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LOCALISATION, PROCUREMENT, and BENEFICIATION
PRESENTATION TO PORTFOLIO COMMITTEE ON TRADE AND INDUSTRY
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PREFACE. The Portfolio Committee on Trade and Industry has carried out extensive consultations on industrial policy as set out in many Committee reports. There can be no doubt that if all the recommendations had been implemented by various government departments, our industrial profile would be very different to what it is at present. It would be an interesting exercise to ascertain why there have been deficiencies in this regard. But that is beyond the brief of this short paper.

1. The conventional way of analyzing a national economy is to unpack the GDP in order to ascertain the main features of that economy. However another useful method is to analyse the value addition throughout the economy which provides a tool for understanding the effectiveness of certain policies.

   For instance a country has beautiful beaches which are little used. There is no value added. Then hotels are built, transport is laid on, and tourists arrive. This leads to value added.
   A country has a climate and soil suitable for coffee cultivation. A farmer plants coffee beans, applies water and fertilizer, and this results in a good crop which he can sell. He has added value.
   In short, initially economies grow through human effort applied to the resources provided by nature. Subsequently human effort is applied in numerous complex ways directed at adding value.

2. This Institute has conducted research over many years on value addition in mining based Industrialization in South Africa and across the continent. We engaged with the UN Economic Commission for Africa in many conferences and then research reports were commissioned by the United Nations Economic Commission for Africa, 2015, TIPS (for DTI), 2016, Development Bank of SA, 2017, and the United Nations University-Wider 2018. Much of this work arose from a degree of frustration that although Africa is very well endowed with mineral wealth the continent has not benefitted appreciably from these resources.

3. The exception being South Africa where gold and diamond mining brought substantial wealth and development with other minerals joining the stream subsequently. Our research showed that although the mining industry constituted an enclave in the wider economy with most of the products destined for export, the mining industry was deeply embedded in the larger economy. It

depended on water, power, labour, food, engineering and other services, transport, ports and many other services and products. The Chamber of Mines was therefore able to claim that it was making a large contribution to the domestic economy even though the minerals were exported.

4. In other countries in Africa there has long been some resentment that mineral extraction is done by foreign companies with the only benefits being in the employment of local unskilled labour, some royalties and perhaps some taxes. In many cases some foreign company will deliver a whole package to government, which include exploration, infrastructure development, and extraction, with only minimal procurement locally.

   This has led to a reaction in Ghana for instance where the Minerals and Mining (General) Regulations L1 2173 marked the beginning of local content policies. These focused on employment, promotion and training of local workforce, procurement of locally produced goods and services, and licensing and reporting requirements. Firms must give preference to materials and products made in Ghana, service agencies located and owned by citizens, preference in tenders is given to Ghanaians. Subsequently the Mining Commission made further demands for local procurement. In Tanzania, government is making similar demands and is demanding a larger share of the receipts from mining, in the DRC there are various similar measures, and in Kenya there is a demand for local procurement of goods and services. A World Bank report has listed possible local inputs which is quite illuminating.

   Since South Africa is a substantial exporter of capital equipment to the rest of the continent, local policies on procurement could affect this area quite substantially. Policy needs to be developed to what degree SA wishes to encourage local production of goods and services throughout Africa and to what extent this might impact on our exports.

5. We can therefore discuss localization from two perspectives: procurement, and beneficiation.

6. **PROCUREMENT**.
   In the South African case, because the economy is relatively well developed, with a substantial engineering industry, for instance, there is a substantial supply chain of goods and services to mining. Much of these are supplied by local firms and manufactured here. But a new phenomenon is that of importers who compete with local firms thereby undermining manufacturing. Often there are false claims that the products are produced locally. The same phenomenon is found in other African countries, presenting serious challenges to local business.

   The question arises whether it is possible to curb imports through tariffs, but it is argued that this carries certain hazards of retaliation by foreign governments which could be damaging overall.

   An important issue arises whether the state is able to lay down requirements for local procurement by state agencies and whether the same could apply to the private sector. The automobile industry is setting the pace here. In SA mining companies are heavily dependent on the state for the supply of electric power, transport and ports. In recent years these administrative prices have risen very substantially, affecting the mining industry. There needs to be a national policy on administrative prices so that companies can plan procurement well in advance.

7. BENEFICIATION.

Beneficiation is the processing of a natural ore in order to prepare it for subsequent sale. There are various stages beginning with exploration, mining, processing, smelting and refining, fabrication.

Over the years the issue of beneficiation has been highly contentious with the Chamber of Mines asserting that SA mining companies are highly specialized and limit their operations to preparing the minerals for export. They are not willing to engage in manufacturing, nor are they interested the domestic market. They have argued forcefully that a mineral resource endowment does not necessarily translate into manufacturing beneficiation, and mining should not be required to subsidise manufacturing beneficiation or to provide minerals below internationally determined prices even though there is a saving in export transport costs. Not surprisingly, since our economy is relatively small, it is not competitive if manufacturers have to pay international prices for inputs into manufacturing.

Yet the government continues to advocate a degree of beneficiation so that more value will be added domestically. This would foster further industrialisation, require much local training, and promote economic growth.

The point is that mineral wealth is a national asset, provided by nature, and it ought to be of maximum benefit to the people as a whole.