Volume or value?

restructuring the gold mining industry

*The volatile gold price is forcing the mining houses to tighten their belts. The future looks ominous for high-cost marginal mines. **Malcolm Ray** finds that labour looks set to be the loser in this process.*

Nineteen ninety-seven was a bad year for the gold mining industry. The country's aging mining houses woke up to the reality of terminal decline as the gold price continued to fall. Gold producers reacted swiftly to the crisis The last quarter of the year saw an explosion of mega-mergers, acquisitions, management buyouts, unbundling and rebundling.

For the mining sector, the golden age of profitability has irrevocably passed. Only vigorous cost-cutting and productivity improvements can save the industry

Re-alignment

The main feature of recent activity has been the consolidation of mineral assets into two of the world's largest gold mining companies – Anglogold and Goldco.

Goldco was formed in September last year through the merger of Gencor and Gold Fields South Africa This was followed by Anglo's consolidation of nine gold mines into a new company called Anglogold. The company is reputed to be worth R20-billion. Newly-elected Anglogold chairperson, Bobby Godsell, explains the thinking behind the move: "We are seeking to create a lean and focused gold company of the 21st century through a merger of high quality assets that would enable Anglogold to have robust operations" (*Business Report*, 26/11/97).

Shedding volume

The logical consequence of this strategy is that smaller, rival and 'marginal' producers – high-cost, deep level, low-yielding and short-life mines which make up the majority of gold assets – will be left on the sidelines.

Anglo is already dumping those mines which cannot reach production and cost targets. The mines are being closed or mothballed. In some cases, production is being outsourced, with contractors, not Anglo, taking the risks

Anglo industrial relations director, Steve Lenahan, explains the choices facing the company: "We...either continue running unprofitable mines at the company's peril, or cut our losses until the gold price rises to a respectable level." Unlike other industries, where commodity prices are determined by supply-demand variables and can therefore be controlled by restricting demand through a reduction in production volumes, the survival of gold producers is entirely dependent on the price of gold, which they do not control (see box on next page). Through strict control over costs, Anglogold and Goldco will be better able to weather gold market volatility.

Freegold

The impact of the cost-reduction strategy is most dramatic at Anglogold's Free State operation, Freegold, which is expected to halve its production from 80 to 40 tons a year.

Until recently, a high level of forward sales, which were negotiated in late 1995, minimised the impact of the drop in the gold price. Most mine shafts were able to make a profit. Time has now run out. Fifteen of Freegold's 19 shafts are now running at a loss.

In 1997 the company tried to win back some ground through a wide range of restructuring measures. The primary objectives of the restructuring exercise are:

- to make profits by making optimum use of resources, therefore providing satisfactory returns for shareholders;
- to achieve and maintain the necessary flexibility to meet fluctuating gold prices and changing political, economic and technological circumstances;
- to improve productivity by furthering the development and advancement of employees through training and selection based solely on merit and ability, consistent with the mine's needs.

Downscaling

Lenahan highlights the changes under way. Central to Freegold's fortunes, he says, are four core long-life shafts at President Steyn 4, Freddies 1, Saaiplaas 4/5 and Freddies 4. The shafts have been renamed Freegold 1,2,3 and 4. Capital resources have been invested to ensure that the shafts achieve globally competitive levels of operational and managerial efficiency.

Integral to restructuring is the planned downscaling of the remaining medium-to-short-life marginal shafts. This involves shedding 15 shafts by the year 2000. The process began in earnest early last year. Several marginal shafts have already been sub-contracted, some mothballed and others rationalised as part of an effort to extract the remaining ore reserves and recover gold from old areas at minimal overhead costs.

Restructuring has not been without pain. More than 10 000 Freegold workers have lost their jobs since 1990, bringing the employment figure down to 49 000. Current trends suggest that another 6 000 heads might roll.

The role of gold

Since the rise of capitalism and the world money market more than a century ago, the Reserve Banks in developed countries have amassed large quantities of gold as a measure of the value of their respective currencies.

Rather than selling gold to manufacturers like any other commodity on the open market, gold is 'monetarised'. The cost of mining the precious metal and the volume stored in the banks determines the metal price and the value of money.

Producers have to peg production costs at a level below the 'spot gold price' (the current price) to remain profitable. Any drop in the price affects profitability, forcing producers to slash input (principally labour) costs below the spot gold price in times of crisis.

In some instances producers 'forward sell' gold to the Reserve Banks. The price is agreed on beforehand. This temporarily cushions producers from any slump in the gold price. While this provides some relief from gold market volatility, it merely prolongs the inevitable. Unless the gold price rises, pressure on producers to cut costs cannot be avoided.

