SA gold mining eroding into rusting ruins

While our attentions have been focused on the ever-engrossing political manoeuvrings this past week, one important event might have escaped our attention: SA's greatest gold mining company has in effect left the country.

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You can tell it has left because AngloGold Ashanti spokesmen have told us the company is definitely not leaving the country. But the fact remains that the group has just one mine and a tailings operation left in SA.

This follows the sale of the Moab Khotsong mine, the mothballed Great Noligwa mines and its uranium assets to Harmony Gold, and the sale of its Kopanang mine to China's Heaven-Sent SA Sunshine Investment company for a total of R4.2bn.

The result is that AngloGold, which not so long ago was among the top five mining companies in the world, will drop about 500,000oz of annual production off its anticipated annual production of about 3.6-million ounces. The South African portion of that will drop from about 950,000oz to half that, although it is about to increase production at its remaining Mponeng mine.

This is the company that pioneered much of SA's gold mining production, which at one point was about 60% of the global total. In the early 1970s SA produced 1,000 tonnes of gold a year, and the biggest slice of that was produced by AngloGold. SA now produces about 180 tonnes, the same as it produced in 1916, when the car was a new invention.

It's hard to know what to feel about this or who to blame. A large slice of the problem is horribly simple: the ore bodies are spent. The other problem, if that's the right way to describe it, is that the gold industry is in a terrible state. The gold price has never been better in real dollar terms, but the price of mining has exploded, and nowhere more so than in SA.

For old-school miners there are all kinds of ironies here. The market capitalisation of Randgold Resources, the company associated with deceased gangster Brett Kebble, is now more than double that of AngloGold. Randgold operates in theoretically much more politically unstable countries than AngloGold, such as Mali.

Yet somehow its swashbuckling CEO, Mark Bristow, has managed to convince shareholders the risk involved is lower than that of AngloGold. What does that say about the mining environment?

There is one other irony: after the South African sale (it still needs regulatory approval) AngloGold will be mining as much gold in Tanzania and Brazil as it mines in its home base. To get a feel for how bad SA's image and that of the mining environment, in particular, have become, consider that AngloGold produces about 60% as much gold as the world's biggest gold mining company, Newmont, but the company is worth onesixth the value of that US firm.

SA's gold miners have long complained about the country's mining environment, with ample reason. Faced with such a calamitous decline, most governments would be falling over themselves to find the causes and fix them. Not in SA. Here, the industry and the government are fighting in court not over how to fix the industry but how to divide it up.

Why is it so difficult to understand that dividing zero by five gives you the same result as dividing zero by 1,000 or 100,000? Black economic empowerment is important to politicians and to the country, but the brutal maths of it is that requiring miners to give away 30% of their equity means mines have to be 30% more profitable to get built. And in SA, gold mines, in particular, are not more profitable than the international competition; they are less profitable.

The government believes it's being short-changed by the mining industry and is devoted to the notion that minerals are a national asset. Yet it should be blindingly obvious that minerals only become an asset if they can be profitably mined.

I have this cynical impression that the mining companies have taken a leaf out of President Jacob Zuma's book. If it is possible for the president to keep delaying his prosecution by finding new reasons to go to court, why can't the mining industry do the same? In so doing, they can freeze the mining jurisdiction indefinitely, or at least until ore bodies are mined out.

And that, by the way, is not terribly far into the future. AngloGold's last mine will need a huge capital investment in about five years. Everybody knows the gold is down there - AngloGold has about double the known gold resources of any of the largest five gold miners.

The problem is that 70% of the cost of mining in SA is absorbed by electricity and labour. For gold miners, now digging up to 4km underground, the scope for manoeuvre is limited. Mining requires large pools of capital, cheap power and regulatory certainty. Every 20%-plus increase in the cost of power makes thousands of jobs redundant and the most immediate consequence can be seen in lower gold production.

Once Johannesburg was eGoli, the city of gold. No more.

Source: *Business Day*