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The globalization of the South African mining industry

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Synopsis

In 1990 the South African mining industry was predominantly domestically based and was dominated by six mining houses, which all had their head offices in Johannesburg with their primary listings on the Johannesburg Stock Exchange (JSE). However, radical changes in the domestic and international political and economic environments during the 1990s resulted in the demise of the domestic mining house system and the two largest mining houses, Anglo American and Gencor (which was incorporated into Billiton) moved their head offices and primary listings to London.

Unfortunately, this move led to massive disinvestment from South African mining and industrial assets by both Anglo American and BHP Billiton. It also resulted in a loss of financial and technological capacity, which during the last century had made a massive contribution not only to the mining industry but also the development of the manufacturing industry. After their London listings both these companies placed their international interests well above the national interests of the host country, South Africa. This raises serious questions regarding foreign ownership of the South African mining industry.

Thus, although foreign-owned companies are still playing an important role, the history of our mining industry during the new century suggests that South Africa should not place excessive reliance on foreign-based companies to develop its mining industry and national economy.

Keywords

mining houses, Anglo American, BHP Billiton, globalization, foreign ownership, disinvestment.

The road to London

South Africa's mining industry has undergone drastic changes since the 1980s. There has been a persistent decline in the economic viability of the most important sector and the foundation on which the mining house system had been based – the gold industry. In real terms the rand gold price started to fall from 1987 and the working profit per ton of ore milled declined from R182 600 in 1981 to R41 200 in 1993, expressed in 1990 prices (Nattrass, 1995). Despite only a small decline in production from 655.8 t in 1981 to 619.3 t in 1993, gold's contribution to South Africa's exports fell from 45.7% to 28.3%.

Over-staffing of head offices added significantly to rising overheads on the mines, and one of the first casualties of the decline in the gold industry in the early 1990s was engineering capabilities. Mining houses were paying for engineering staff that they were not fully using, and many engineers were eventually transferred to specialist engineering companies.

The release of Nelson Mandela in February 1990, which represented the first step on the road to democracy in South Africa, signalled the beginning of the end of isolation for the South African mining industry. South Africa's emergence from isolation exposed its mining industry to changes in the global mining industry and changes in investor perceptions, from which it had been protected during the previous decade by isolation and sanctions. The conglomerate corporate structure, which had been popular internationally during the 1960s and 1970s, came under increasing attack and London brokers identified the mining house system as a value trap. London brokers and banks complained that the mining houses were charging excessive fees for their services to Group mines – fees that could be paid out as dividends to shareholders.

Investors therefore placed massive pressure on South African mining houses to break up their conglomerate structure to become focused mining companies. The process started in 1985 when, following an analysis of Gencor's management structure by the American consultancy firm Arthur D. Little, Derek Keys was appointed the new chairman of Gencor to replace Ted Pavitt. At the time, commerce, industry, and finance contributed about half of Gencor's income. Keys' appointment was the beginning of a new

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era for Gencor, which led inexorably to its internationalization as he embarked on a new strategy of 'unbundling' in order to get rid of the conglomerate structure that was alleged to be responsible for the discount in the value of a pyramid organization. The unbundling process involved the sale of non-core, non-mining divisions and enabled Gencor to focus fully on its core business – mining.

Gencor's example of unbundling its non-mining assets was followed by other mining houses in the 1990s. In September 1992, the Barlow Rand industrial and mining conglomerate announced a restructuring that dismantled the Rand Mines mining house, and in 1996 Anglovaal split the group into two companies – industrial and mining. Anglo American clung to its conglomerate structure longer, but undertook an immense re-organization over two years prior to its move to London in May 1999 in order to make itself marketable as a focused global natural resources player.

The decline in the gold industry and the lack of major new mineral discoveries meant that new opportunities for mining and metallurgical projects in South Africa were limited, which encouraged the mining houses to look for expansion opportunities offshore. Political uncertainty and the legacy of distrust between the African National Congress (ANC) and the mining houses provided a further incentive for the mining houses to move offshore, and Mbeki (2009) alleged that there was an agreement between South Africa's 'economic oligarchs, that handful of white businessmen and their families who control the commanding heights of the country's economy, that is, mining and its associated chemical and engineering industries and finance' and 'the leaders of the black resistance' to pay reparations by introducing Black Economic Empowerment (BEE).