Productivity

There is clearly no easy route to restructuring. Costly production methods and the tight squeeze exerted by the gold price on profit margins put productivity squarely on the restructuring agenda. Last year, labour made up 88% of total production costs at Freegold. This was a 14% increase on the previous year's figures. Despite an effective reduction in working costs from US$374/oz to US$319/oz during the same period, the figure is still a great deal more than the current gold price of US$281/oz.

Agreement

The NUM clearly recognises the problem. In October last year, union leadership signed a ground-breaking, industry-wide productivity deal with the Chamber of Mines. In response to the gold crisis, the parties agreed to link wage increases to production. The agreement states that wage increases last year and this year will be conditional on productivity improvements at individual mine level. It leaves the mechanisms for increasing productivity to negotiations between the parties at each mine.

Three possible procedures are recommended, depending on the conditions at individual mines:

- decrease the number of underground workers and increase surface gold sources;
- add additional shifts to the calendar month or lengthen the daily shift;
- achieve efficiency improvement through the training and development of workers.

The NUM favours the last option, but argues that it has been lost on employers. The union claims that, instead of benefiting workers, productivity improvements are being implemented at the expense of underground jobs. In the present context, the parameters for productivity improvements are severely limited and it is a moot question whether the principle objectives of the agreement will be realised.

A report by ING Barings in December last year is revealing. It argues that the agreement, which provides for the production of an additional 90 tons of gold in the next two years, will fail and production can be increased by only 11 tons. The intention of the deal was to trade-off an average 10% increase in employment costs across the industry for a commensurate rise in productivity and output through skills development. But NUM spokesperson, Silas Diamond, says management at Freegold has not kept its side of the bargain.

Although the agreement is remarkably buoyant about covering wage increases through extra shift work and the introduction of innovative work practices, the Barings report concludes that if the gold price continues at its weak level for more than a year, companies will "experience severe downsizing of mines and job losses."

Unfortunately, the most vulnerable workers are concentrated at the lower end of the grading system. Comments Diamond, "At Freegold, 90% of mine workers are located between group 3 and 5 of the grading system. They are black and unskilled and should therefore be the beneficiaries of any restructuring effort. But this is precisely where production costs are trimmed down."

NUM deputy general secretary, Gwede Mantashe, is equally emphatic. He says the pre-occupation of employers with cost reduction measures has created an untenable situation where retrenchments are the chief vehicle for productivity increases, leaving the apartheid occupational structure intact.

Employment trends

For the NUM, the perpetuation of the race-skills divide is the main reason for low productivity. For many decades, racial control and the migrant labour system precluded working practices that could have boosted productivity and lowered labour costs. A rigid job grading structure

NUM members march on Anglo American offices, July 1990.

and huge wage differentials prevented unskilled workers from progressing into skilled positions

While there have been major structural changes in the sector in recent years, a study by Centre for Policy Studies researcher, Owen Crankshaw, shows that this has had little effect on the racial division of labour.

Total employment remained fairly constant during the period. Unskilled labour decreased, while semi-skilled labour increased by 38%. But the number of artisans and middle management decreased in real terms, confirming the union's argument that the movement of black workers into traditionally white positions is restricted to the bottom end of the occupational structure.

Retrenchment

Very little has changed since 1990. While the percentage of unskilled black workers has continued to decline, this was not due to their absorption into skilled or managerial positions. According to the Chamber of Mines 1995 Annual Report, employment in member gold mines declined from 518 419 in 1987 to 366 248 in 1993.

The decline continues. Some 61 000 workers have been retrenched over the last two years.

Employment of artisans, semi-skilled operatives and unskilled labourers in the gold mining industry, 1960-90

Year	Artisans/Foremen	Semi-skilled operatives	Unskilled workers	Total
1960	30,260	91,359	262,777	384,396
1970	23,983	105,486	228,373	357,842
1980	26,959	138,498	226,381	391,837
1990	27,619	160,601	198,427	386,647

Crankshaw, 1997

Analysts say that if the gold price continues its slide, a further 100 000 jobs may be lost this year.

Employers concede that the industry has to get away from its reliance on the control and exploitation of a poorly educated workforce. The future profitability of deep level mining, they argue, requires a more skilled workforce. It is likely, however, that the current trend towards shedding unskilled jobs will offset any long-term benefit for the majority of black workers.

Mechanisation

The logical alternative is mechanisation. Until the 1970s, mechanical innovations dominated the sector. Their use was restricted, however, to surface level mining. Today, high quality ore lies very deep underground in exceedingly high temperatures. Mechanisation has reached its limits. People are needed to bring the ore to the surface, and people cost money. Since the 1980s annual worker output as a percentage of working costs has steadily declined. Hence the current emphasis on productivity improvements.

