Anglo’s catastrophe:

Context and consequences

By David Yudelman and Ian Robinson

The decade of the 1990s was a decade of momentous change in the South African mining industry. It was a perfect example of the truism that one can destroy in a trice what it took generations to build. Was the self-destruction of Anglo American, the domestic mining houses in general, and the mining house system itself really a heroic, far-sighted step, necessary and even inevitable? Or was it the product of unimaginative, weak and opportunistic leadership, fearful of the future under an ANC government and without any strategy for facing it?

Tim Cohen, who is on the panel tonight, recently wrote a fascinating insider piece on Anglo for the *Financial Mail*, before he moved down in the world to become the editor of *Business Day*! His article gives a great deal of insight into the thinking of the protagonists debating whether to move AAC and De Beers offshore. His cover story provides us all with a very convenient starting point. We need to ask how important really was the Brenthurst meeting at which the decision was supposedly taken? Did it really change Anglo’s strategic direction, or was the outcome already decided by over a decade’s worth of previous changes over a wide spectrum of the Industry?

Between 1990 and 2000, South Africa’s domestic mining house system -- which had been the foundation of both the mining industry and the South African economy for over a century -- was largely dismantled. Institutions, alliances and a *modus operandi* which had effectively dominated the South African economy for decades were eviscerated and abandoned in a few short years. Was the net result a giant step forward for the South African economy into the 21st century, or was it an ill-thought through destruction of stability, continuity and long-term strategic leadership?

The first cracks in the mining house system had begun to appear in the 1980s, when the gold mining industry started to falter. It was gold mining which had led to the foundation of the mining house system in the early 1890s, when mining companies needed massive increases in financial and technical capacity to exploit the gold as mining operations went deep underground. Pooling skills and limiting costs to levels which would attract investment from London and other

European capitals required co-operation between major mining companies, particularly in the supply of cheap labour. This also led to the establishment of the Chamber of Mines. Anglo American itself came into being in 1917, with a prime objective of mobilising British and American finance for the opening of new gold fields.

Despite the eventual expansion of the mining houses into other sectors of mining and other sectors of the economy, gold remained the cornerstone of the mining house system. However, in the mid to late 1980s the international price of gold was depressed, South African production started to decline and costs of production, especially the wages of newly unionised mine migrant labour, rose steeply. Perhaps in fact the National Union of Mineworkers played a greater role in bringing down the *Ancien Regime* than the ANC. We'd like to hear from the Panel what the implications of the emergence of NUM during the 1980s were for both the mining industry and the SA economy.

The continual depreciation of the rand - a legacy of the end of fixed exchange rates in the Seventies -- helped prevent a total collapse of the gold mining industry. However, it was not enough, and the declining profits from the gold mines started to put pressure on the mining houses to urgently reduce costs. One obvious way to do this was to slash their heavy head office costs; this was done, but somewhat indiscriminately, which resulted in a grievous loss of irreplaceable technical expertise and strategic planning capacity.

Internationally, too, the investment environment was changing. The mining house system, which investors had favoured because of the security it ensured through its diverse interests and capital reserves, was no longer fashionable. Investors complained that the system led to a loss of value as the share prices did not reflect the full value of mining houses' component interests. This led to a move away from conglomerates and multi-commodity mining companies towards mining companies which specialized in only a limited range of commodities. It also placed pressure on the mining houses to hive off their industrial interests and break up their mining interests into specialist mining companies.

"Unbundling" became the trendy new watchword and Derek Keys, who later became Minister of Finance in the first ANC government, was appointed chairman of South Africa's second largest mining house in 1986 and embarked on a transformation process which involved the sale of the non-core, non-mining divisions, principally to release asset value. We'd be interested in the Panel's opinions on who exactly benefited from this "release of asset value".