Aluminium played a pivotal role in the internationalization of Gencor. Gencor decided to build a massive new smelter at Richards Bay, and this smelter would need to secure adequate supplies of alumina feedstock. One of the potential suppliers was Billiton, based in the Netherlands, which had diverse global assets in the aluminium sector. Billiton was owned by the oil major Shell and, like most of the oil majors at that time, Shell saw its mining portfolio as a non-core business. Negotiations were concluded on 1 December 1995 when Gencor acquired Billiton.

Gencor's acquisition of Billiton was made much more difficult by the exchange controls in force, which limited the sums that Gencor could export to finance the deal. However, Gencor chairman Brian Gilbertson was able to persuade the South African Reserve Bank and the Cabinet to permit the export of the required sums, and in July 1997 Gencor separated its international and South African businesses when it created a wholly-owned London-based company, Billiton plc, leaving only the gold and platinum interests with Gencor Limited, still based in Johannesburg. In March 2001 Billiton merged with the Australian mining group BHP to establish a diversified global resources group, BHP Billiton. BHP Billiton would be run by a unified board with its headquarters in Melbourne, with primary listings on the London and Melbourne stock exchanges and a secondary listing on the JSE. Paul Anderson was the first CEO, with Brian Gilbertson deputy CEO.

In contrast to Gencor, which entered the international arena only in the 1990s, Anglo American had begun its expansion beyond South Africa in the 1920s when it commenced exploration activities in Zambia leading to the discovery of Zambian Copperbelt. The nationalization of the Zambian copper mines at the end of the 1960s forced Anglo to seek alternative sources of base metals and provided capital for the creation of the Minerals and Resource Corporation (Minorco), an offshore company that Anglo used for international acquisitions. The first Anglo American investment outside the African continent was in Canada in 1961, and more than ten years lapsed before Anglo made its second major overseas investment when it acquired a 49% stake in the Morro Vehlo gold mine in Brazil in 1975. During the 1960s and 1970s the closed economy in South Africa had forced Anglo to diversify beyond mining into every sphere of the South African economy, but expansion in South America began in earnest at the end of the 1970s and early 1980s.

White (2008) noted that 'South America provided, to all intents and purposes, an ideal haven for Anglo', and by the late 1990s Anglo American South America (AMSA) had become the largest mining company in South America. 'These (South American) countries' willingness to open their mining sectors to FDI, and their clear commitment to sensible and sustainable economic policies was an attractive "pull" factor that encouraged ongoing investments from Anglo over an extended period of time. Meanwhile, the politically averse and severely challenging operating environment in Africa provided sufficient "push" for Anglo to seek alternative mining opportunities elsewhere and pursue its natural ambition as a truly international mining giant, constantly striving to improve its competitive and strategic capabilities and above all achieve maximum profits' (White, 2008).

In 1996 Anglo American chairman Julian Ogilvie Thompson commented that 'while we see our future as a *mining house rooted in South Africa and are committed to seeking every opportunity of expansion at home* new opportunities opening up in Africa and internationally will facilitate a determined expansion of our mining and selected industrial interests abroad'.

Ogilvie Thompson's 1996 vision of Anglo American as 'a mining house rooted in South Africa' proved to be of short duration, as in May 1999 Anglo American transferred its head office to London and its primary listing to the London Stock Exchange (LSE). White (2008) observed that 'in South Africa, the government and general public interpreted this (transfer of head office) less as a cold business decision that enabled Anglo to better manage its diversity of international interests than a clear expression of Anglo's lack of confidence in the country'.

Ogilvie Thompson (1999) paid tribute to 'the support of the South African government in establishing Anglo American as a global resources company', adding that 'its far sighted understanding of the imperatives of globalization has been rewarded by a growing confidence in South Africa as a leading emerging market'. He committed Anglo American to '*continue to expand and grow its businesses in South Africa and those other parts of the world that are prospective*'.

Criteria for offshore listings

In a paper in the quarterly bulletin of the South African Reserve Bank (SARB) in September 2002, Walters and Prinsloo evaluated the impact of foreign listings on the South African economy. The companies wishing to change their primary listings argued that offshore listings offered certain advantages that they would be denied if they maintained a primary listing on the JSE. Some of these advantages were:

- Easier access to capital resources at lower cost
- Opportunities to raise efficiencies by competing head-on with global competitors
- The opportunity to promote foreign investment in South Africa
- The opportunity to expand their core business into other countries and regions
- The opportunity to improve South Africa's profile internationally.