Growth *versus* employment

If the industry is to revive in the immediate future, much has to change very quickly. Short-term profit maximisation is replacing the old corporatist ethos of mining houses.

In his 1996 ILO study of the mining industry, Guy Standing found that mining houses are rapidly decentralising their management structures. Companies like JCI, Randgold, Goldco and, more recently, Anglogold are either reducing the number of managerial staff at their head offices or opting for more aggressive commercial corporate strategies in which each company is granted more autonomy to change the occupational structure of the workforce.

Lenahan and his colleagues in Anglogold readily concede that not enough has been done to address the employment crisis. "But," says Lenahan, "it is naive to believe that the apartheid legacy and its attendant productivity ills will be overcome in a single agreement." He adds: "In the current gold market scenario, the restructuring measures we are looking at are geared towards striking a balance between economic growth and employment. So we are talking about a 5% increase in production in exchange for a 10% increase in employment costs last year and a 9% increase this year."

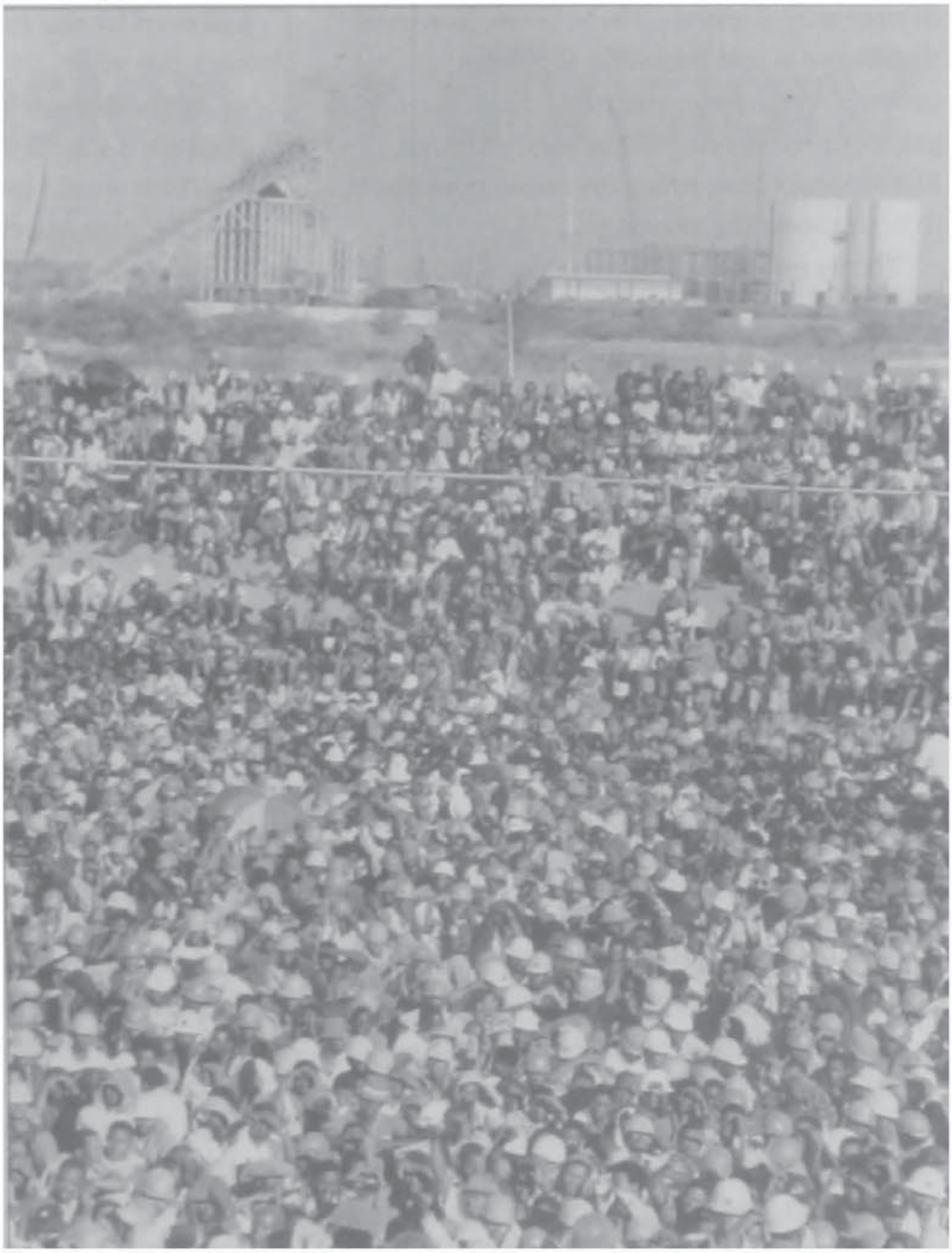
This does not mean that all loss-making mines are about to close. Says Lenahan, "How we achieve this target depends on the creative implementation of productivity improvements."

