CHAMBER OF MINES
of South Africa

MINING INDABA 2017

Media briefing by the Chamber of Mines: The gold heist that never was

Comments by Chamber of Mines CEO, Roger Baxter

7 February 2017

- A lot has been said over the years about illicit financial flows out of Africa. Illicit financial flows represent a significant loss to the economies of developing countries, and have wide ranging implications. At the most basic, IFFs mean that less revenues are available to these economies, as these are transferred to other jurisdictions and/or are diverted from productive uses toward consumption.
- Because financial flows recycle through an economy in the form of investment, value added creation, and consumption, the opportunity cost of IFFs is far larger than their direct cost. Moreover, the social and environmental cost of IFFs is significant.
- Governments, regional organisations like the African Union, and multilateral economic and financial organisations like the UN, the World Bank and the OECD, have all developed efforts toward assessing the extent of the challenge and devising solutions.
- Though IFFs also include criminal activities and corruption, a great deal tends to be attributed to business and, in particular, the extractives sector.
- Two cases in point were the 2015 UNECA report from former President Mbeki, and a report from Unctad last July, *Trade Misinvoicing in Primary Commodities in Developing Countries: The cases of Chile, Cote d'Ivoire, Nigeria, SA and Zambia* published in a revised edition in December.
- This is naturally a matter of great concern to us at the Chamber of Mines.
- For those of you that closely follow our media statements and read everything else that we distribute, you will know that we have devoted significant resources to establishing how pervasive it in fact is, at least in our own backyard (we obviously cannot vouch for elsewhere).
- We have commissioned two sets of research from reputable and independent institutions:
  - First, we recently asked Deloitte to conduct research into SA's transfer pricing regime and how it measures up to international standards.
  - Second, we have asked Eunomix to analyse the Unctad report which found hundreds of millions of dollars of mis-invoicing allegedly perpetrated by the South African mining industry. We

asked Eunomix first to examine its findings on gold. We issued that report to you on 14 December 2016 (though some of you may already have been on beaches somewhere). There is now a significant elaboration on that one that I will tell you about shortly. And there is more yet to come.

- First, a reminder of the earlier Deloitte report which, through detailed analysis, concluded that SA has adopted the best international standards of the time since the mid-1990s. to quote:
  - "SA now has in place robust and comprehensive transfer pricing rules in accordance with global best practice," the report says.
  - "The administration of the legislation requires a high level of disclosure by multinational enterprises operating in SA in respect of their transfer pricing practices."
- Should you want a copy of this report we'll arrange to get it to you.
- The WEF 2016-17 Global Competitiveness Report on South Africa noted that the country had improved its competitiveness ranking to 47 out of 138 countries. 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.
- The Unctad report, you will recall, claimed that "Between 2000 and 2014, underinvoicing of gold exports from SA amounted to $78.2bn, or 67% of total gold exports."
- "The country's official statistics report very little gold exports, while substantial amounts appear in its leading trading partners' records," it explained.
- Not only that. It also stated that "this does not appear to be a simple matter of undervaluation of the quantities of gold exported, but rather a case of pure smuggling of gold out of the country."
- But as we discovered, there is another explanation.
- The Eunomix probe found a series of serious and basic methodological shortcomings and errors in the Unctad report.
- Most fundamentally, Unctad chose to use as its trade data source the UN Comtrade database, which is built using different countries' inputs. (The UNECA report, as we understand it, used a similar methodology).

- The revised 23 December Unctad report backtracks a little from its initial position. But it doesn't alter its basic hypothesis. Which it should have done, given that we supplied them with all the information refuting their position:
    - First in a lengthy telephone discussion in late October;
    - And we supplied to them the first Eunomix report on the same day we gave it to you, nine days before their revised version was published.
- The problem with their methodology is that the countries use different criteria for the numbers they submit — and especially regarding gold data due to its monetary uses.
- Unfortunately, the Unctad did not ask themselves questions about inconsistencies in data received in respect of exports and imports. They simply assumed that the inconsistencies are due to deliberate and fraudulent misinvoicing activities by the companies. Interestingly, it also assumed that the discrepancies arose because of issues at the African source rather than in the developed northern hemisphere world.
- In contrast, Eunomix demonstrates that publicly available data from Statistics SA, SARS and the Chamber of Mines show very similar trends, reciprocally supporting each other and refuting the Unctad findings. They hadn't bothered to investigate those alternative and credible sources.
- However, for the period 2000 to 2011, RSA gold exports were classified as "monetary gold exports" and this is NOT included in the COMTRADE data.
- If this "monetary" is added back to the COMTRADE data the SARS data shows that gold exports for the period 2000 to 2014 were $55 billion more than the COMTRADE data.
- The Unctad report also does not pick up another classification anomaly, where RSA does not report to the UN Special Trade system non-RSA origin gold, which is refined in South Africa and exported.
- The SARS calculation is that South African gold exports plus non-RSA origin gold refine in South Africa and exported is $7.9 billion more than the UNCTAD report for the 2000 to 2014 period.
- You will recall that the first Eunomix report does find a "missing" R19bn in gold exports. So we requested further investigation on that. We can offer you some additional clarity here. Copies of the supplementary report that examines this issue are available to you here or on our website.

- Indications are that much of this is attributable to gold sent from other countries, Ghana and Mali being the largest sources, to the Rand Refinery for processing, and not clearly accounted for.
- It confirms what SARS has also noted - that discrepancies between gold export and import data might be because South Africa's trading partners sometimes record gold processed at the Rand Refinery and transferred back as being imports of gold from South Africa. South Africa does not record such gold as exports, as the origin and ownership of the gold lies outside South Africa. These days about half of the gold refined by Rand Refinery originates from outside South Africa.
- Hence, most of the USD 19.5 billion discrepancy can almost certainly be attributed to errors in the reported gold imports of South Africa's trading partners, not in South Africa's reported gold exports.
- If this is insufficient, a blog from Maya Forstater of the Centre for Global Development, after analysing the Unctad report, notes that it "lays out more clearly than any previous study the nature of the data and assumptions used to generate massive misinvoicing estimates. It is clear that simpler explanations are available, involving basic measurement problems and methodological choices. This can't be ignored any more."
- It should be clear that the assumption cannot simply be made that any apparently "missing" gold or other minerals is a consequence of misinvoicing.
- Eunomix will now start looking at the other South African discrepancies alleged reports are finalised we will naturally make them publicly available.
- Where IFFs are indeed impoverishing our continent, we offer our assistance to authorities and our peers in other countries to work towards putting in place systems that will eliminate or at least mitigate these challenges. And we would be surprised were our financial authorities, who have put in place such high quality controls, would not be willing to do the same.
- We believe it is time that all of us should focus our energies on fighting against the real culprits, rather than creating phantom problems that distract us from those real issues.