The exchange control authorities set guidelines in order to decide whether to grant permission for overseas listings. These included:

- Foreign expansion was necessary and integral to the firm
- There would be definite balance-of-payment benefits to South Africa
- There would be a substantial advantage over alternative approaches to raising the required capital
- South Africa's gross international reserves would not be adversely affected by a net outflow of dividends or any other funds
- All the South African operations and assets of the company would remain in South Africa

The analysis by Walters and Prinsloo was not confined to mining companies (Billiton and Anglo American), but also included South African Breweries, Old Mutual, and Dimension Data. The authors concluded:

'From a macroeconomic perspective it can be argued that the domestic economy was not excessively sensitive to the relocation of the primary listing of South African companies from Johannesburg to London. As all the South African companies that obtained primary listings on the LSE still have secondary listings on the JSE, the market capitalization of the JSE has not been affected adversely by the listings on a foreign stock market. In addition, *none of the companies listed have terminated any of their operations in the geographic area of South Africa*, leaving the aggregate size of the gross domestic product largely unaffected. *The likely expansion of offshore-listed companies in future years in South Africa may give extra impetus to economic growth*'.

However, Walters and Prinsloo's conclusions regarding termination of operations in South Africa and the likely expansion of offshore-listed companies in South Africa proved to be wishful thinking.

BHP Billiton

In 1990 Gencor, based in Johannesburg derived only 45% of its income from mining operations (Stear and Clay, 1992). Gold and platinum each contributed about one-fifth to total mining income, coal contributed 7%, and all other minerals contributed over half.

Following Billiton's listing in London in July 1997, Gencor separated its gold and platinum interests, which remained in South Africa, but all its other mining interests were effectively placed under foreign control when Billiton plc issued shares to acquire the parent company's interests in Alusaf, Samancor, Ingwe Coal, Richards Bay Minerals (RBM), Billiton International, the base metals assets, and the trading businesses. All the platinum interests were housed within Impala Platinum, which became an independent company in early 1998. Effective 1 January 1998, Billiton disposed of its gold interests when Gencor merged its gold assets with those of Gold Fields of South Africa (GFSA) to create a new gold company, Gold Fields Limited. Brian Gilbertson became the first chairman of the new company.

At the end of 2013, BHP Billiton's assets in South Africa were limited to three commodities: aluminium, manganese, and coal. On 19 August 2014 BHP Billiton announced plans to create an independent global metals and mining company, South32, based on a selection of its alumina, aluminium, coal, manganese, nickel, silver, lead, and zinc assets. All BHP Billiton's southern African (South Africa and Mozambique) assets were transferred into South32, with its headquarters in Perth, Australia.

BHP Billiton's major contribution to the growth of mining/metallurgical production capacity in the Southern African Development Community (SADC) had been in aluminium. In September 2000 Billiton opened the Mozal aluminium smelter in Mozambique and during its financial year (FY) 2003 the company doubled Mozal's annual capacity from 250 kt to 500 kt. BHP Billiton made a further massive investment in aluminium smelter capacity in southern Africa when it added a third potline at its Hillside smelter at Richards Bay during 2004, raising annual capacity from about 500 kt to a nominal capacity of 704 kt. Production of aluminium in FY 2015 was 265 kt at Mozal and 699 kt at Hillside.

BHP Billiton also increased the capacity of its manganese mining and alloy operations in South Africa, which are now controlled by South32. South Africa Manganese comprises Hotazel Manganese Mines (HMM) and Metalloys. HMM has two operations, the Wessels and Mamatwan mines, and production of ore reached a record level of 1 636 kt during FY 2015. At Metalloys, a new furnace (M14) was completed in March 2013 which added 130 kt/a capacity of high-carbon ferromanganese but replaced the now closed 120 kt/a silico-manganese South Plant, taking Metalloys' total capacity to 500 kt/a. Production in FY 2015 was 246 kt.

