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State-owned energy company Eskom releases its annual results for the 2017/2018 financial year, posting a R2.6 billion (\$192m) loss and irregular spending at just under R20 billion (\$1.48 billion). Mines minister Gwede Mantashe extends the period for public comment on the mining charter to the end of August to allow for more engagement with mining companies and civil society. Trade and industry minister Rob Davies confirms that South Africa has signed the African Continental Free Trade Area (AfCFTA) agreement with the African Union (AU).

Eskom releases poor financial results but promises no retrenchments

State-owned energy company **Eskom** released its annual results on 23 July for the 2017/2018 financial year, posting a R2.6 billion (\$192m) loss and irregular spending at just under R20 billion (\$1.48 billion).¹ The amount of irregular spending jumped from R3 billion (\$222m) in 2017, reportedly due to the scrutiny the new board has placed on previous contracts, and 60% of the irregular spending is due to administrative non-compliance.² Eskom chair **Jabu Mabuza** and chief executive **Phakamani Hadebe** announced the results and declared that Eskom will reveal a plan for a “total revision of the entire business model” by September.³ According to a **Cape Town**-based academic,

“A new business model is needed as Eskom has not adapted to the times. Its major revenue stream – selling electricity – has been affected by new technology where consumers can produce their own electricity and Eskom’s ballooning costs will be hard to cut due to the powerful unions, which will not stand for employment or wage cuts.”⁴

Further strike action may occur in the near future as unions are upset over Eskom’s refusal to pay bonuses due to the financial issues.⁵ Eskom has been negotiating with unions and striking workers, offering a 7% wage increase with housing allowance, or a 7.5% increase without a housing allowance, though the decision to not pay bonuses may hinder the negotiations.⁶ Eskom spokesperson **Khulu Phasiwe** stated that retrenchments are not part of the negotiations with the unions, although a **World Bank** report from August 2016 suggests that Eskom needs only 14,000 employees to operate efficiently, rather than the current 47,000 employees.⁷ However, Eskom responded in April that the report’s estimates are based upon an error in the size of the network, and that the employment numbers are correct.⁸

Due to Eskom’s financial problems, the price of electricity is likely to rise in the coming years. According to energy analyst, **Ted Blom**:

¹ Mail & Guardian, 23 Jul 2018.

² Mail & Guardian, 23 Jul 2018.

³ Business Day, 24 Jul 2018.

⁴ Source, academic, Cape Town

⁵ Business Day, 24 Jul 2018.

⁶ Business Day, 24 Jul 2018.

⁷ iAfrica, 23 Jul 2018.

⁸ Politics Web, 23 Apr 2018.

“By 2019/20 financial year expect a 30% electricity hike, followed by 50% the following year and 30% the next year. This is a reality. Eskom over the past 10 years has come out with a high tariff-raising strategy which has enabled them to fleece the country’s economy of some R1.3-trillion.”⁹

The electricity tariff increase will hit the poor the hardest and further place Eskom in a political conundrum ahead of the 2019 elections. President **Cyril Ramaphosa** (2018-present) will have two choices ahead of the elections: freeze electricity tariff increases, which will placate the poorer electorate but will mean further financial issues for Eskom, or increase the tariffs as needed even though it may cost the ruling **African National Congress** in the elections. It appears that since taking office Ramaphosa has tried to sort out the state-owned energy company to avoid having to make this choice, but these financial results show that Eskom is in worse trouble than originally thought. Without quick changes to Eskom’s management and business structure, Ramaphosa will be facing either a bankrupt energy entity that will hamper **South Africa’s** business environment, or an angry electorate that may decide to vote for a different party in 2019.

Mantashe extends public comment period on mining charter amid deepening criticism

Mines minister **Gwede Mantashe** extended the period for public comment on the mining charter on 8 July to the end of August to allow for more engagement with mining companies and civil society.¹⁰ Mantashe released a draft of the charter in June to a wide-range of criticism (see *ARC Briefing South Africa June 2018*), which pushed the department to allow more time for consultation before it is submitted to cabinet for adoption. Mantashe’s decision to extend the period for public comment came at the end of a mining summit held in **Boksburg (Gauteng Province)** on 7-8 July where delegates voiced concerns over the draft. The summit reportedly started on a tense note, as police removed a delegate for disrupting proceedings.¹¹ Mantashe warned others against trying something similar.

