s unemployed people in 2010, rising from just over a quarter in 1996. The unemployment rate itself rose from 35% in 1996 to 53% in 2008, and the poverty rate rose from 36% in 1996, which was lower than the provincial average, to 61.3% in 2006.’

Vegter writes: ‘South Africa urgently needs to improve the regulatory environment for the mining sector, lest the fate of Welkom befalls the rest of the country. Mining remains a critical industry with an outsized influence on the economy. The legislative uncertainty and regulatory burden on mining companies must be substantially reduced if the sector is to recover from its stagnation and flourish as it once did. The alternative is too awful to contemplate, for all of us.’

Read the full report here.

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