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NuM

National Union of Mineworkers

THE NEED FOR STATE ASSISTANCE TO THE GOLD MINING INDUSTRY

The NUM plan to assist people affected by mine downscaling

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THE NEED FOR STATE ASSISTANCE
TO THE GOLD MINING INDUSTRY

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National Union of Mineworkers

Collective Bargaining Department

The NUM's goals for the future development path of the mining industry in South Africa

The NUM's objectives for the mining industry are simple and straightforward. They include the following:

1 The elimination of racism in the mining industry

2 The payment of fair wages to all mineworkers

3 The establishment of decent living conditions for workers and an end to the evils of the migrant labour system

4 Improved health and safety and other working conditions

5 Proper, broad-based training for mineworkers

6 Care for workers and regions affected by the downscaling of mining

7 The development of an economically viable mining sector *that is run in a humane and participatory manner*

It is plain that even these modest objectives cannot be achieved under the present government and under the present economic system, both of which are profoundly oppressive and undemocratic. That is why the NUM has always taken a strong political stance. Our belief is that there needs to be a thorough-going RE-STRUCTURING and re-organisation of the mining sector before the goals of our union can be met.

The burning issue that threatens progress towards our objectives, however, is the economic crisis in the gold industry.

The following documents outline the argument of the NUM for substantial state aid to marginal gold mines.

We have proposed that the Harmony gold mine be used as a "test-case" for aid.

D:\NIC\SUMMIT5 - June 12, 1992

face closure in a few months time if the gold price does not improve.

The NUM put forward a proposal for the government to consider. The state should co-ordinate and sponsor a carefully structured assistance programme for mines that are in financial difficulties. The aims of this intervention, which should include close consultation with trade unions and mine managements, should be:

1. Seek to maintain employment levels, but to phase in retrenchments in a planned manner when this is inevitable;

2. Change underground working methods to raise productivity to lengthen mine life;

3. Re-train mineworkers in other job skills, so that they might find alternative employment on retrenchment;

4. Investigate alternative use of mining assets - given the sound infrastructure around the mine, the availability of power, water and accommodation, other industries could be encouraged to absorb mineworkers as the mine down-scaled;

5. Plan assistance to the rural areas which are so terribly affected by the job losses on the mines, coming, as they do on top of existing unemployment and drought conditions.

The aim is to slow down the rate of contraction of the mines to benefit workers, suppliers and the regional economy. In the event of an improvement in the gold price, the mine's shareholders would gain by a return to profitability.

The NUM contended that present state policy, which is firmly set against aid for the gold mines, was based on the flawed and outdated Report of the Marais Committee into Marginal Profit Mines. This report, which was completed in 1990, was based on totally wrong predictions about the gold price - the gold price today is 25% lower than the predicted level. The committee erred in not anticipating the downscaling of the mines prior to closure

- and the fact that this process required vast job losses. The Committee anticipated 77000 job losses if 13 mines closed by 1995 - in fact the industry has lost 130000 jobs with only three closures because of downscaling.

The Marais committee expressly recommended that the government give support to mines during their "closure phase" to ease the effects on the regional economy. The extent and nature of this support was not, however, considered in detail in the report. It is in this context that the NUM has put forward its proposals.

The National Union of Mineworkers raised its concern for the future of the gold industry and for workers in the gold mines at the 1991 Summit on the Future of the Mining Industry. The trends anticipated in the Union's presentation to the Summit are now being realised. Thousands of workers are being retrenched; mining communities are suffering from the knock-on effects of widespread unemployment; mine suppliers, from Eskom and engineering firms, to food suppliers and retailers that sell to mineworkers, have experienced a serious contraction in their businesses following mine cut-backs; rural areas that supply labour to the mines are bearing a large part of the burden of declining gold production and rationalisation measures - these areas are already ravaged by the effects of structural unemployment, high inflation and the drought. At the same time, many mines have returned to profitability and, in 1991, the gold industry paid 7% more tax to the government than the year before.

The hardships brought on by the economic crisis in the gold sector are being heaped most heavily upon those who are already deprived and in distress.

National Union of Mineworkers
9 June 1991

For further information contact Marcel Golding or Martin Nicol at NUM, telephone 833-7012

Copies of the full 16 page memorandum are also available.