In FY2007 (year ended 30 June) BHP Billiton's wholly–owned South African coal subsidiary BHP Billiton Energy Coal South Africa (BECSA) operated six coal mines in Mpumalanga which supplied 30 Mt to Eskom and exported the bulk of the remaining 22 Mt produced. However, production fell drastically after the sale of Optimum mine to local buyers in early 2007. During FY 2009 the Group disposed of other coal interests in South Africa – the Koornfontein mine, an interest in the Eyesizwe mine, and 1 Mt/a of capacity at the Richards Bay Coal Terminal. The Douglas-Middelburg optimization project, which was completed in July 2010, was a replacement project to enable the Group to maintain energy coal exports at about 10 Mt/a while also fulfilling its domestic contractual obligations. BECSA's total production in FY2013 was 30.4 Mt, a decline of over 40% compared to the FY2007 level.

South32's subsidiary South Africa Energy Coal now operates four coal mines (Khutala, Klipspruit, Middelburg, and Wolwekrans) and three processing plants. Total production in FY2015 was 34.3 Mt.

Before transferring its aluminium, manganese, and coal assets to South32, BHP Billiton had drastically reduced its footprint in South Africa and reduced South Africa's domestic ownership and control of its mining industry.

After its London listing, Billiton moved swiftly to internationalize its chrome and manganese businesses through the takeover of the leading South African ferro-alloys producer Samancor. In December 1998 Samancor was de-listed from the JSE and established as the vehicle for Billiton's global manganese and chrome businesses. Billiton's manganese division became the global industry leader when Billiton and Anglo American acquired the manganese assets of the Broken Hill Proprietary Company (BHP Manganese) in Australia.

In order to align Samancor Chrome's marketing division with its new international profile, Billiton transferred members of the former marketing department of Samancor, which had been based in Johannesburg, to the Hague in Holland. However, BHP Billiton's commitment to chrome did not last long and in June 2005 it sold its majority interest in Samancor Chrome to the Kermas Group, a company domiciled in the UK with substantial interests in the chrome industry in Kazakhstan.

In 2001 BHP Billiton announced the sell-down of its interest in the Columbus Stainless Steel Joint Venture, which was acquired by Spanish producer Acerinox.

South Africa's subservient role in the BHP Billiton group was demonstrated in December 2008 when, on instructions from Melbourne, the Johannesburg office closed its Information Centre and its R&D facility adjacent to Mintek in Randburg. These facilities did not conform to the Group's business model.

The decline in South Africa's role in BHP Billiton's global business was reflected in the decline in South Africa's percentage contribution to its global revenue and in the number of employees. In FY 2013 South African coal contributed only 2% of the Group's total annual revenue; aluminium (South Africa and Brazil) contributed 3%, and manganese (South Africa and Australia) also contributed 3%. As the revenue earned by the aluminium and manganese operations is not broken down according to country, it is not possible to accurately estimate South Africa's percentage contribution to BHP Billiton's global revenue in FY 2013, but it was probably about 6%.

There was also a sharp fall in the number of BHP Billiton's employees in southern Africa, from 15 928 in FY2004 to 9 280 in FY2013 – a fall of over 40%.

Anglo American

In 1990 Anglo American, based in Johannesburg, derived only 54% of its income from mining operations (Stear and Clay, 1992). Gold contributed about one-third of Anglo American's income from mining, diamonds approximately one-quarter, and other minerals about 40%, with coal's contribution only 4%.

Like BHP Billiton, Anglo American took the path of reducing its assets in South Africa following its listing on the LSE in May 1999 as it progressively refined what it considered to be its core business. Nevertheless, it retained a much larger presence in South Africa than BHP Billiton and, to some extent, compensated for the disposal of its non-core assets in South Africa through acquiring control of Kumba Iron Ore and maintaining a strong presence in other commodities that were considered to be core businesses – platinum, coal, and diamonds.

One of Anglo American plc's first actions was to dismantle the Anglo American/De Beers crossholding, and De Beers was then controlled by three shareholders – Anglo American (45%), Central Holdings (40%, representing the Oppenheimer family), and the Government of the Republic of Botswana (15%). De Beers de-listed from the JSE in 2001 and became a private company no longer administered by Anglo American.

However, in August 2010 Anglo American completed its acquisition of Central Holdings' 40% share of De Beers, thereby increasing its holding to 85% and regaining control of the company.

