The global mining industry: opportunities still exist

For the mineral sector to be knowledge based and vibrant, it is important to learn from the experiences and best practices of other regions, particularly from China, India and Brazil. They present an opportunity for Africa in terms of knowledge transfer and exploiting the current global competition in the demand for mineral resources.

—The Africa Mining Vision

If African nations are intent on using the opportunities afforded by large-scale mining as a starting point for more widely based economic and social development, they have to be sure that extraction of mineral resources forms a secure base on which to build. Can mining sustain African development given that it might take decades to achieve? Fluctuations in foreign direct investment since independence may give nations pause for thought (see Bulletin #1). Indeed the recent sudden price-dips associated with world financial crises might suggest that demand is insufficiently robust to drive development.

But the ISG Report believes there are grounds for optimism because of evidence that demand for mineral commodities is in the **early stages of a super-cycle**. A super-cycle is a prolonged trend rise in real commodity prices driven by the urbanisation and industrialisation of a major economy.

The Report argues that the current super-cycle began around 2003 and is mainly the result of **huge growth in China's industrial appetite** (as well as growth in Brazil and India and relatively sustained consumption in the West).

Industrialisation and urbanisation may take 10 – 20 years and it this that sustains demand. The trend rise in prices is therefore the result of continuing demand rather than short-term supply constraints. And although there will be business cycles within the super-cycle, nevertheless over a decade or more, **prices will continue rising**. Indeed the super-cycle only comes to an end as the industrialising economies move from material-intensive manufacturing and infrastructure development to a service orientation.

The super-cycle is thus a long-term phenomenon and gives Africa the prolonged window of opportunity it needs to develop.

The super-cycle has put the international mining companies in a strong position. In the last decade, demand for mineral commodities has surged for many metals. In particular there has been huge global demand for aluminium, copper, zinc, lead, nickel and tin. Metal prices, which had boomed in 2003-4, even bounced back quickly after the 2008 crisis. So much so that by 2010 aggregate net profit for the mining industry had increased year on year by 156 per cent to $110 billion, total assets approached $1 trillion and overall revenue grew to $400 billion, up 32 per cent.

The mining TNCs thus have strong balance sheets and even though indicators of sustained demand—such as investment—dipped in 2009 following the 2008 financial crisis, exploration and development expenditure both bounced back. This suggests that the TNCs also sense that commodities are in a super-cycle and so are continuing to look to expand their operations.

According to the ISG Report, this makes it a particularly auspicious time for African nations to think strategically about their mineral regimes. Governments can extract development benefits from minerals, as long as they take advantage of the various benefits to exporters of the sustained upward trend in prices.

Firstly, in a super-cycle, sustained rises in prices offers African mineral economies the opportunity to establish **long-term tax regimes**. Long-term tax regimes mean that private-public partnership planning for development is possible. For companies, the circumstances offer increased profitability, lower investment risks and greater access to capital. For governments, the conditions offer the opportunity to capitalize on their natural resource endowments. There is a unique opportunity to formulate cooperative solutions.

Secondly, western governments have recently revived their interest in **securing supply of strategic and critical minerals**. Although stockpiling is no longer fashionable, the EU, for instance, is looking towards its former colonies to guarantee security of supply (e.g. The Raw Materials Initiative). Concerns about security of supply demonstrate that there is an expectation that international demand for minerals will continue to be strong.

Thirdly the super-cycle means that Africa can look beyond the traditional companies to help exploit mineral resources. The established European mining TNCs have now been joined by newer companies from China, Brazil and India, who are mainly interested in supplying their domestic markets. Africa now has more choice over whom to partner with.

In fact, Africa and Siberia are the two largest unexplored frontiers for mineral resources, so in a super-cycle interest in Africa is bound to persist.

All these factors put **African nations in a stronger position** when negotiating the terms under which large-scale mining companies operate in their countries. But to take full advantage means adopting carefully formulated strategies that uses the increased interest in African natural resources as a lever for development.

But it is clear that such strategies are not yet in place. For example the ISG Report shows that the 2010 super profits made by mining companies have not accrued to African governments whereas their Latin American cousins, and Australia, did much better. Profit sharing remains a major policy challenge for Africa.

In fact, Africa's governments could learn some useful lessons from Latin America. The continents share much the same experience; both restructured their mining regimes following the World Bank guidelines of the 80's. But since then, Latin America has moved ahead. The role of state institutions has been strengthened, and relations between mining activity and national development priorities have deepened (see box).

So although Africa has so far failed to benefit much from the commodity-price boom, opportunities provided by a super-cycle are still there. Geopolitical competition for the continent's mineral resources—driven by concerns of long-term raw material security—are at the minimum, boosting the opportunities for governments of African mineral countries to negotiate more favourable licensing and tax regimes. More boldly, they could reconsider issues of equity participation in mining ventures or new state entities—if these operate commercially and in competition with private firms.

In a super-cycle, global mining trends mean that governments have **the opportunity to use their stronger revenue flows to catalyse wider economic development**. But they need to be alive to the implications for Africa. African governments need to consider the following:

- Africa has some of the world's largest mineral reserves and is one of the few largely unexplored regions left. What are the unique opportunities that arise from the current confluence of increasing demand, rising prices and improving liquidity for mineral resource projects?

- Africa is being courted by suitors all looking for reliability and security of supply of mineral commodities. All have a clear and focused strategy on what they want from Africa, but Africa has to develop a coherent strategy in reply. How can Africa leverage the heightened competition for its natural resources to extract development benefits beyond tax revenue and dividend flows?

- Large emerging countries such as Brazil, China and India are expanding in Africa's natural resource sector. These countries have recent experience in overseeing social and economic development in a developing-country context. This provides an opportunity for Africa to learn from their knowledge and to benefit from their experience.

- The pattern of mining reforms and investment in Latin America, particularly after the World Bank–led reforms of the 1980s bears comparison with African experience. Latin America is showing a new move towards strengthening the role of state institutions, focusing on national priorities and economic development objectives. It is also increasingly aware of sustainability in development, particularly environmental and social issues. There are lessons for Africa here.

Lessons from Latin America

Latin American countries embraced the challenge of sustainable development, as acknowledged in the 1994 Summit of the Americas, and as reinforced in the action plan approved in the 1996 Declaration of Santa Cruz de la Sierra. These documents recognize the task of creating an environmentally responsible and socially sensitive minerals and metals industry, bearing in mind the key role of mining in the development of the region. They also highlight the need for policymakers to incorporate sustainable development concepts when designing public policies, including legislation, and for governments to strengthen national enforcement of international and national laws and regulations.

Regional mining initiatives, such as the Mines Ministers of the Americas Annual Conference, echo those concerns. In just a year, the aim shifted significantly. The overall aim in the 1996 Declaration of Santiago was to attract investment but by the second conference held in Arequipa in 1997, the aim was to promote sustainable development in Latin America.

Similarly, the 2000 Declaration of Vancouver contains a number of recommendations for the implementation of sustainable development. These include: supporting and strengthening community participation in the assessment of opportunities and challenges in mining projects; ensuring the full use of legal mechanisms for public participation; and developing a formal plan for closure, from the outset of each project in order to enable mining to contribute to sustainable development.

Although these initiatives are not binding, they reflect the view that the region embraces the challenge of sustainable development in the mining sector. Actual implementation is, however, somewhat patchy and mainly focused on environmental aspects.

In 2009, the UN Economic Commission for Latin America called for countries to identify national priorities and to identify and attract the kind of FDI that contributes to development goals.