In the background was the impending political change in South Africa and the accession to power of the ANC. The ANC had made no secret of its hostility to the mining house system, which it regarded as a bastion of a racial capitalism which denied opportunity to most of the population. The ANC had stated in the Freedom Charter that "the national wealth of our country, the heritage of South Africans, shall be restored to the people; the mineral wealth beneath the soil.......shall be transferred to the ownership of the people as a whole". In order to achieve this objective the first step was to change the ownership of mineral rights from private to state ownership and this culminated in the Mineral and Petroleum Resources Development Act (MPRDA) which was finally enacted on 1 May 2004. The prospect of the change in mineral ownership and the effective disempowerment of the mining houses created a pervasive sense of insecurity among its leaders and made the idea of moving to overseas destinations increasingly attractive. Was this move a flight, or was it -- as the mining houses preferred to call it -- "diversification"?

Anglo American continued to operate in South Africa in an extremely unstable economic and political environment until its head office move to London in May 1999. However, this unstable environment provided it with the opportunity to realize an ambition it had nurtured for many decades – to become an international mining company. In an interview published in a supplement to the *Financial Mail* on 4 July 1969 (*Inside the Anglo power house*) Harry Oppenheimer had said "Of course we would have participated actively in industrial development but in the absence of exchange control the emphasis would have been more on sticking to mining and building up an international mining house based in South Africa". But the international mining house which Anglo eventually created was based not in South Africa but in London. Tim Cohen's piece says Harry opposed the move, but the lingering impression was that his opposition was tired and more than somewhat resigned. Any further thoughts on this, Tim and others?

Anglo's path to London was eased by (and possibly precipitated by) Billiton's listing on the London Stock Exchange in July 1997. Gencor had acquired Billiton, based in the Netherlands, as a supplier of feedstock to its aluminium smelter at Richards Bay and it separated its international and South African interests when it used Billiton to create a wholly-owned London-based company, leaving only the gold and platinum interests still based in South Africa, with Gencor Limited.

Some specific questions

1. Why did Anglo change its mind so suddenly after Julian Ogilvie Thompson had made a commitment to remain in South Africa in the Chairman's Letter to Shareholders (31 May 1996) that "while we see our future as a mining house rooted in South Africa and are committed to seeking every opportunity of expansion at home, new opportunities opening up in Africa and internationally will facilitate a determined expansion of our mining and selected industrial interests abroad". Did Ogilvie Thompson really mean what he said, or did he have no choice but to downplay to both government and local minority shareholders what was actually happening?

2. Anglo and others told the Government that allowing it to move offshore would make it far easier to raise capital, much of which would of course be invested back into South Africa. Did the ANC government believe this? Was it unaware of the full complexity of a half century of highly contested struggles between the Afrikaner National Party government and the mining houses on this very issue?

3. Was the ANC so happy with the departure of Anglo – either as part of a secret pact or just to get Anglo out of the way and provide more opportunities for new foreign investment or black-owned companies – that it didn't even feel it necessary to get some written guarantees of future investment in South Africa? Is there any evidence of a *quid pro quo* deal between the Government and departing mining houses? Is there any evidence of a coherent strategy by the Government behind its momentous decision to stand aside and ostensibly more or less unconditionally allow Anglo and others to walk?

4. There was a sharp contrast between the attitude of the South African government to the country's largest company (i.e. Anglo) and that of the Australian government to BHP (colloquially known as "the Big Australian"). When Brian Gilbertson wanted to transfer the head office of BHP Billiton to London the Australian government stepped in and forced BHP Billiton to remain in Australia. The BHP Billiton letterhead proudly proclaims "The BHP Billiton Group is headquartered in Australia". Why was the South African government response so different when it's arguable that the national interests of South Africa and Australia in these cases were so similar?

5. How would the Panel assess the overall pluses and minuses of the dismantling of the Mining House system and the move of AAC and De Beers to London? Would mining house-led conglomerates based in South Africa -- and somewhat sheltered from extreme fluctuations of the volatile international economy -- have been able to handle the collapse in commodity prices better than so-called global mining companies?

6. A final issue for the panel to consider is the loss to South Africa of development capacity, not just in mining but in all sectors of the economy, and most strikingly in the manufacturing industry. Or does the panel feel there's actually been a gain in these areas, as the Government tends to argue when challenged? Anglo's achievements in South Africa were massive, and we would all be interested in the Panel's opinions whether Anglo or the Government thought through the implications of the process they embarked on. Can South Africa replace the development and institutional capacity it lost through the departure of Anglo American and, if so, how?