The major impasse in the passage of the mining charter will be the deep division between communities and mining companies. Mining-affected communities, represented by the **Mining Affected Communities United in Action (Macua)**, **Women from the Mining Affected Communities United in Action (Wamua)** and the **Mining and Environmental Justice Community Network of South Africa (Mejcon-SA)**, rejected the draft charter in early July because of its lack of consultation and other substantive issues.¹² The groups are particularly concerned that the charter does not outline how the community trusts will be managed and governed.¹³ However, mining companies strongly oppose the 10% free carry of shares which would be split between communities and employees, arguing that this will force companies to go after projects with very high returns while ignoring more marginal operations.¹⁴ The result would be less mining and lower employment opportunities as companies would be unable to fund mining projects. **AngloGold Ashanti** chair **Sipho Pityana** strongly rejected this part of the new charter:

“If you have gold miners desperately looking for investors and you say ‘By the way, you have also have to contend with this’, I don’t think you are going to have a long queue of suitors. Consensus is not just about protecting the mining industry, but it’s also about protecting the image of the country that we don’t do things in a reckless way.”¹⁵

However, Mantashe was adamant that major changes would not be made, and the consultations are only for small edits.¹⁶ The new mining charter is thus likely to lead to continuing debate, even after consultations have ended. While South Africa’s mining attractiveness is high relative to other **African**

⁹ Times Live, 24 Jul 2018.

¹⁰ Mining NE, 9 Jul 2018.

¹¹ Business Day, 8 Jul 2018.

¹² MiningMX, 5 Jul 2018.

¹³ Mining Technology, 6 Jul 2018.

¹⁴ Business Day, 8 Jul 2018.

¹⁵ Sipho Pityana quoted in Business Day, 20 Jul 2018.

¹⁶ EWN, 9 Jul 2018.

countries,¹⁷ a mining charter that all parties reject will lead to a further decrease of confidence in the sector. This will relay into a loss of investment, jobs and may ultimately lead to a fourth review of South Africa's mining charter in the near future.

South Africa signs the African Continental Free Trade Area agreement

Trade and industry minister **Rob Davies** confirmed on 1 July that South Africa had signed the **African Continental Free Trade Area (AfCFTA)** agreement with the **African Union (AU)**.¹⁸ President Cyril Ramaphosa initially signed the **Kigali** protocol in March indicating South Africa's commitment, but did not sign the actual agreement until the department of trade and industry conducted the necessary due diligence into the agreement.¹⁹ Ramaphosa signed the agreement during the opening of the 31st ordinary session of the assembly of the AU in **Nouakchott (Mauritania)**.²⁰ The agreement will be presented to cabinet before being sent to the national assembly for ratification.²¹ Signatories will also have to submit a tariff schedule to the AU by December.²²

The AfCFTA aims to facilitate a single market for goods and services in Africa. It has been signed by 49 countries, but six of the 22 ratifications are yet to come into effect.²³ South Africa will be one of the largest beneficiaries of the agreement as it is the most industrialised of the African nations. **Nigeria**, reportedly the largest economy in Africa,²⁴ pulled out of the AfCFTA talks in March at the last moment due to economic concerns, though President **Muhammadu Buhari** (2015-present) stated on 11 July that Nigeria will soon sign the agreement.²⁵ **United States**-based ratings agency **Moody's** said that **Kenya** and **Egypt** would also gain from the AfCFTA,

"...thanks to their large manufacturing bases and relatively robust infrastructure, particularly given their access to electricity".²⁶

While the AfCFTA, if implemented efficiently, could include 1.7 billion people with over \$6.7 trillion spending by 2030,²⁷ doubts remain whether leaders have the political will to deliver on this potential. According to a **Johannesburg**-based economist,

"There are obviously some great numbers being thrown around over the free trade area. But the major question is whether the free trade area will help increase the amount of manufacturing in Africa – which is currently around 10% of total GDP on the continent – or whether it will actually hurt many countries that have not established this sector and will be unable to due to cheap imports from South Africa, Nigeria, etc."²⁸

If the AfCFTA becomes a reality, leaders from larger African states will have to be prepared to offer concessions to smaller states, which are likely to suffer economically in the short term once the AfCFTA agreement is implemented. Whether all signatories will be prepared to ride out the eventual economic storm is unclear. Unity amongst African nations will be needed to give time for the AfCFTA to help transform Africa's economy.

¹⁷ Mail & Guardian, 29 Jun 2018.

¹⁸ IOL, 2 Jul 2018.

¹⁹ IOL, 2 Jul 2018.

²⁰ IOL, 3 Jul 2018.

²¹ IOL, 2 Jul 2018.

²² eNCA, 12 Jul 2018.

²³ IOL, 3 Jul 2018.

²⁴ Punch Nigeria, 17 Oct 2017.

²⁵ eNCA, 12 Jul 2018.

²⁶ Business Insider, 21 Mar 2018.

²⁷ The Conversation, 26 Mar 2018.

²⁸ Source, economist, Johannesburg.

