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AN ADDRESS ON INDUSTRY PRODUCTIVITY: HOW BAD (OR GOOD) ARE WE REALLY?

An address by Andile Sangqu, Executive Head of Anglo American South Africa, and Vice President of the Chamber of Mines,
at the Joburg Indaba, on 5 October 2016

Introduction on importance of the event and gratitude for the opportunity to participate.

What exactly do we mean by productivity? We look at productivity being a function of management, technology, capital, labour, costs and prices. And, when all these factors are working in harmony you get productive outcomes.

The SA Mine publication released by PWC this week once again gives us useful insight into how we as industry are faring compared with our global competitors. The report makes three important points:

- First, without a doubt, the global and local industry has been affected by the slowdown in China and lower commodity prices. This is not unique to SA producers.
- Second, the South African mining sector's costs have risen at a fast pace, while at a global level companies have reduced costs in aggregate. This is indeed cause for concern.
- Third, the focus globally and locally has been on consolidation, capital discipline, reducing cost pressures, improving productivity and innovation drives. And, it is here that we can make a meaningful difference.

We must be clear, however, on what we are able to control, what we can influence and what we cannot alter. Into the latter category would fall, of course, elements such as commodity prices set on international markets.

The WEF 2016-17 Global Competitiveness report on South Africa was also published this week, and makes a couple of interesting points.

The first is that we have improved our competitiveness ranking to position 47 out of 138 countries (which means we are one position away from being in the top third). Our institutions rank 40th - one of our key strengths – our property rights at 29th, judicial independence at 16th, and the efficacy of legal framework in resolving disputes at 9th. We were 1st in the strength of auditing and reporting standards and in the protection of minority shareholders, 2nd in the soundness of our banks, and 3rd in respect of the efficacy of corporate boards and also stock market regulation.

Yes, there are areas where we ranked poorly – such as inefficient bureaucracy, restrictive labour market policies, inadequately educated labour force, policy instability, corruption, as well as crime and theft.

I raise these issues though because it is clear that we **are neither all good, nor are we all bad.**

I will approach the question of how bad or good are we really in three parts:

1. **Where have we made good progress?**
2. **Where there is a lot more to be done?**
3. **What are some possible solutions?**

At the most basic level is good operational and people management systems that adapt to changing circumstances. This is a central responsibility of executive management. The company I work for has been implementing a specific operating model. No doubt other companies have their own. For all of us, the key must lie in using our human and other resources most effectively.

Achieving good productivity when it comes to people depends on effective leadership. This has to be one area where we have most room for improvement. One of the big lessons of the labour instability in mining that ran from 2012 to 2014 was the damage wrought by delegating to the unions responsibility for communications with our employees. That was a lesson most bitterly learned. I know that more concerted effort is put in employee communication and engagement by mining companies.

Effective relationships with unions is absolutely necessary too. We have had our challenges in this regard in recent years, some not of our own making. We have to work with the organisations that our employees choose as their collective bargaining representatives. We hope the work currently being done at Nedlac will enhance the quality of collective bargaining, reducing violence and re-establishing strike action as a recourse of last resort when supported by workers in secret balloting.

Safety is an extremely critical factor in determining productivity. It is without doubt that **a safe mine is a more productive mine**. Fatality rates have reduced by 87% over 20 years thanks to efforts by management, the regulator, employees and their unions. We know we still have a long way to go in this regard to meet our aspirational goal of zero harm.

The issue of section 54 stoppages has been much in the news lately. I want to put the industry view very clearly. We support and acknowledge the regulator’s responsibilities regarding safety which, at appropriate times, must include the right to suspend operations for precautionary and remedial purposes. Indeed, responsible operators give employees the right not to work in areas where they have safety concerns.

Our concerns, however, relate to the indiscriminate or inappropriate use of section 54 orders to shut down entire operations for lengthy periods for reasons that do not justify such actions. We do not ask that section 54s that can save lives and otherwise enhance safety levels should not be issued. I want to be very clear on that. We are, however, hoping that an engagement with the safety inspectorate can set the right criteria that optimise safety.

Just as a safe mine with safe employees is a more productive mine, **a healthy workforce is a more productive workforce**. So employee wellness is another area that demands serious attention.

This is not an area where the industry's record is unblemished. But in many respects the industry has done an excellent job. The leadership shown in dealing with the HIV pandemic since it emerged in the 1980s and particularly in the early 2000s in leading with the mass provision of ARV treatment at a time when government was resisting, is a case in point. The mining sector led the country's efforts in HIV testing and the roll-out of ARVs to affected employees, way before any other sectors or government took any action. And right now, **the industry is working in collaborative partnership with the DoH, other government entities and organised labour in a joint campaign to reduce the incidence of TB** not only on mines but in mining communities too. This is one of those areas where the commonality of interest between management, employees and the state converge.