This memorandum details the problems as they affect the Harmony Gold Mine; it reviews state policy on assistance to gold mines and highlights the fact that state policy is still based on the report of the Marais Committee, a report which is shown to have been substantially mistaken in its basic assumptions. The memorandum stresses the severe "knock-on" effects of mine down-scaling, as opposed to outright mine closures, and re-iterates the case, made to the Summit in 1991, for a national approach to the crisis in gold mining.

What is the view of the government on these issues?

What steps is the government willing to take to address the human hardship and the socio-economic impact of the present contraction of the gold industry?

1. HARMONY AND THE CRISIS IN THE GOLD MINING INDUSTRY

Harmony is the largest of the marginal gold mines. In 1991 it employed some 20 000 people and produced 23,916 kg of gold with a foreign exchange value of R750 million - this is 4% of the total for all gold mines.

The mine had already down-scaled substantially when, last week, a further 6 042 workers were retrenched. This was a direct result of the recent downward trend in the gold price.

Year to June	*Tons milled per month*	*Employment*	*Gold (kg)*
1990	809 000	29 425	29 637
1991	598 000	23 537	23 916
1992	649 000	19 868	24 978
1993 [estimate]	474 000	13 388	20 702

	Tons milled per worker per month
1990	27,5
1991	25,4
1992	32,7
1993 [estimate]	35,4

The gold price

In dollar terms, the gold price is at its lowest point for six years. In rand terms, gold is trading well below R1000 per ounce. This is in nominal terms. In real terms, the gold price has fallen markedly since 1988, when the price was in the region of R1500 per ounce, in today's money. The average gold price fell from R1046 in the September quarter of 1991, to R1034 in December and to R1026 in the first quarter of 1992.

In the nine months to March 1992, Harmony sold its gold at an average price of R1038 per ounce. Working costs were R981 per ounce. In the March quarter alone, the price received was R1019 per ounce and the working costs were R1009 per ounce.

The profit margin of only R10 per ounce makes Harmony very vulnerable to a small decline in the gold price - or in mine productivity.

On 7 May 1992, the spot gold price was R961 per ounce. On 5 June 1992, the price was R956 per ounce. If the gold price continues this trend, or even if the gold price stays constant at these low levels, Harmony will again begin to show losses.

The mine has tried to improve profits by hedging about a third of production, but favourable hedging contracts are no longer possible given the state of the gold market. The mine has also been assisted by its processing of surface dumps - which reduced the overall working costs per ounce - but these dumps will be exhausted by July 1992. (Harmony paid a 20c dividend, costing R5,4m, and R5,8m in tax in the nine months to March 1992).

It is in the context of a severe "profit squeeze" that Harmony is retrenching thousands of workers and proposing a wage freeze for the remaining employees.

Gold grades at Harmony

Some mines are in the fortunate position of being able to shift production to higher-grade areas when the gold price falls. By increasing the grade of ore mined, they manage to survive the lower prices. But Harmony is not in this position.

Harmony has extensive reserves of ore, but they are all of a very low grade and are somewhat erratic. Harmony mines at 3,4g per ton on average, compared with an industry average of 5,2g/ton and grades as high as 13g/ton at Kloof. With a down-scaled mine in 1992/3, the grade will rise to about 3,7g/ton.

The costs of mining a ton of ore have to be balanced against the grade. One response to a falling gold price would be to increase employment and increase the milling rate. This approach obviously has its limits, and the opposite solution is to lower the milling rate (and retrench workers) and only to mine the better grades of ore. Harmony is now following this latter route.

The future for Harmony

All mines must close eventually. The ore deposits are mined out and there is no further reason to keep the mine open. The aim, at present, is to buy time, to put off for as long as possible the closure of the mine. There is no question, at the present gold price, of a return to profitability and dividend payments. But it is worthwhile to keep the mine open, both to preserve jobs and in the hope that the gold price may improve.

