Box 1: The impact of industrial action in the platinum-mining sector on the South African economy

According to industry sources, in 2013 the South African Platinum Group Metals (PGM) mining sector accounted for 53,4 per cent of global platinum supplies, 26,4 per cent of palladium supplies and 58,7 per cent of rhodium supplies. In this box 'platinum mining' is used to refer to the PGM mining sector. In the fourth quarter of 2013 employment in the platinum-mining sector was at around 191 000 workers and comprised 38 per cent of total employment in the mining sector. In 2013 platinum exports amounted to R81,3 billion – equal to 9,5 per cent of total merchandise exports and 2,4 per cent of gross domestic product.

Disconcertingly, South Africa's contribution to the global supply of the three main PGMs declined from 51,0 per cent in 2003 to 39,8 per cent in 2013, following the emergence of cost-effective producers in other regions of the world such as North America, Russia and Zimbabwe. The decline in South Africa's contribution to world PGM supply in recent years can largely be attributed to the creation of capacity elsewhere in the world, rising domestic production cost and production stoppages following industrial action within a highly unionised and acrimonious labour-market environment. Union representation at the three largest platinum producers stood at around 90 per cent in January 2014, with the Association of Mineworkers and Construction Union (AMCU) representing 66 per cent of the workers.

Following the tragic events in August 2012 at Marikana, when industrial strife culminated in loss of life, a labour-relations framework was brokered by government in 2013 to prevent further disruptions to the mining sector. AMCU refrained from being a signatory to this agreement and proceeded with a protected strike by around 70 000 of its members from 23 January 2014 at the world's top three platinum producers, namely Anglo American Platinum, Impala Platinum and Lonmin, in support of its demand for a sharply higher basic wage of R12 500 per month.

Against these demands by AMCU, employers offered more gradual improvements in remuneration packages over the next three years. These increases were deemed unacceptable by the union as it did not address the immediate pressing needs of its members, and consequently industrial action continued. The strike evolved into one of the longest and most costly occurrences of industrial action in the history of South Africa.

Industry sources have put the direct loss to striking employees in terms of salaries and wages foregone since the commencement of industrial action up to 5 June 2014 at R9,4 billion and revenue lost to the companies involved at R21,1 billion. Furthermore, mining companies continue to incur costs of around R68 million per day to keep shafts accessible for future mining activity, suppliers forfeit around R17 million in sales daily, and capital investment of about R30 million per day does not materialise. The loss in income has not only been felt in the communities along the platinum belt northwest of Johannesburg, but has also had ripple effects on the economies of the Eastern Cape and neighbouring countries like Lesotho and Mozambique where many of these workers hail from, resulting in hardship for all involved.

The potential benefits to the South African economy to be had from increased PGM exports within an improving world economy have been negated by the discontinuation of production activity as a result of the platinum strike. In fact, the rand value of platinum exports in March 2014 declined by as much as 31 per cent compared with the average monthly export values of platinum in 2013. Under the assumption that the average monthly platinum export volumes during 2013 persisted during the first quarter of 2014, the rand value of platinum exports would have been higher by about R3,6 billion in that quarter, or by R14,4 billion on an annualised basis. Moreover, the physical volume of total platinum-mining production in the first quarter of 2014 declined by as much as 22,4 per cent when compared with the average level in 2013.

Staff calculations show that the reduction in PGM production in the first quarter of 2014 equates with a decrease of 0,3 per cent in real gross domestic product, or 1,3 per cent at an annualised rate. However, indirect effects such as the decrease in household consumption expenditure due to no-work-no-pay contractions in salaries and wages are also important. Estimates based on simulation exercises done with the South African Reserve Bank's core econometric model indicate that annualised real economic growth in the first quarter of 2014 would have been higher by 2,2 percentage points (1,3 per cent due to direct effects and 0,9 per cent due to indirect effects) if industrial action in the platinum-mining sector had not occurred during that period. Annualised growth in real gross domestic product in the first quarter of 2014 could therefore have been closer to 1,6 per cent had industrial action not taken place, in contrast to the contraction of 0,6 per cent which materialised. The production losses in the platinum-mining sector have continued in the second quarter of 2014 as industrial action dragged on.

While quantification is difficult, the platinum strike has also contributed to the depreciation in the exchange value of the rand in the final week of January 2014, and continued to weigh on the rand in the subsequent period to early June 2014. This could intensify when platinum-mining inventory levels are increasingly depleted. In the wake of the strike the international price of platinum has, on balance, increased from US$1 415 per fine ounce in mid-January 2014 to US$1 447 in early June 2014. The consequences of this impasse in the mining sector extend beyond mere measurables, also tarnishing the image of the country as a preferred investment destination.

Estimated impact of industrial action on selected variables

	First quarter 2014	
	Actual	Normal
Growth in real gross domestic product, per cent*	-0,6	1,6
Balance on current account, per cent of gross domestic product**	-4,5	-4,2

* Seasonally adjusted and annualised

** The impact on platinum exports was softened by running down inventories