URL: http://www.polity.org.za

Policy, Law, Economics and Politics - Deepening Democracy through Access to Information

This privately-owned website is operated and maintained by Creamer Media

POLITY ARTICLE BY: MARTIN CREAMER - CREAMER MEDIA EDITOR PUBLISHED: 30 JUN 2016

Don't let gold's Brexit rally go to waste – Dixon

JOHANNESBURG (miningweekly.com) – As Britain's decision to leave the European Union gives an extra boost to the gold price's strong showing this year, the real question is how to use the much-needed financial respite to make South African mines more sustainable.

The danger, according to SRK Consulting corporate consultant **Roger Dixon**, is that this windfall revenue will simply be used to repay debt and issue dividends to expectant investors.

"These pressing demands should rather be tempered by considering where the business will be when the rand gold price weakens again," says Dixon, who adds that what mines need are bold strategic and technical efforts to improve productivity and drive these companies down the industry cost-curve in the medium to long term."

The gold sector has regularly witnessed spikes in the rand price an ounce of gold during commodity cycles, which temporarily rescue the industry but mask the real problem of an unremitting and disproportionate increase in production costs.

Dixon views it as vital that gold firms retain a focus on productivity rather than volume, and consider all their cost inputs from labour and electricity to water and equipment.

"In other words, consider the number of ounces of gold produced per person on the mine, or per kilowatt of electricity consumed," he says.

Labour productivity in the South African gold sector has declined 35% in less than ten years, according to a recent EY report, and even countries like Australia face this issue, with capital productivity dropping 45% since 2000.

Another industry consultant reports that the average output per employee in South Africa's mining sector has declined by 21% in the past 15 years – a compound rate of 2.9% a year.

Hardest hit is the platinum sector, with an average yearly decline of 4.2% in kilograms produced per employee since 2001.

Dixon warns that those preferring to prioritise short-term quarterly or yearly returns are putting the survival of the sector at risk.

Also undermining the ability of gold mining to meet the productivity challenge is the tendency to cut away vital skills during difficult times.

Dixon notes that gold mines traditionally shed a range of valuable, high-level scientific and technical skills when profits are under pressure, as these roles are considered to have less immediate value to the rate of production.

But the sector pays the price for this, as these are generally the skills needed to innovate lower-cost production in the longer term.

On a practical level, he advocates automated, real-time adjustment to metallurgical plants to optimise recovery and minimise costs to systems that allow better monitoring and conservation of growing cost factors like water and electricity.

While it is likely that jobs will be lost as productivity gains are made, many more jobs will be shed if mines are unable to stay open.

He makes the point that sustainable and profitable mines are also more likely to create indirect jobs in their vicinity and beyond, with many benefits for the industry and economy as a whole.