**NATIONAL ASSEMBLY**

**QUESTION FOR ORAL REPLY**

**QUESTION NUMBER 139 [NO2465E]**

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**Mr N J J van R Koornhof (Cope) to ask the Minister of Finance:**

Whether he has found that the debate on the nationalisation of mines has had an impact on our image as a stable and reliable market for future investments; if not, why not; if so, what are the relevant details?

**NO2465E**

**REPLY:**

Honourable member, South Africa remains a stable and reliable market for investment. Macroeconomic indicators illustrate this. The country's risk spread, as measured by the South African Emerging Market Bond Index (EMBI), has more than halved since 2009 and has declined faster than the overall emerging market EMBI.[1] South Africa's positive position in an uncertain global economy has also been affirmed by ratings agencies Standard & Poor's, Fitch, Moody's and R&I over the last 12 months.

President Zuma and Minister Shabangu (Mineral Resources) have stated unequivocally that nationalisation of mines is not government policy. Our country has strong property rights laws and respects property rights of all citizens, including ownership of mines. I believe our investors understand this and that investors understand the difference between what is government policy and the broader public debate of policy.

At this point, the impacts, if any, of the mine nationalisation debate on investment and mining production are still unknown. Robust public debate on issues such as these should be welcomed. This view has been supported by AngloGold Ashanti CEO Mark Cutifani, who argued in the Business Day last month that "the logic behind the call for nationalisation needs to be sensibly debated rather than angrily dismissed". The danger is that the nationalisation debate is mishandled, which could affect sentiment, undermine confidence and raise uncertainty regarding policy and policy direction.

[1] The SA EMBI fell by 64%, from 562 points in January 2009 to 201 points in August 2011, compared to a decline of 50% for the overall emerging market EMBI.

Underlying the calls for nationalisation is frustration at the slow pace of economic transformation and concerns that the economy's current development trajectory will not provide a sustainable solution for the country's poor and marginalised. The mining sector is an example of frustratingly slow transformation, and it has fallen short of the commitments made in the Mining Charter. There has been minimal diversification of management and core-skilled workers and a failure to adequately acknowledge the needs of poor communities in the areas it operates.

As suggested by Cyril Ramaphosa, in an Op-ed piece for The Times at the start of August, "the transformation of the mining industry is therefore an important litmus test of our ability to transform our economy, and, by implication, our society."

Government is concerned that investment in mining and mining production have not responded to the global commodities boom. Since the early 2000s, both mining investment and mining production in South Africa have remained relatively flat, while investment and production in other mineral rich countries have increased substantially. For example, investment in South Africa's mining sector grew at an average annual rate of just 7 per cent in the 2000s compared with annual growth that averaged 24 per cent in Australia.

South Africa's share of the global mineral exploration budget has also fallen sharply, declining from 6 per cent in 2003 to 3 per cent in 2008 and lower still in 2010. South Africa's expenditure on exploration is no longer among the top ten despite the value of non-energy natural resources being higher than for any other commodity producer according to a 2010 Citigroup report.

Investments in mining activities are by nature long-term decisions, which make them especially sensitive to risk and uncertainty. Industry analysts and some investors attribute low levels of production and investment to regulatory and policy uncertainties. Investment sensitivity to policy uncertainty can be seen in the sharp decline of 16.6 per cent per annum in mining investment between 2003 and 2005 in light of the uncertainties associated with the then "imminent" promulgation of the Mineral and Petroleum Resources Development Act (MPRDA) of 2004. Although investment growth recovered relatively strongly from 2006, the growth of SA mining investment in the late 2000s pales in comparison to Australia, for example.

While the nationalisation debate could potentially negatively impact investment in the sector, through adding uncertainty and affecting confidence, it should be noted that poor mining performance pre-dates the nationalisation debate. This suggests that other challenges have been negatively impacting mining, including electricity, water rights, safety issues, logistics such as rail and port constraints, and environmental impact assessments (EIAs).

To ensure South Africa remains an attractive investment destination, and that the mining sector can thrive and expand, government will continue to work towards reducing uncertainty and addressing the bottlenecks that constrains growth and investment in the sector.