The NUM believes that there should be no more sudden, unplanned retrenchments at Harmony - or at other marginal mines. The industry should maintain present production levels and endeavour to improve productivity by improving the organisation of work underground. But the state should co-ordinate and sponsor a carefully structured assistance programme to assist mines that are in financial difficulties. The aims of this intervention, which should include close consultation with trade unions and mine managements, should be:

1. Seek to maintain employment levels, but to phase in retrenchments in a planned manner when this is inevitable;

2. Change underground working methods to raise productivity to lengthen mine life;

3. Re-train mineworkers in other job skills, so that they might find alternative employment on retrenchment;

4. Investigate alternative use of mining assets - given the sound infrastructure around the mine, the availability of power, water and accommodation, other industries could be encouraged to absorb mineworkers as the mine down-scaled;

5. Plan assistance to the rural areas which are so terribly affected by the job losses on the mines, coming, as they do on top of existing unemployment and drought conditions.

The aim is to slow down the rate of contraction of the mine to benefit workers, suppliers and the regional economy. In the event of an improvement in the gold price, the mine's shareholders would gain by a return to profitability.

The Marais committee expressly recommended that the government give support to mines during their "closure phase" to ease the effects on the regional economy. The extent and nature of this support was not, however, considered in detail in the report. It is in this context that the NUM puts forward the above proposals. As stated at the Summit, the NUM is not proposing unlimited subsidies for the gold mines. It is proposing assistance with the down-scaling process over a fixed, staged "adjustment period" for each mine that is obliged to take this step.

2. ASSISTANCE FROM THE STATE

State assistance to the gold mining industry has a long and complicated history. In view of the supreme importance of gold mining in the economy - as a provider of jobs and foreign exchange and as the flywheel of much economic activity - successive government have taken steps to control the rate at which gold mining took place and to assist specific mining operations with subsidies or special arrangements to allow them to continue.

In 1968, the Gold Mines Assistance Act was promulgated. It was introduced as a bridging measure to assist marginal mines until such time as the gold price rose. This development was confidently anticipated in 1968, when the gold price was fixed at \$35 per ounce. In 1988, the Act was repealed as it had fulfilled its original intention and the government did not want the Act to be used to defend unprofitable gold mines against a market-determined gold price.

Since 1988, state assistance to gold mines has been given on an *ad hoc* basis.

The Marais Committee Report

The Government appointed the Marais *Committee of Inquiry into the Position of Marginal Profit Mines* at the end of 1989. Its report was made public in July 1990 and is today the reference point for government policy.

Crucial to the committee's deliberations was their assumption about the future gold price. The committee sat at a time when the Rand gold price was at a ten year high (R34 922/kg - R1086 per ounce [*Gold 1992* p.13]). The committee projected that "the gold price can be expected to show a moderate real increase in the nineties" (Marais, 1990:34).

A similar proposition was accepted by the Melamet Commission in August 1990. In evaluating proposals to assist ERPM, the commission assumed "a gold price of R30 000 for the remainder of

1990, R34 000 for 1991, R42 200 for 1992 and thereafter increasing with the South African inflation rate" (Report of the Commission of Enquiry into State Assistance to the East Rand Proprietary Mines Ltd, RP 99/1990, p. 43). Instead, the industry, in 1992, faces a gold price that is, at R30 736 per kilogram, some 27% lower than predicted.

It is possible that these over-optimistic assumptions about the trend in the gold price are the key reason for the government's lack of concern in the face of the drastic cut-backs taking place now in the gold industry.

The Marais Committee ignored the sharp decline in the price of gold that occurred during its deliberations, a decline which has persisted since the committee made its report public. Thus the economic crisis that the gold mining industry finds itself in is much worse than anticipated by the committee. Since the committee expected the price of gold to rise, they gave minimal consideration to the much tighter cost squeeze marginal mines were likely to face as a result of a decline in the gold price coupled with the inexorable rise in working costs. Of the 13 mines that the committee considered marginal (ie mines with a profit to revenue ratio of less than 6%), a number have only survived by massive retrenchments and restricting production to high grade ores. Despite measures of this nature, some are still mining gold at a loss.

