Good morning to you all. I am going to have to do very much like the front cover of the *Alchemist* and be like a cheetah and run very quickly through my presentation. In order to do that, instead of being a traditional economist with two hands to give you two different opinions, I am going to tie one hand behind my back, so you only get half the story. In running through the story, I have produced an article which Susanne Capano kindly put into the *Alchemist* on the subject, so a lot more of the detail is there.

In chatting to some of my colleagues from offshore, when I talked about this concept of beneficiation, there was a question: ‘What is beneficiation? What are you talking about?’ A lot of people offshore tend to see it very much more as a manufacturing-driven type area. The mining industry in South Africa is very much of the view that if we could add greater value to our minerals, then we should as a country certainly facilitate that over time. Of course, the questions that need to be answered in this whole equation are how to define beneficiation, what does it mean, who the lead agents are who should be driving the process, and how do we encourage beneficiation as we go forward.

The term ‘beneficiation’ in South Africa does elicit a lot of emotive response. Much of it is based on the view that most products from South Africa, based on the country’s previous colonial history and heritage, are exported to the previous colonial powers, where they are fabricated, and then re-imported back into South Africa, and that all the jobs in the processing side are then exported outside the country.

Much of the attention has been focused in recent months on the mining sector and why the mining sector was allowing this to happen. We believe that a lot of work has been done. Paul has done a huge amount of work at Mintek looking at the sidestream and downstream areas, and I think we fully agree that there are very few advantages that exist from having the precious metals produced inside South Africa; what we need to do is look at a number of issues related to the manufacturing sector.

Beneficiation is taking place in South Africa, where commercial opportunities do exist. About 30% of our exports are minerals-driven; gold and platinum alone account for 20 percentage points of total exports. If you add beneficiated mineral products – here we are talking about chemicals from coal, stainless steel, etc. – it takes the export earnings of the minerals complex up to a level of greater than 50% of our merchandise exports.

Beneficiation defined is really the process of adding value from mining right through to the final fabrication of a consumer branded product; the definition in the Minerals Policy White Paper captured it quite nicely. As you go through the different processes of minerals beneficiation, the
mining and refining sides tend to be concentrated on mining. In other words, the mining sector has the skills and aptitude to tackle issues in that particular area. As soon as you get into stages three and four, which are much more at the fabrication level, that is very much where the manufacturing sector comes into the equation.

It is very important to split the mining beneficiation equation with the mining companies that have skills and competency away from the manufacturing beneficiation area, which is where the manufacturing sector has the skills and competency to deal with the issues.

The separation is very important because the debate has focused on why the mining companies have led to this lack of beneficiation in the country. We are saying that beneficiation is taking place where it is commercially feasible, but the separation is quite important. Given the specialisation model that exists — the Anglo-Saxon profit maximisation model — companies find it very difficult to go into areas where they do not have the competence and skills.

For precious metals and diamonds, the availability of the product does not really constitute an advantage. I think Paul has answered the question in their view; from the sides of Mintek and the government, maybe it does not. The vast majority of beneficiation actually takes place in countries that do not mine the product at all or do not mine much of the product. What they have done is focused their skill sets on the manufacturing sector. Here we are talking about the Indias, the Chinas, the Dubais, and even the Turkeys. They are focused on the manufacturing side, because you can basically access the product at roughly the same price anywhere in the world.

If you compare where the majority of production happens with where the majority of cutting takes place, for both diamonds and gold, most of the miners are not necessarily into fabrication; the fabrication is generally done in many other countries — India, Italy, Turkey, etc.

The same thing is true for the platinum side. In South Africa, we produce about 15% of the world’s catalytic converters. That is because of the Motor Industry Development Plan (MIDP) that was put into place by government, and where government and industry focused on what they needed to do to make the manufacturing sector competitive in this particular area.
Having established that the actual minerals themselves do not constitute much of an advantage because you can get them basically at the same price anywhere in the world, I think the focus has shifted away from comparative advantage – having good natural beauty in your landscape, natural tourist attractions, having the minerals in the ground and being able to produce them – to having competitive advantage. Issues such as competitive production, skills, etc., are now the crucial drivers and determinants of where fabrication takes place.

