<u>Yes, Resource Nationalism can be the high road to growth and prosperity</u>

By Nick Holland, Chief Executive Officer, Gold Fields Limited

At a time when the mining industry globally is besieged by falling commodity prices, soaring input costs and investor apathy, *resource nationalism* strikes fear into the hearts of many mining executives and investors.

At Gold Fields we have a different view. We are strongly in favour of a more equitable distribution of the benefits of the mining economy, provided that we – governments and the mining industry – are aligned on which economic pie it is that we are sharing. Is it the ever-shrinking mining earnings pie that has become the norm in most countries today, or is it the growing mining economy pie so elusive to most countries?

We hope that our views will initiate a healthy debate about the future of the mining economy, how to grow it, and how to share the benefits in a more appropriate way, cognisant of the challenges we are currently facing.

A debate of this sensitivity requires well defined parameters. We view resource nationalism as '*government actions to extract the maximum developmental impact and value from a country's natural resources for its people'.* We believe that this is the right, if not the duty, of every government.

In most developing countries with a natural resource endowment, including South Africa, we are faced with a legacy of poverty and inequality to which the mining industry has, without doubt, contributed. To address these challenges, and to see these countries on a more sustainable growth path, we need to maximise the socio-economic benefits from the extraction of natural resources without shrinking the mining pie.

Unfortunately, however, there is often a disconnect between governments and mining companies on how to achieve this. Most miners instinctively perceive resource nationalism as one of their top risks. These perceptions have, especially in recent years, been fuelled by governments all over the world, which operate from a strong position: ore bodies are fixed and mining companies cannot simply pack-up and move to a lower-cost destination. They thus make an easy target as governments, trying to close their fiscal shortfalls, increase the tax burden and other fiscal imposts on mining enterprises. This has had the effect of growing governments' share of the mining pie at the expense of other stakeholders, especially workers and, crucially, the providers of capital. Combined with lower commodity prices and increasing input costs, it has led many investors to abandon the mining industry in favour of less risky sectors.

Raising the fiscal burden on the mining industry may generate some revenue for governments in the short-term, but in the longer-term it accelerates the decline of the sector. Mining becomes less profitable - marginal mines are tipped over the edge and closed while many new projects fail to attract the required capital and are abandoned. The industry cannot sustain itself and its developmental impact diminishes and jobs are inevitably lost.

The mining pie is shrinking and we find ourselves in a lose-lose situation.

The mining industry has undoubtedly contributed to this dire situation. For decades we have disguised our true costs in order to look better to providers of capital by focussing solely on *cash costs*, rather than reporting all of the costs that go into mining. This, erroneously, created the impression that, even at current depressed prices, the industry is making healthy profits when it is, in fact, marginal at best. The recent introduction of the new *All-in sustaining cost* and *All-in cost* reporting metrics by the World Gold Council is aimed at correcting this misconception in the gold sector.

At Gold Fields we believe that, for far too long, stakeholders have squabbled about how to divvy-up a shrinking pie rather than debating how to grow the pie by liberating the developmental and wealth creating potential of the mining economy.

This potential is enormous!

Fourty countries around the world are classified as "mining rich". These include the BRICS countries (Brazil, Russia, India, China and South Africa), where the mining economy accounted for about 2% of their combined GDP in 2010, the equivalent of US$200-billion. It also contributed a combined 9%, or US$170-billion, to the GDP of the top seven most resource rich countries (Ghana, Zambia, Australia, Papua New Guinea, Peru, Chile, and Ukraine). Unlike most other sectors, mining has a significant multiplier effect on the economy and our studies show that it varies between 2 – 3 times in most developing countries.

Taking into account the multiplier impact, a mere 1% uptick in mining GDP has the potential to generate about US$9-billion a year in economic value for the combined 12 nations of the BRICS and top seven resource-rich countries. Compounded at 1% over five years, the economic value-add to these countries could therefore be about US$45-billion.

Similarly, the number of additional jobs and livelihoods linked to one job in the mining sector is significant. In Ghana one mining position supports an estimated 28 other jobs and livelihoods in the country and in Peru about 19. In South Africa, according to the Chamber of Mines, mining supports about 1.4 million direct, indirect and induced jobs, and each of these jobs supports on average around nine dependents.

Despite all its perceived short-comings, there can be no doubt that mining, executed responsibly, is a significant force for sustainable growth. Beyond the multiplier effects on employment, livelihoods and the national economy, it should not be underestimated that whole communities are directly and often exclusively dependent on the sustainability and growth of the mining sector.

However, all of this is academic if the sector fails to attract the capital that is required to realise this growth and so to liberate the developmental and wealth creating potential of the mining economy.

Currently, the providers of capital are frustrated! On the one hand governments are marginalising them by reducing their share of the shrinking mining pie through increased taxes and other imposts, while the industry, on the other hand, has very little to show for the capital they have invested over the years. Many of these investors have recently deserted the industry, depriving it of new capital - leaving existing mines mothballed and potentially viable ore bodies undeveloped.

Growth in the mining industry is stagnant - the pie is shrinking!

If we want the capital providers to resume investment, and the pie to grow again, we need to take a fresh approach. A good place to start would be to align the interests of all stakeholders in a way that would again make it attractive for capital providers to invest in our sector.

Some of the basic requirements are:

- Collaborative partnership between government and miners, who are better able to operate and develop ore bodies and who are good social partners;
- Competitive tax and royalty systems that provide investors with acceptable risk-weighted returns and through which governments can participate in the upside;
- Ensuring that the full costs and benefits of mining (social, environmental and economic) are taken into account when evaluating the viability of projects;
- A stable legislative and regulatory environment to reduce risk; and
- A fair and reasonable application of the use-it-or-lose-it principle, so ensuring that potentially productive ore bodies are not lying idle in corporate hands.

We have seen the successful and practical implementation of this model in many countries. Chile, Peru and Botswana are recent examples.

In South Africa the mining industry is clearly at a crossroads. Our choices are, to borrow a phrase from Clem Sunter, between the low road of squabbling for a share of an ever-shrinking mining pie, which is the reality today, or the high road of a long-term collaborative partnership to grow the pie.

The high road may not be the easiest option, but as I have hopefully illustrated, it is the only option that will liberate the developmental and wealth creating potential of the mining economy.

If we continue on our present path we will remain firmly rooted to the low road. However, if we are serious about following the high road, all stakeholders, led by governments and mining companies, the unions and communities, need to create a new collaborative partnership committed to growing the mining pie.