Restructuring options

The challenge – for both mine management and labour – of implementing productivity improvements at the rock-face remains critical The key question is whether there is, in fact, a painless 'labour-friendly' route to restructuring. Employers claim they have many cards to play before they throw in the towel, the most obvious and least ingenious being the present strategy of employment rationalisation.

An alternative option, maintains mining geologist and analyst, Peter Camden-Smith, is to pay more attention to improvements in shift arrangements and 'throughput factors' like increasing kilograms of gold per unit area by the placement of development in the right areas, re-energising workers through teamwork and empowerment, and implementing shift and work practice changes.

A recent report by Camden-Smith on the Durban Roodepoort Deep gold mine shows a trend towards the use of contract labour and multi-skilled teams. He explains that the mine owners promoted the sub-contracting scheme as a vehicle for 'black empowerment'. The mine's core functions like stoping,



100 000 mining jobs may be lost.

vamping and sweeping, haulage construction, wire meshing and lacing were contracted out to 'multi-skilled teams of workers' after some were sent for certified training.

The attraction of the scheme for labour, Camden-Smith writes, is that each team is given an area to mine and a large lump-sum of money for work done. Wages are bonus-related and measured by productivity output per team. For the owners, the scheme proved that contract labour based on the notion of 'self-directed independent teams' performed tasks more quickly and with less supervision.

The NUM vehemently opposed the scheme, arguing that it would strip the mine of its workforce, stratify 'old' and 'new' workers and undermine wages and labour standards negotiated by the union. This turned out to be true. The union leadership eventually gave in when it became apparent that, with the threat of the mine's imminent closure, the contract system was the only way workers would have any kind of job.

Downside

There are formidable downsides to this strategy. It is likely that the multi-skilled teams will recruit labour from outside the existing workforce. Most black mine workers are illiterate and innumerate and will not cope in the new system.

At Durban Deep, productivity levels have risen. However, unskilled workers have been retrenched. Artisan tasks previously performed by skilled workers are now done by semi-skilled contract workers.

Standing points to an alternative path. He notes that, as mining reaches deeper and deeper levels, requiring more and more labour to extract the ore, productivity must, of necessity, decrease. He believes, however, that, there is still immense scope for productivity improvement. Apartheid work practices resulted in major inefficiencies. Eliminating these practices could contribute to revitalising the sector.

This is not, unfortunately, the path the mining houses have chosen to follow. Unskilled black workers who were victims of apartheid-induced productivity inefficiencies are today regarded as part of the problem, not as a potential resource.

Prospects

The long-term solution for labour might well lie outside the gold mining sector. Other parts of the mining industry have shown impressive expansion in recent years. Between 1984 and 1994, the value of platinum expanded by 65%. The rush by mining companies like JCI to shift capital investment from gold to platinum production gives a clear indicator of where future growth areas lie and their potential for labour absorption.

The NUM is not averse to an industry-level restructuring plan which allows for greater flexibility as far as employment mobility is concerned. The union also believes that restructuring can be more sensitive to the interests of workers if it is combined with regional industrial development strategies.

This requires a co-ordinated approach straddling individual mines located in a given region. The productivity accord's provision for mine level restructuring, the fragmentation of the management structure of mining houses, and their devolution of power to individual mines conspire to make this proposal difficult to realise.

A way forward might lie in a national convention of labour, employers and the Department of Mineral and Energy Affairs. At the time of writing, the NUM leadership had proposed a Gold Summit in February, to be followed by the Presidential Job Summit later this year.

All the players in the sector accept the need for a job creation and development plan that would incorporate:

- state assistance (subsidies) to marginal mines;
- the possible involvement of retrenched workers in small-scale mining;
- downscaling procedures to allow for retraining and counselling of retrenched workers;
- a job creation scheme to finance appropriate training programmes and equip retrenched workers with portable skills;
- investment in small business and rural development initiatives to get workers involved in alternative economic activities outside the mining industry.

No concrete proposals have been tabled yet and it is still unclear whether the proposed summits will take place. As things stand, the mining accord is destined to disintegrate. The industry could see a resurgence of the recent spate of strikes against sizing down marginal mines and the destabilisation of production unless bold steps are taken to save jobs ★

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