De Beers, too, had progressively disposed of its assets in South Africa. After completing a full feasibility study in 2001, De Beers decided that it would not proceed with the C-Cut project (estimated to cost R10 billion) at its Premier mine and put the mine up for sale in October 2007. The mine was acquired by Petra Diamonds, based in the UK. At the end of 2010 De Beers had reduced the number of operations in South Africa from seven in 2005 to only three (Venetia, Voorspoed, and the Combined Treatment Plant outside Kimberley), and in mid-2015 also sold the Kimberley operation. However, in November 2013 Anglo American made another major (R20 billion) commitment to South Africa when De Beers commenced development of the Venetia Underground Project.

In January 2002, Anglo American's global interests prevailed over its historic ties to Africa when it withdrew from the Konkola Deep copper project in Zambia. However, the company renewed its commitment to southern Africa in 2003 when it commissioned the Skorpion zinc project in Namibia.

The globalization of the South African mining industry

In October 2005 Anglo American announced the outcome of its strategic review, which concluded that the Group should focus on its core mining portfolio. Boart Longyear and Anglo's interest in Samancor Chrome were sold in mid-2005.

One of the decisions resulting from the strategy review was to reduce the Group's shareholding in AngloGold Ashanti, and in July 2006 Anglo disposed of its majority stake in Highveld Steel and Vanadium, leading to the takeover of the company by Luxembourg-based Evraz, controlled by Russian oligarch Roman Abramovich.

After a long series of disinvestments, in November 2006 Anglo committed itself to a new project in South Africa when it listed Kumba Iron Ore, in which it held a 64% share, on the JSE.

However, Anglo re-affirmed its de-South Africanization and globalized status when on 1 March 2007 Canadian citizen Cynthia Carroll succeeded Tony Trahar who retired as chief executive.

Anglo continued to dispose of its non-core South African assets during 2008. In October it completed the sale of its Namakwa Sands mineral sands business to Exxaro Resources, and in November sold its interests in both the Black Mountain lead-zinc-copper operation and Gamsberg zinc project, also to Exxaro. In March 2009 Anglo sold its remaining share in AngloGold Ashanti.

In February 2009 Anglo announced that it had suspended dividends for the first time since 1939 and that it would cut 19 000 jobs worldwide, with 10 000 of these jobs lost at its South African subsidiary and 9 000 at operations spread around the world. When this move attracted criticism from South Africa from ex-Anglo staff who questioned the company's decision to abandon diversification in South Africa in favour of becoming a globally focused mining company, Anglo spokesman Nick von Schirnding asserted that the company's current strategy, to be a focused mining company with interests primarily in platinum, coal, diamonds, base metals and iron ore, 'is very clear and *endorsed by our institutional shareholders*' (Rose, 2009).

In October 2012 Cynthia Carroll announced her intention to resign as CEO, and she was replaced by Mark Cutifani, formerly CEO of Johannesburg-based AngloGold Ashanti and also president of the South African Chamber of Mines for the year 2013. In South Africa, the Public Investment Corporation (PIC) and the Government Employees Pension Fund (GEPF) issued a joint statement in response to Carroll's resignation (*Star Business Report*, 2012). The PIC was the largest South African shareholder in Anglo American, with a holding of 7% of the shares on behalf of the GEPF. The PIC-GEPF statement accused Carroll of 'a disappointing operational performance' and because 'around 37 per cent of group assets are still based in South Africa and generate 55 per cent of group operating profit .... the composition of the board (should be) more reflective of the geographic positioning of the company'.

Anglo's operations both in South Africa and worldwide are supported by R&D conducted by the Anglo Technical Division, which is based in Booysens, Johannesburg.

Anglo still produces four commodities in South Africa – platinum, coal, iron ore, and diamonds – and during calendar year (also FY) 2015 69% of Anglo's total global expenditure was spent in South Africa, followed by Chile with 11% and Brazil with 10%.

However, in December 2015, in response to a collapse in global commodity prices Anglo announced plans to sell 60% of its assets and was expected to reduce its global workforce by about 85 000 over the next few years to only 50 000. The company would now focus on only three commodities – platinum, diamonds, and copper. In February 2016 it announced that it would sell its coal assets and Kumba Iron Ore. This would reduce Anglo's involvement in South Africa to only two commodities – platinum and diamonds. Its subsidiary De Beers now has only two operating mines in South Africa – Venetia and the much smaller Voorspoed in the Free State.

After resuming the payment of dividends in 2010, Anglo announced that it would not pay dividends for the second half of 2016 and during the whole of 2017.

