It's simple: just slap another tax on mining industry

The African National Congress (ANC) study group report on the mining industry has been covered fairly extensively in the press. These reports were based on a leaked version of an executive summary, but the report as a whole has never been published. Since, as they say, the devil is in the detail, what does the report as a whole tell us that the summary does not?

The summary is about 60 pages, but the report as a whole is just under 400 so, there is detail there. In fact, I would argue that this is the place where the devil is, not in the detail, but in the summary.

First, let me highlight a few topics that help explain why the specific diagnosis was arrived at in the conclusion — and perhaps also why I think it presents a misleading diagnosis that could really hurt the patient.

If you read the report carefully, you will notice that the ANC policy, not just in summary form, but in the whole document, contains an investigation into the issue that will form part of ANC discussions at its policy conference later this year. This has the character of an opinionated challenge and extended research document rather than the formality you might expect from a policy white paper, for example.

The main conclusions are to deride the idea of nationalisation, but propose a string of alternatives. The most significant is to validate the implementation of a “resource rent tax”, both the same type recently proposed in Australia, but at a much higher rate; the creation of a state-owned mining company; and a fairly extensive revision of the new Minerals and Petroleum Resources Development Act.

The proposal was greatly anticipated for its views on nationalisation, but oddly this highly charged topic was not really meaningfully grappled with in the text. In the final summary, the conclusion was essentially denationalist: “We do not believe that the creation of state-owned mining companies is a viable option.”

In my opinion, this conclusion, entirely wrongly in my view, that “the energy sector shows, however, that such poor performance is not a corollary of state ownership”, it then lists a string of requirements for state-owned mining companies to be successful, most of which are simply not achievable; and are consequently extremely unlikely to exist in practice. These include having a knowledgeable and independent board; transparency; the need for full accountancy; and the need for constant reinvestment; the need for an independent company to understand the mining business, and so on.

But importantly, the report fails to explain why mining companies and oil companies are different, and why oil companies tend to succeed under state ownership and mining companies do not.

For example, it heaps praise on Chilean copper miner Codelco and citing the company as one of the “few and far between” examples of successful state-owned mining companies. The others are LKAB, the Swedish iron-ore mine, Finnish miner Outokumpu and Botswana’s Debscor. It notes that state-owned companies have become more cost-prohibitive, coming in at about Nt-5 trillion, and that without compensation it would transcend bilateral trade agreements and be regarded as discrimination.

Hooray for that. Obviously, it’s conclusion is that “this is a complicated topic, but at root I suspect the reason is pretty basic: drilling for oil is far more profitable than mining, and the industry is going to hate it”.

The report also has the major advantage that it is very vast; owned, nationalised companies are an entirely different animal, but the state-owned mining companies have not been able to operate successfully, leading to privatisation.

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