The committee's gold price assumptions led them to anticipate that several of the marginal mines would probably close in the five years to 1995. If all thirteen mines closed, the committee estimated that it would lead to the loss of 77 600 jobs (Marais, 1990:38). This prediction has already been overtaken by reality. By June 1992, 130 000 workers have lost their jobs on the gold mines. Indications are that there will be further substantial retrenchments in the remainder of 1992. And this has occurred when only three mine closures have been announced (Stilfontein, Bracken and West Rand Consolidated - Stilfontein was not even identified as a candidate for closure by the committee).

The down-scaling that <u>*precedes*</u> *actual mine closures affects all* *mines across the industry. The consequences of down-scaling as opposed to outright closure was not even considered by the Marais committee. The results, in terms of job losses, have been far worse that the Marais committee anticipated from the closure of 13 mines.*

The "knock on" effects of the cut-backs in gold mining are also manifesting themselves. The stores and materials purchased by the gold mining industry fell by 25% in nominal terms in 1991, to R3,2 billion compared to R4,3 billion in 1990. (*Chamber of Mines Newsletter* 2/6 1992)

The Marais Committee report is a product of the time when it was written. It is utterly wrong to use its incorrect assumptions and projections as the basis for government policy towards the gold mines in 1992.

The Marais Committee re-stated the long standing state policy of limiting government assistance to marginal mines to particular cases and of requiring that aid should be "in the national interest" and of a short-term nature only. While direct state assistance was permissible for the pumping of water, it was rejected in virtually all other cases. The committee believed that gold mines should not be singled out for special assistance but should operate in the context of an overall economic policy that promotes development. Such a policy would be focused on macro-economic variables, specifically interest rates, the exchange rate, general wage levels and tax rates.

Support for specific mines threatened with closure

There was one major qualification to this viewpoint. The committee recognised that mine closures could have serious consequences in certain regions where local economies were principally dependent on a mine for their existence. The comments on Harmony and the conclusion to this section merit extensive quotation:

"- The Harmony mine at Virginia, compared with the thirteen marginal profit mines, makes the largest contribution to the national economy and also has by far the most employees. The 17% contribution by this mine to the budget of the local authority is also substantially higher than that of the other marginal-profit mines....

"The current expected life of the mine is 19 years, and the projected profit-to-revenue ratio shows a slight improvement for the next five years. From this, it can be concluded that no immediate regional development implications are expected, but if changing circumstances should force the mine to cease production, this may well have far-reaching implications for the immediate environment.

"The conclusion that the report reaches is that, with regard to the relevant marginal-profit mines for the present as well as for the short term (5 years) ... no serious regional development implications are expected.

"If the expected life of the mines indeed proves to be correct, support should be considered for some of the mines that will close during the period from 2008 to 2015. In this regard, particular attention should be given to Libanon, Venterspost, Doornfontein and Harmony. Such support should be aimed at averting the closure of the mines at the same time, thereby spreading the regional development implications over a longer period.

"If mining conditions were to deteriorate, and the expected life of marginal mines is affected by this, the position of Harmony, Libanon, Western Areas, Doornfontein and Venterspost should be considered individually as well as in a regional context." (Marais 1990, pp.42-43)

In retrospect, it is clear that the Marais committee badly misread the future for the gold industry and the marginal-profit mines. This calls into question the government's continued reliance on the Marais report for crucial aspects of its policies towards the gold mining sector.

Not anticipating any serious mine closures in the short term (for five years), the committee did not apply its mind to the sort of "support" that should be considered for the mines it identified. Although the committee made no specific recommendations in this regard, it clearly believed that state action might be necessary to ease the process of down-scaling when this began.

In 1968, the Gold Mines Assistance Act was introduced to give mines the opportunity to survive a bridging period until the gold price rose. The higher gold price after 1971 triggered a significant rise in gold mine employment which increased from 416 846 in 1970 to a peak of 534 255 by 1986. It triggered a huge investment in mining assets. Now gold employment is on the decline. The "third wave" of gold mine investment, predicted by many analysts in 1988, that would replace closing mines with new ventures, has not materialised. A different sort of bridge is needed - a bridge that embodies a vision of how the people and the sophisticated infrastructure of the mining areas that may be abandoned over the next five years can be put to alternative, productive uses; a bridge that allows mines to scale down their operations in a gradual and planned process.

