GOLD FIELDS RESTRUCTURING

NICK HOLLAND: Retrenchments at South Deep are a last-gasp measure

In authorising the announcement on Tuesday of a large-scale restructuring of its South Deep operation, the Gold Fields board and management are painfully aware that it will not be welcomed by most of SA — the government, including the regulator; trade unions; communities around the operation; and the public.

It has been clear from reactions to similar announcements by other mining companies in the past that there is a general public perception that companies like ours make these decisions on a whim and with little or no regard for the social dislocations they cause.

We are fully aware of these consequences. We know that a cutback in operations would exacerbate existing levels of poverty, inequality and unemployment in the communities around South Deep and generally lead to a reduction of economic activity in the area. These consequences spread into the broader economy too, of course, and affect people's lives, which means the decision to release the announcement on Tuesday was not taken lightly.

South Deep was acquired mostly from Canadian gold miner Barrick in 2006. It brought back into SA hands the country's largest remaining and most sustainable gold reserve.

South Deep is a critical part of the Gold Fields stable, representing about 70% of its reserve base despite being just one operation of seven owned by the company in four countries around the world.

The kind of steps that were announced on Tuesday have been prompted by continued annual losses of about R1bn since Gold Fields acquired the operation. In the past 12 years, shareholders have received no return at all on their initial investment of R22bn, having seen only an outflow of funds.

South Deep, like the rest of the industry and other businesses, has been affected by the same factors as other mining and specifically gold mining companies locally and internationally, including anaemic commodity prices, rising input costs and increasing demands by interested parties.

South Deep has also been affected by local factors peculiar to SA and its mining industry. These include rising input costs in the context of a stagnant gold price — most notably a trebling of the electricity price in the past decade, and labour costs rising at a rate well above the inflation rate. The uncertainty around future regulations has made long-term planning more problematic.

These two sets of factors are among those that have created the situation in which, as the Minerals Council SA explained recently, about 75% of the country's gold and platinum mines are loss-making under current conditions.

In addition to all these already very trying factors, South Deep had been battling with issues related to its unique circumstances.

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In contrast to the other SA gold mines, South Deep was established by Gold Fields as a new-generation mine, a highly mechanised, bulk, deep-level operation. It was staffed and otherwise resourced to achieve far higher production levels than have been achieved.

The reasons for the failure to meet targets are varied:

• A unique and complex mining method — long-hole stoping mining — at 3,000m below surface with attendant challenging geotechnical and ground conditions.

• The difficulty in adapting to the mechanised mining methods and practices for which the mine was designed.

• It has been a greater challenge than was expected for employees historically attuned to traditional deep-level mining methods to adapt to this new form of mining, notwithstanding major and repeated training programmes.

• Poor equipment availability and productivity.

Every effort has been made to avoid these significant measures, including retrenching 25% of managerial employees late in 2017; approving voluntary retrenchments for employees in the lower A, B, and C bands over the past few years; bringing in Australian and Canadian experts to assist with new mining methodology and training of current operators; and implementing various other restructuring initiatives.

In relation to our labour force in particular we have spared no resources in trying to adjust them to the mechanised mining methodology. We spend almost 10% of our payroll on training and skills development. We have also invested significantly in affected communities — more than R200m over the last eight years. These commitments will not change due to the restructuring. However, the situation has reached a point where the survival of South Deep is now at stake.

We realise it is no consolation to those who will lose jobs and other opportunities to the cutbacks. However, the choice is between this and serious risk to the future of South Deep and its many stakeholders.

• Holland is Gold Fields CEO.