

## Economics of mining continued



IMAGE

A gold pour at AngloGold Ashanti, a leading gold producer operating in 10 countries

## CASE STUDY

One of the most effective pieces of economics work carried out by the Chamber in 2016 was the commissioning of a series of studies into allegations against the mining industry of trade mis-invoicing.

In July 2016 the United Nations Conference on Trade and Development (Unctad) published a report titled "Trade Mis-invoicing in Primary Commodities in Developing Countries: The cases of Chile, Côte d'Ivoire, Nigeria, South Africa and Zambia". The report asserted, among other things, that South African miners of silver, platinum group metals, gold and iron ore had systematically and fraudulently indulged in mis-invoicing in order to evade taxes and other legal obligations. The Chamber commissioned the Eunomix group to investigate the allegations in the report.

The Chamber asked Eunomix initially to focus on gold, where allegations were the most severe. The report stated that "between 2000 and 2014, under-invoicing of gold exports from South Africa amounted to \$78.2 billion, or 67% of total gold exports".

The first Eunomix report, published in mid-December 2016, showed serious methodological errors committed by the Unctad researchers. Unctad used only the United Nations Commodity Trade Statistics (UN Comtrade) database and simplistically assumed that discrepancies in import and export data supplied by countries indicated mis-invoicing.

The initial Eunomix report showed that SA's gold exports were incorrectly reflected there. However, they are correctly reflected elsewhere, including in South African Reserve Bank, Stats SA and Chamber of Mines data. Using those figures significantly reduced the discrepancy, leaving \$19.5 billion unaccounted for.

The second Eunomix report, published in February 2017, suggests that the "missing" \$19.5 billion is explained by gold sent by other countries for refining to the Rand Refinery in Germiston. This explanation is also supported by SARS. Foreign gold now accounts for about 50% of the gold processed at that institution. Ghana and Mali are among the main customers. The discrepancies arise because some of those countries record the gold returned to them as imports. South Africa does not record such gold as exports, as the origin and ownership of the gold lies outside South Africa.

The Chamber used the independent Eunomix reports as the basis for a series of media engagements that, we believe, effectively refuted the original allegations and mitigated much of the reputational damage caused by the Unctad report.

The Chamber also engaged with the relevant Unctad researchers in an effort to persuade them to correct their inaccuracies. A follow-up Unctad report made certain concessions, though not all that we believe justified. However, we trust that in future they will ensure greater rigour in their reports on these and other sensitive topics.

The challenge is that based on a report that is statistically flawed, Unctad made incorrect allegations against South Africa's mining industry and by implication the South African government.