The focus point should not only be on the closure of mines, but on the down-scaling that the industry is experiencing now. The contraction of the gold mining industry is at the same time a weakening of the economic backbone of South Africa. Many other economies have gone through periods of major re-adjustment such as that which South Africa faces with the decline of gold mining. In several cases governments have intervened to guide the process (We may mention in passing Sweden's move away from ship-building and the controlled down-scaling of coal mining in Germany).

Active state aid for gold mines is doubly necessary in the context of the present drought and the general stagnation in the economy which both impact severely on employment and economic well-being. The government has agreed to spend R3,8 billion in subsidies to farming areas most badly affected by the drought. State aid is also necessary to mitigate the effects of the crisis facing the gold mines.

It is most appropriate that the government should use the case of Harmony, the largest of the marginal mines, to develop principles to on the nature of state aid in the future as more gold mines face the problems that beset Harmony today.

3. ASSISTANCE FOR AN ADJUSTMENT PERIOD

The gold mining industry has been hit by a severe crisis that can only be resolved by re-structuring. This will inevitably mean a smaller industry in terms of output and employment.

Long term subsidies to lame-duck industries are not economically sensible. But assistance to promote re-structuring to allow economic viability in the future can be justified if the process is planned and limited, either by time or by the achievement of certain goals.

In addition, there needs to be a careful assessment of the implications for the country of lower foreign exchange earnings should Harmony close or further down-scale its operations. The present rationalisation plan that involved shedding over 6 000 jobs also involves a loss of 4 000 kg of gold and a consequent loss of over R120 million in foreign exchange.

In the case of Harmony, there would be two separate aspects to re-structuring:

Firstly the re-assessment of mining methods and work organisation to improve efficiency and make the mining of Harmony's reserves economically possible for, say, five years.

Secondly the provision of assistance to retrenched workers (by way of re-training and opportunities to relocate) and to the regions that are affected by the down-scaling of Harmony.

During a period in which the mine would receive direct subsidies from the state, the mine would, in co-operation with the trade unions:

1. *Seek to maintain employment levels*
   Where employment has to be cut, this should be done gradually, in a phased manner.

2. *Change underground working methods to raise productivity to lengthen mine life*

This will take time to achieve, as skills training for workers, to allow them to be more productive, will be an essential element. The systems of underground supervision and control will also need revision.

3. *Re-train mineworkers in other job skills*

Harmony has well-equipped training facilities. Many of these are barely used at present. These assets should be put to productive use in the re-training of workers from areas that have been closed. If the future closure of these areas is gradual, this will make it possible to offer training courses to workers before they are retrenched. Such training ought to be related to job opportunities that exist near the mine, in the areas where workers have their homes or on the mine itself. If jobs are available in other areas, the adjustment plan should provide for assistance to workers to relocate.

4. *Investigate alternative use of mining assets*

Harmony is based on a sound and extensive infrastructure. Not only are their buildings, roads and houses, but electrical power and water are conveyed to the mine in vast quantities. Other industries could be encouraged in surplus buildings to absorb some mineworkers as the mine down-scaled. This would serve to reduce the effects of down-scaling on the local economy of Virginia and the OFS Goldfields.

5. *Plan assistance to the rural areas*

The present state relief plans do not provide any aid at all for able-bodied men. Retrenched mineworkers are unlikely to qualify for any assistance at all. This situation needs to be reviewed urgently.

4. CALCULATING THE AMOUNT OF AID

a. Tax Pay Backs

While a marginal mine does not pay any tax directly, the mine is nevertheless an important source of net revenue to the state and public authorities. (Harmony did pay R8 million in non-mining tax in 1992). These are the major sources of revenue:

A. Personal taxes paid by mine employees.

B. Value added tax paid by mine employees when purchasing goods and services.

C. Regional service council levies on the wage bill of the mine and levies contributed by suppliers to the mine

D. Mine lease taxes (not applicable to Harmony)

E. Taxes paid by suppliers to the mines (company tax) and by the employees of the suppliers (VAT and personal tax).

Estimates by the National Union of Mineworkers indicate that in 1990, while the gold mines only paid R896 million in direct taxes, the public coffers swelled by an additional R2 316 million through the taxes and levies generated from the personal taxes of mine employees and the taxes that flowed through the suppliers of the mining industry (Leger and Nicol, 1991:7).