Competitive advantage issues in the manufacturing sector are related to competitive production, craftsmanship and the specific skills that are required for jewellery fabrication, the production of catalytic converters, or access to markets. Invariably, the countries that have done well on the fabrication side have had fairly large domestic markets to start with. Other advantages include good market intelligence, knowing what products you need to sell into which markets, having a low cost of doing business, and having low materials funding costs. In essence, there are a lot of competitive advantage issues that need to be looked at.

How competitive is our manufacturing sector in South Africa? We have done a lot of work through a number of different agencies looking at how we have been doing in this particular area.

It is interesting to note that manufacturing has actually been declining as a percent of GDP. The growth rates in productivity in South African manufacturing are not yet at the rates we want. There has certainly been an improvement, but not quite at the level that we would want them to be. The growth rate in the manufacturing sector in South Africa has been fairly slow.

Manufacturing has fallen off a bit. Services, tourism and financial services have grown at a much faster pace, sitting at about 5% per year for the last decade. Manufacturing has grown at 2.8% per year. In terms of manufacturing value added as a percentage of GDP, South Africa’s manufacturing value added has actually dropped in the period between 1992 and 2002.

A lot of work is being done; in fact, a new industrial policy is currently being crafted by the Department of Trade and Industry. There are pockets of success, like the motor industry, which has grown quite nicely, but there also are pockets of failure. Overall, our manufacturing sector has not been performing to the extent that it possibly could have. The reason I am highlighting this is because the manufacturing sector is where we should be focusing our attention when it relates to the beneficiation question. We are talking about manufacturing beneficiation here.

Let us have a look at one issue related to productivity of labour as an issue that we have been working on. There are a lot of legacies that we are dealing with in South Africa, such as a lack of attention to education and skills development, and we have seen the LBMA supporting the Wits departments dealing with the mining side in particular. In looking at our skills side, it is interesting to note that a country like New Zealand has a relative output of labour per dollar purchased less than ours; that is probably...
why they should stick to their sheep farming and playing rugby.

In South Africa’s case, our relative output per unit of labour is such that we basically get about $2 worth of value added for every dollar of labour that we purchase, but we are competing against countries like India, where you are getting about $3.70 of value added per dollar of labour purchased; China, where you are getting $4.70; and Ireland, although we are not really competing with them in relation to jewellery fabrication. The point is that we do need to quantum leap our relative productivity levels, and a lot of emphasis is being placed on that area.

We have been engaging with government, Mintek and other role players on this matter. Minerals beneficiation at the manufacturing level is a pretty complex area, but we think that rather than trying to force mining companies, or trying to place pressure on mining companies to do something about this – and we have seen two recent pieces of legislation, the Diamond Amendment Bill and the Precious Metals Amendment Bill that lean a little more towards pressure on the mining companies – we as a country, including government, labour, and business, should be focusing on providing that environment which allows our manufacturing sector to be massively competitive.

This includes improving access to foreign markets. I think our government has already done a fabulous job there through trade deals with the European Union; there is a trade deal being negotiated with the United States, and certain trade deals are being discussed with China and others.

Quantum leaping productivity is a big focus amongst business, along with lowering the cost of capital in the country – in other words, lowering tax rates over time. Access to inputs at world competitive prices is a critical area. Providing the right types of skills for such projects is important, signalled by this whole skills development drive. We must provide the right logistical infrastructure, the right sort of incentives for research and development, and we must develop specific zones which are VAT free and duty free, as we have seen in a number of other countries, which have been successful. I certainly believe that progress has been made.

Mining companies are trying their best to try to facilitate the process. On the materials funding side, mining companies have been involved in gold loan schemes, and from a design and craftsmanship perspective, the platinum company AngloPlats has funding the PlatAfrica competition and AngloGold Ashanti has funded the Riches of Africa competition. We have seen the African gold zone being developed as a concept. The mining companies are trying their best to facilitate, but they do not guarantee the ultimate outcome of whether beneficiation will be successful. It is really about whether we can get the manufacturing sector to be quantum leaped on the productivity side and provide the right enabling environment, which will determine whether South Africa can or cannot make inroads on the beneficiation side.

Thank you.