Disadvantages of foreign ownership

Foreign ownership of companies involves four major disadvantages to the host country relative to domestic ownership:

- International interests prevail over national interests
- May limit opportunities for local investors
- Development is restricted to mining projects
- Countries lose their 'economic champions'.

International interests

The record of BHP Billiton and Anglo American in South Africa since their overseas listing in the late 1990s highlights how international interests prevail over national interest when companies are foreign-owned. Divestment from all projects apart from those regarded as 'core business' is dictated by their head offices overseas. In contrast, the old mining houses (which were domestically-based conglomerates) did not limit themselves to 'core businesses' and would not have disposed of profitable businesses.

Overseas operations must conform to the parent companies' business models, which are ruthlessly imposed. BHP Billiton had no compunction about breaking up the giant South African ferro-alloys producer Samancor (which had its origins in Amcor, which was established in 1937) to suit its international interests and closing the Information Centre in Johannesburg.

Operations are also vulnerable to the perceptions of overseas investors; for example, the frequent complaint of London investors that 'Anglo American is too exposed to South Africa'.

Arcelor Mittal's record in South Africa has highlighted the potential dangers of foreign control of strategic domestic assets. In 2001 the London-based Arcelor Mittal, headed by its founder Lakshmi Mittal, gained control of the former state-owned steel producer Iscor. Since its takeover of Iscor Arcelor Mittal has shown itself to be totally insensitive to local and national interests, while Lakshmi Mittal himself indulged his personal family interests on a scale that dwarfed his commitment to his company's employees. It has been alleged that Lakshmi Mittal spent approximately as much money on his daughter's wedding in London in 2004 as it would have cost to completely rehabilitate the highly polluted area around the Vanderbijl steel plant known as 'Steel Valley' (Armstrong, 2010). Furthermore, the company has turned a deaf ear to the government's plea to discuss a pricing system ('developmental pricing') for steel that would promote industrial development through supplying cheaper steel to domestic manufacturing companies.

Local investment

When foreign-based companies do not list on local stock exchanges, local investors (both individuals and institutions) are deprived of opportunities to invest in the development and growth of companies in their own countries. Furthermore, because of limited access to journalists and analysts, these companies are not subject to public scrutiny. Foreign-based companies operating large projects in South Africa and which are not listed on the JSE include Kermas, South Africa's largest ferrochrome producer and Acerinox, South Africa's only stainless steel producer. Without exposure to public scrutiny, it is impossible to know whether the foreign owners are operating these large projects to favour national or their own international interests.

Therefore, the secondary listing of Glencore Xstrata on the JSE on 13 November 2013 was particularly welcome. The company was the fourth largest global mining company and had its primary listing on the LSE. The company had a diversified portfolio across 50 countries and interests in coal, chrome, vanadium, and platinum (via a 25% share in Lonmin) in South Africa.

Linkages

Whereas domestically based companies tend to widen their investment horizons in their own countries beyond their original projects, overseas-based companies tend to confine their investments to specific projects. The mining houses made a major contribution to the manufacturing industry in South Africa through linkages emanating from the needs of the mining industry. Two examples of manufacturing industries established by Anglo American are AE&CI and Boart & Hard Metals. AE&CI was formed by a merger between African Explosives and ICI in 1924 and, through diversification into a wide range of chemical products, had become South Africa's largest industrial company by 1969. Anglo established Boart & Hard Metals in 1936 to investigate uses and markets for industrial diamonds. It developed the use of industrial diamonds in drilling applications, and after the Second World War expanded into the related fields of carbide cutting tools and abrasives.

From its foundation in 1933, Anglovaal 'resolved to give as much attention to establishing secondary industries as to mining' (Anglovaal, 1970). Industrial projects established by Anglovaal included Anglo Alpha Cement, Irvin & Johnson, and Consolidated Glass.

Innes (1984) observed that AE&CI and Boart & Hard Metals were classic examples of how 'the development of a major primary industry can set in motion a number of industries which are initially totally dependent on it but which subsequently branch out into other fields and become relatively more independent. However, as these cases suggest, it is the existence of the primary industry which is the sine qua non of industrial growth'.

Thus, the offshore listings of its two largest mining houses and the demise of the domestic mining house system has deprived South Africa of enormous financial and technical capacity for the development of the country beyond the narrow confines of the mining industry.