If a marginal mine closes, the income from these sources of tax - the mineworkers and the mine suppliers - are lost. Based on 1990 data and the conditions now pertaining under VAT, the NUM estimate is as follows. If the government contributes to a marginal mine an amount of R4 900 per employee per year (equivalent to R4 000 per kilogram of gold produced) it will experience precisely the same loss of income which would be incurred if the mine were to be closed. R4 000 per kilogram represents a make or break difference for many mines. The proposal is thus simply that the indirect and other taxes generated by the activities of a marginal mine be refunded so that the mine can remain a source of employment.

Non-quantified advantages of this proposal include, firstly, the prevention of the cascade effects a mine's closure has on the suppliers who provide it with inputs. The profitability and economies of scale of these enterprises are threatened as their sales fall. Secondly, demands on state funds such as the Unemployment Insurance Fund will be limited as retrenchments will be fewer. Thirdly, workers will keep their jobs.

When a mine or shaft closes, not only does the state lose the above amounts of tax, but it may have to contribute to pumping costs to prevent other shafts in the region from flooding.

According to preliminary estimates, the closure of Harmony will result in a total tax loss to the government of about R100 million per year. It is surely preferable to explore the possibility of supporting the mine to the extent of up to R100 million per year. If this support resulted in a viable operation, the support for the mine would represent no net cost to the government.

Tax pay-backs, during a defined adjustment period, are a sensible way of easing transition to a restructured mining industry.

The merits of this proposal include:

1 No net fiscal costs to the state at a time where expectations for social and economic development are growing.

2 The cushioning of the crisis in gold mining so that the downscaling of the industry can proceed at a restrained pace.

3 The maintenance of a significant number of jobs that will otherwise be lost (in both the mine and in its chain of suppliers).

4 The maintenance of the viability and economies of scale of suppliers of inputs to gold mines, for example in electricity, food and engineering.

5 The prevention of a sudden decline in the country's most important source of foreign exchange earnings at a time when the drought requires large food imports.

6 The opportunity to plan the use of the highly developed infrastructure of the mine and mining communities for alternative economic projects.

7 The opportunity to re-train mineworkers to perform other jobs once the mine closes.

This action can clearly be justified in the national interest if it is tied to a planning process and an adjustment period.

<u>b. Other considerations</u>

The tax pay-back argument is most relevant when the complete closure of a mine is contemplated. *This method may not provide sufficient funds in cases when it is the <u>down-scaling</u> of a mining operation that is being considered.* The economics of down-scaling are different from the economics of closure. When down-scaling, mines close off low-grade areas and mine the higher grade areas they still have available. This allows stepped reductions of overhead costs and can return mines to profitability - if there are sufficient reserves of high-grade ore available. This process is less obvious than closure, but it affects <u>every</u> mine and <u>every</u> shaft. The process results in a very large reduction in employment. The social and regional implications of this downscaling are incremental - they spread like a cancer and the final situation is terminal. The benefits that would flow from a planned process of regional adjustment need to be researched and evaluated against the social costs of allowing market forces to dictate the path of the contracting gold mining industry. The foreign exchange losses that flow from down-scaling also need to be assessed.

Harmony unveils new survival plan

MATTHEW CURTIN

RAND Mines' Harmony gold mine has presented the NUM with a multi-pronged strategy to buy the mine a year's breathing space from the effect of poor gold prices.

The proposals would forestall retrenchments beyond the 6 000 already undertaken, said MD Karl Eick.

He said management had presented its "three-month survival plan" to the NUM. The two sides would meet shortly.

"Harmony is a low-grade producer and, with the depletion of surface material and the current gold price, its future survival and the retention of the remaining 14 000 employees is dependent on achieving improvements in productivity."

Among management's proposals were a call for a three-month delay in finalising this year's wage negotiations, a dispute resolution procedure with a ban on strike action, a revised productivity bonus and a commitment to flexible work practices.

Eick said that with the co-operation of employees and trade unions, management was confident Harmony could withstand static gold prices for a year at least, until inflation caught up with the mine again.

He confirmed that the NUM and mine management would meet government in a joint approach to discuss possible state assistance for Harmony in the near future.

