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ANC research document set to steer Qhena into mining's top echelon

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Geoffrey Qhena, IDC chief executive || PHOTO: BRENDAN CROFT

Geoffrey Qhena, the chief executive of the Industrial Development Corporation (IDC), is set to emerge as one of the most influential businessmen in the mining industry if a proposal in an ANC research document is adopted by the government.

A team of researchers – tasked by the ruling party to investigate models of state participation in mining including nationalisation – has proposed that the state mining company (SMC) be placed under the control of the IDC until legislation to make it a stand-alone business has been put in place.

The government has already launched the SMC, known as the African Exploration Mining and Finance Corporation, which in February last year unveiled a coal mining project in Mpumalanga that is expected to produce 1.68 million tons of coal a year. The document, released earlier this month, proposes that the SMC should develop strategic minerals with private investors and supply them as feedstock to local manufacturers at competitive or discounted prices to drive the beneficiation of raw materials into industrial exports.

Experts say cheaper raw materials for local manufacturers will improve their competitiveness in the export markets and help promote South Africa's industrialisation.

"Accordingly, it (SMC) should hold the exploration rights to these minerals through a first-sight of all new state financed geo-data ... It should also be tasked with developing other minerals, with broad-based black economic empowerment enterprises, by taking a minority share and transferring skills," the ANC document says.

The document does not state which minerals will be considered strategic, but experts say coal (used for power generation), iron ore (for steel), and platinum (jewellery, electronics, and automobiles) may be regarded as strategic.

The ANC document says the IDC should finance the SMC and consolidate all state mining interests under the SMC.

"This should be initially capitalised, resourced and run by the IDC as a subsidiary, until legislation to establish it as a free-standing state-owned enterprise is in place", the document says.

The state holds mining stakes through IDC companies such as coal miner Sasol Mining, steel maker ArcelorMittal SA, ferrochrome producers Hernic and Merafe, platinum miner Impala, platinum producer Wesiswe, and aluminium maker Hillside Aluminium. Furthermore, the Central Energy Fund, which owns state oil company PetroSA, has also been recommended to be injected into the SMC, signalling that the company may also invest in oil and gas projects.

If all state mining interests are placed under the IDC, the state-owned financier will end up having a far larger balance sheet, which is currently worth R109 billion.

The corporation has a mining and beneficiation unit, which is headed by Abel Malinga. It is likely that Malinga will be responsible for growing the SMC's investment portfolio while the policy makers develop a legislation to make it a free-standing business.

The ANC researchers found that almost all the 12 countries it studied have state mining companies, although there was a clear trend to privatise or corporatise some of these companies.

But the document says that the privatisation of petrochemicals group Sasol and steel producer Iscor (now AcelorMittal SA) was premature.

"In South Africa, the apartheid state accelerated the privatisation of the Sasol (coal) and Iscor (iron ore and steel) state-owned enterprises in the 1980s in order to finance the increasing apartheid budget deficit, though this appears to have been premature given their monopoly pricing of several critical industrial feedstocks.

"Most middle-income developing countries such as Brazil, China, Malaysia, and Chile, have state mining vehicles, but in general they are mineral specific," the ANC document says.

The IDC declined to comment on the proposal of the take-over.

The document warned against wholesale nationalisation of mines by the state as this would cost the fiscus R1 trillion. Instead, it proposed resource nationalism, whereby the state imposes a resources rent tax on mining companies and buys stakes in companies that mine strategic minerals.