Loss of our champion

Anglo American, born in South Africa in 1917, became the dominant mining company and economic power in South Africa during the second half of the 20th century. In 1976, Anglo group companies held top positions in all South Africa's economic sectors except agriculture – these being mining, manufacturing, property, and finance (Innes, 1984). Anglo had the capacity and the drive to tackle highly complex projects such as Highveld Steel and Vanadium. Innes wrote how during the late 1950s Anglo had expressed an interest in developing South Africa's vast vanadium resources and, after buying Transvaal Vanadium Company, the only company in South Africa at the time engaged in the production of vanadium pentoxide, undertook intensive research and in 1963 built a full-scale plant, becoming one of the largest vanadium producers in the world and the second largest producer of steel (after Iscor) in South Africa. It is difficult to imagine that any private company in South Africa today would have the capacity to tackle a project of comparable size and complexity.

In an interview with the Financial Mail in 1969, Harry Oppenheimer said 'I think if there had never been exchange control, we would probably have expanded more in overseas mining ..... Of course we would have participated actively in industrial development but in the absence of exchange control the emphasis would have been more on sticking to mining, wherever it was in the world, *and building up an international mining house based in South Africa*'.

The flight of Anglo American's head office and primary listing to London is in marked contrast to the Australian government's approach to the possibility that after its merger with Billiton, the head office of the 'Big Australian' BHP, Australia's largest mining company, might move to London. Pressure by the Australian government ensured that BHP Billiton's remains 'headquartered in Australia' (as proudly proclaimed on the company's letterheads).

Conclusions

The imbalance between BHP Billiton's and Anglo American's disinvestment from existing projects and investment in new projects since their London listings in the late 1990s and transfer of their head offices overseas has made a mockery of Walters and Prinsloo's expectation that 'the likely expansion of offshore-listed companies in future years may give extra impetus to economic growth'. It appears that the government exchange control authorities who gave permission for these overseas listing did not foresee the total dominance that the international interests of these companies would have over South Africa's national interests.

There is currently an intense national debate over the proposed Minerals and Petroleum Resources Development Amendment (MPRDA) Bill and the need to attract foreign investment in the South African mining industry. There is concern over the South African mining industry's poor rating as an investment destination by the prestigious Fraser Institute based in Vancouver, Canada.

Politicians and commentators are fond of quoting the Citi report of April 2010, which estimated that South Africa is the richest country in the world in terms of the *in situ* value of its mineral reserves. The implication of quoting this report is that because it is endowed with such mineral wealth, South Africa should be a very attractive destination for foreign investors in its mining industry. However, this is a simplistic conclusion and a more careful reading of the report gives cause for concern as it shows that platinum reserves comprise 90% of the total value of South Africa's *in situ* reserves. Therefore, South Africa's mineral wealth apart from platinum – according to the Citi report – is limited. However, the Citi report does not reflect the full picture as South Africa's chrome, manganese, and vanadium resources, which play such an important role in actual and potential beneficiation projects, are not included in the mineral reserve estimates.

However, even if the legislation and the jurisdiction were improved to make South Africa a more attractive destination for foreign investment in the mining industry, the records of BHP Billiton and Anglo American suggest that such investment would always be constrained by the companies' international interests, and investors would be reluctant to expand operations beyond the narrow interests of their mining projects or specialized metallurgical projects (such as ferrochrome).

The proposed MPRDA Amendment Act places much emphasis on the promotion of minerals beneficiation. However, the reaction of many of the mining companies is that mining – not beneficiation – is their business. This is in strong contrast to the mining houses' attitude before the demise of the system in the 1990s, when they actively sought opportunities to develop beneficiation projects.

Thus, South Africa has lost much of the private sector's capacity to beneficiate its mineral production and most of the burden now falls on the State. The Industrial Development Corporation (IDC) has a proud record of promoting beneficiation through its involvement in projects such as Alusaf and Sasol, and could play a major role in future beneficiation projects.

This analysis has shown that although foreign-owned companies are still playing an important role in the South African mining industry, South Africa cannot place excessive reliance on foreigners to develop our mining industry. While foreign investment can make an important contribution to our mining industry and, therefore, we should endeavour to make South Africa an attractive destination for foreign investment, it is not a panacea and we should not rely on foreign-owned companies to develop our mining industry.

South Africa needs to take responsibility for developing its own mineral resources and beneficiating its mineral production through partnerships between domestically based companies and the State, with foreign-owned companies playing a supplementary rather than a principal role.

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