Details of the 6 042 retrenchments had been agreed to by trade unions, officials and associations involved, with the exception of the Council of Mining Unions.

Business Day 5 June

The Harmony "survival plan" means pushing thousands of people 'overboard into the sea without providing life boats'

COMMENT

Sinking funds

THE National Union of Mineworkers' approach to government for state aid to retard job losses at the Harmony gold mine is a measure of the union's concern over employment. Realism has characterised the NUM's relationship with the Chamber of Mines for the past two years of wage bargaining. Negotiated wage increases recognised the gold mining industry's difficulties and also broke new ground by containing performance and profit-related bonus payments. Both negotiating sides realised they sank or swam together.

Whether the appeal for, admittedly limited, state aid is the correct action is another matter. A hard-nosed business view must be that state aid cannot be contemplated if it merely serves to finance inefficiencies better eliminated by workforce or production cutbacks.

The NUM's argument that continued employment generates tax revenues and that government can therefore afford subsidies up to that amount does not hold water. If workers produce less value than their wages, the sooner their jobs are eliminated and alternative jobs are found the better for them and, more importantly, their countrymen who subsidise them.

Rather than prolong the agony of men who know their jobs will eventually be eliminated, state financing should be directed towards training programmes. The knock-on benefits of work which creates lasting value are far greater than any temporary spin-offs for businesses which supply subsidised and high cost mines.

The fact that the NUM hopes to enlist Rand Mines' support for its proposed state aid scheme should not sway government. The mining house is already in the limelight for the amounts of state cash ERPM has poured down its new shaft. It would be scandalous for government to approve yet another scheme to support a different Rand Mines gold mine unless the mining house guaranteed eventual repayment of all assistance.

When it was first devised, state aid was intended to tide mines over temporary profit setbacks caused by weak gold prices. It was the clear intention that only mines which stood a clear chance of returning to profits should be helped with state money. If Rand Mines decides to support the NUM's proposal, government should accede only if Harmony agrees to repay the aid as soon as the mine returns to profits. If it does not, then Rand Mines itself should be responsible for repayment.

Such an obligation would eliminate frivolous calls for state aid and ensure that South Africans as a whole were not put out of pocket for the short-term benefit of a number of miners and a marginal mine.

Mixed views on NUM rescue plan

Business Day 12-05-92

MATTHEW CURTIN

THE NUM plan for state aid to save jobs at Rand Mines' ailing Harmony gold mine received a mixed reception from analysts yesterday.

Simpson McKie analyst Rodney Yaldwyn said if government agreed to the NUM scheme, it would re-establish a precedent of allowing marginal mines to run at a loss simply to preserve jobs.

Government's guarantee of loans worth R220m and provision of financial assistance with a interest payments to ERPM, which was still far from profitable, showed that the ordinary taxpayer could be left bearing the burden of an uneconomic mine.

Yaldwyn said a number of marginal mines could make similar arguments for state aid.

However, Frankel, Max Pollak, Vinderine analyst Mike Brown said given current political concerns and the recession, arguments for financial assistance might hold sway with government.

Brown said the NUM seemed to have a good case, "and if government can spend millions in drought relief, might it not be willing to consider relief for the gold mines?"

Mathison and Hollidge analyst Rob Gillan said the NUM's approach to Harmony's problems showed the union's "maturing approach" to industry problems.

Rand Mines plans to axe 8 000 jobs from Harmony, a low-grade producer with large reserves, but dependent on much higher gold prices to survive in its current position. The NUM has proposed government provide assistance for a limited period to slow the rate of job losses, mitigating the knock-on effect to the local economy and allowing time for the retraining of miners.

However, E W Balderson analyst Nick Goodwin warned time was the key to Harmony's financial security.

Harmony might not be able to afford the luxury of protracted negotiations over possible tax concessions.

A Chamber of Mines spokesman said the chamber did not consider the issue "an industry matter", but one for Rand Mines and the union.

Get govt cash to save jobs, NUM tells R Mines

12-05-92

THE National Union of Mineworkers (NUM) has asked Rand Mines to help secure financial aid from the state to save 8 000 jobs at Harmony Gold Mine in the Free State.