Another has to do with **employee indebtedness**. It became clear during the 2012 labour disputes that notwithstanding the fact that mining wages are in the top three deciles of earnings in South Africa, many employees showed to the media their payslips that showed huge deductions by way of court authorised employee emolument attachment orders or garnishee orders as they are commonly known. This is a phenomenon that we believe has been the trigger for a great deal of employee unhappiness, and which we should have been more alert to over the years.

Over the last couple of years, the industry has done much work in this area working to eliminate illegitimate attachment orders and reducing high interest rates and other burdens employees have suffered.

The Chamber estimates that there has been a 60% reduction in emolument attachment orders due to the audit processes to determine whether they are valid or invalid. The savings in respect of these orders vary between companies. Many have saved in the millions and others in the hundreds of thousands, depending on the size of the operation and the extent of the problem. At Anglo American Platinum alone, the programme has managed to save employees just over R32.2 million on debt instalments per year. On average employees for whom a debt relief solution has been devised are now paying 57% less every month towards servicing their debts.

So as we can see, there is a great deal management can do – and has been doing – to address productivity challenges. We would be the first to acknowledge that there is more to be done.

Some companies, mine included, have raised the point that the so-called 11-shift fortnight (in place for many decades where mines operate 5- and 6-days weeks alternatively) is rather antiquated. **Productivity would be enhanced if it were left to the mines themselves to determine working patterns.**

Another theme, particularly in deep level mining, relates to **modernisation of mining**. Despite incremental technological progress within the framework of existing mining methods and systems, future prospects in gold and platinum will very much be determined by progress in this sphere, where new ways are found to extract the orebody using more efficient and safer methods.

A great deal of work is being done in this area. Recalling the heyday of the Chamber of Mines Research Organisation, which was shut more than 20 years ago, the industry is collaborating, not only between themselves but also with government, labour, top research institutions and original equipment manufacturers – in developing the industry of the future. T**his is critical to improving the productivity and cost competitiveness of the mining sector** and will significantly increase the amount of the mineral resource endowment that is economically viable to mine. This would enable the sector to recover a much larger portion of the ore body in the national interest and find a comprehensive and inclusive solution that work for all stakeholders whilst meeting high safety standards.

Work will be carried out by a more highly skilled, better paid workforce and, will hopefully, also lead to the establishment of new production facilities in South Africa to provide the tools of modernised mining.

To turn to another issue critical for the mining industry, for South and Southern Africa and for employee morale, an increasing amount of thinking is going into the issue of **the migrant labour system.** While increasing proportions of mines' workforces are resident near to their workplaces and employees and their families take advantage of the rights of freedom of movement they didn't enjoy until the advent of democracy, many still choose to spend their working time at the mine while their families stay at home in distant locations in the labour sending areas.

To further reduce the impacts of the migrant labour system that the industry has employed for the past 130 years, **the industry needs to look at shift patterns and transport for miners whose families still reside elsewhere, and to better housing around the mines**, mostly rental housing which research tells us is the preference of most employees. A workforce not strained by difficult familial social conditions will be a more productive workforce.

All I've spoken about until now deals with workplace productivity issues. But there are other areas impacting on productivity too.

The picture painted here reflects many of the productivity challenges we face. Some of these are not in our hands substantively to change, such as the international market forces that determine commodity prices. The state of **commodity prices** since 2008 is a major contributor to our productivity challenges, and there is little we can do to control or influence these. The South African mining industry suffered an aggregate loss of R37bn in 2015, a figure that includes impairments.

In 2014, while the mining industry made a loss of R10 billion, the financial services sector made a profit (after tax and dividends) of about R180 billion. Manufacturing was R50 billion; the retail sector made about R50 billion and the electricity sector made about R9 billion profit. The agricultural sector made R1 billion, the construction sector, which is notorious for having fairly thin margins made about R1 billion to R2 billion in profit.

This is a strong signal of the productivity challenges we face and we must tackle this challenge collectively on an urgent basis and protect the mining industry from losing its global competitiveness position.

There is a great deal we are doing, and more that we should be doing, some individually as companies, but even more that we need to do collectively, through co-operation between members of the industry and even more through partnership with our employees, their representatives, government and institutions of a dedicated leadership team in the Chamber Office Bearers and Council civil society.

We **have a dedicated leadership team in the Chamber Office Bearers and Council** that are driving positive change to take the industry forward and to enable it to achieve its real economic and transformational potential. I am confident we are starting to make the right progress. Leadership is key – and business is stepping up to the plate.