The head of NUM's collective bargaining department, Mr Martin Nicol, on yesterday confirmed the union had made a proposal to Rand Mines involving a joint approach to government for a subsidy to continue operating the mine at its present capacity and thereby avoid immediate retrenchments.

While the NUM acknowledges the retrenchments are inevitable given the weak gold price coupled with the high inflation rate and the fact that Harmony produces only low-grade ore, the union hopes to slow down the retrenchment process to facilitate retraining of the doomed employees, thereby making them employable in related industrial jobs.

"Just as the government has provided aid to farmers in difficult agricultural circumstances, it should similarly step in with aid for Harmony," Mr Nicol said.

Rand Mines has given notice that it intends scaling down its operations with the retrenchment of one third of its workforce: About 8 000 employees, most of them Lesotho nationals.

The NUM proposal, which has been submitted to Rand Mines in document form, is a honing down of a short-term proposal the union made in June to assist the beleaguered mining industry in general.

"We've taken our suggestion and applied to Harmony Gold Mine in particular," Mr Nicol said.

The proposal was based on the premise that the government would not lose anything by providing financial assistance to keep Harmony going at full strength, and that the retrenchment of 8 000 employees would mean the loss of income in taxes.

He explained that although Harmony was losing money, the state was still benefiting from employees' income taxes, the VAT employees were paying in the purchase of general items, Regional Services Council levies on the mine's wage bill, mining lease taxes, and taxes paid by businesses which supplied the mine.

"The mine is not a stand-alone institution, what we are considering here is regional economy of which Harmony is the flywheel.

"Our proposal seeks to relate the amount of aid required to the amount government would lose if the retrenchments become a reality."

Mr Nicol said Rand Mines had agreed to consider the NUM's proposal.

Mr Nicol said if the mining company accepted the proposal its management would have to determine how much was required from government to put the plan into action. — Sapa.

NUM rescue plan for Harmony

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Union seeks mine's help to save jobs

ALAN FINE

THE NUM is seeking state aid to save jobs at Harmony gold mine and has asked Rand Mines to participate in a joint approach to government.

On Friday the union submitted to Rand Mines a detailed memorandum containing a set of "tax neutral" proposals it wanted to be put to government. Rand Mines gold division CEO John Turner said he would study the proposals, but declined to comment further.

The mine's marginal status has forced it to begin planning the retrenchment of 8 000 workers.

Should a joint approach to government materialise, it would be the second such joint labour/management initiative, following the arrangement thrashed out last year in the clothing, textile and cotton manufacturing sectors.

NUM negotiator Martin Nicol said the union was not seeking limitless state funds to save a declining mine. What it wanted was assistance "for a limited adjustment period".

Instead of the sudden loss of 8 000 jobs in the Virginia region and the areas of Lesotho from where many Harmony employees came, the NUM hoped state aid would facilitate a slowing down of the process.

This would allow management and the union to carry out specific tasks — such as a retraining programme — "which would mitigate the effects of the retrenchments on individuals and on the region".

Nicol said the union proposals were based on submissions it had made to last June's mining summit on short-term measures to alleviate the industry's crisis.

The NUM's argument that short-term relief can be granted without any net cost to the fiscus relies on the "knock on" effects of a mine's substantial downscaling.

Although a mine operating at a loss does not pay any tax, the NUM says its operations benefit state coffers in five important respects: employees' income taxes; direct taxes such as VAT they pay; RSC levies on the wage bill; mining lease taxes; and taxes paid by the mines' suppliers and their employees.

The NUM's calculations for 1990 estimated that the tax generated by a mine making no profit was worth R4 912/kg of gold produced. Hence, the union argues, a subsidy of that order would be rational and justified.

Nicol said on Friday that the figure for Harmony might be a little lower, but still substantial and certainly sufficient to allow for a a more gradual downscaling of operations.

The union suggested to the summit that such a short-term scheme would permit the maintenance of a significant number of jobs, at the mine and suppliers, the maintenance of economies of scale by suppliers in the electricity, food and engineering sectors and prevent a sudden decline in an important source of foreign exchange earnings.

The union believes, further, that a special case can be made for Harmony because the regional economy of the Virginia area depends largely on the mine.