Planner

30 Aug 2018: Committee to present report on amending South Africa constitution for expropriation of land without compensation;

31 Aug 2018: Deadline for public comment on new mining charter;

18 - 20 Sep 2018: **South African Reserve Bank (SARB) Monetary Policy Committee (MPC)** meeting;

12 Nov 2018: Proposed date for the start of former President **Jacob Zuma's** trial;

20 - 22 Nov 2018 **South African Reserve Bank (SARB) Monetary Policy Committee (MPC)** meeting;

4-7 Feb 2019: **(Cape Town) African Mining Indaba**

May 2019: Presidential election

Chronology

23 Jul 2018 **Johannesburg (South Africa) IT Web Africa**. **China**-based connectivity services provider **China Unicom** launches in **South Africa**;

23 Jul 2018 **Johannesburg (South Africa) Reuters**. State-owned energy company **Eskom** considers cutting staff and selling assets after posting a \$171m loss;

22 Jul 2018 **Durban (South Africa) Al Jazeera**. Gunmen kill 11 taxi drivers as taxi violence escalates around the country;

18 Jul 2018 **Johannesburg (South Africa) Mining Weekly**. Gold producers offer an annual 5-6% wage hike over three years to miners, but unions demand increases between 15-30%;

17 Jul 2018 **Johannesburg (South Africa) Reuters**. President **Cyril Ramaphosa** wants to tighten mining safety regulations to hold mine operators accountable after a spate of mine deaths in 2018;

16 Jul 2018 **Limpopo (South Africa) Business Day**. A fire at the **Palabora Copper Mine** kills six mine workers;

14 Jul 2018 **Cairo (Egypt) Reuters**. State-owned **Telecom Egypt** signs a memorandum of understanding with **South Africa**-based **Liquid Telecom** to enable Liquid Telecom to complete a terrestrial fibre network from **Cape Town**, South Africa, to Cairo;

13 Jul 2018 **Gauteng (South Africa) Mail & Guardian**. At least four **African National Congress (ANC)** members file lawsuits that seek to challenge the outcome of the 30 June regional conference of **ANC Gauteng** and dissolve the newly-elected regional executive committee;

11 Jul 2018 **Richards Bay (South Africa) Reuters**. A mineral sands operation run by **United Kingdom**-based mining company **Rio Tinto** remains closed after violent community protests killed one security guard;

10 Jul 2018 **Pretoria (South Africa) AP**. Charter plane crash kills one and injures 20;

10 Jul 2018 **Bloemfontein (South Africa) Business Live**. **Supreme Court of Appeal** overturns a **High Court** verdict that placed **National Prosecuting Authority** officials **Nomgcobo Jiba** and **Lawrence Mrwebi** on special leave after dropping charges against former head of crime intelligence **Richard Mdluli**;

9 Jul 2018 **Johannesburg (South Africa) Al Jazeera**. The **Johannesburg Specialised Commercial Crimes Court** charges former President Jacob Zuma's son, **Duduzane Zuma**, with corruption, and releases him on bail;

8 Jul 2018 **Johannesburg (South Africa)** *Reuters*. Mining minister **Gwede Mantashe** extends period of public comment on new mining charter until 31 August;

8 Jul 2018 **Johannesburg (South Africa)** *Reuters*. Son of former President **Jacob Zuma, Duduzane Zuma**, will face charges relating to 2016 corruption charges;

5 Jul 2018 **Johannesburg (South Africa)** *eNCA*. **Ghana's** President, **Nana Akufo-Addo** arrives in South Africa for a state visit with President **Cyril Ramaphosa**;

4 Jul 2018 **Johannesburg (South Africa)** *Times Live*. State attorney **Isaac Chowe** determines that former President **Jacob Zuma's** state capture trial will be state-funded only if he wins the case and he will have to repay the estimated R10m (\$729,000) if he loses;

4 Jul 2018 **Ulundi (South Africa)** *Daily Maverick*. **Zulu** king **Goodwill Zwelithini** and opposition leader **Mangosuthu Buthelezi** defend traditional leadership's right to control land in opposition to the planned expropriation of land without compensation hearings;

4 Jul 2018 **Antananarivo (Madagascar)** *Shares*. **South Africa**-based mining company **Bushveld Minerals** signs a 30-year concession agreement for the **Imaloto** power project with state-owned utility **Jiro sy Rano Malagasy (Jirama)**;

3 Jul 2018 **Johannesburg (South Africa)** *MoneyWeb*. **South Africa**-based mining company **Sibanye Gold Ltd** plans to decrease gold output and increase costs in order to improve security after 21 miners died in operations thus far at its South African mines;

2 Jul 2018 **Nouakchott (Mauritania)** *News24*. President **Cyril Ramaphosa** signs the **African Continental Free Trade Area Agreement**;

2 Jul 2018 **Maputo (Mozambique)** *All Africa*. Energy minister **Max Tonela** suspends a tender by **South Africa**-based oil company **Sasol** because it did not prioritise local companies;

28 Jun 2018 **Johannesburg (South Africa)** *Reuters*. State-owned utility company **Eskom** raises its wage offer to 6.2% to end workers' strikes, which are calling for a 9% increase;

28 Jun 2018 **Johannesburg (South Africa)** *Reuters*. The **United Kingdom's (UK)** competition and markets authority clears **South Africa**-based mining company **Sibanye-Stillwater's** proposed takeover of **UK**-based **Lonmin**;

25 Jun 2018 **Johannesburg (South Africa)** *Reuters*. **South Africa**-based financial services provider **Old Mutual Plc**, plans to list on the **Johannesburg Stock Exchange**;

22 Jun 2018 **Accra (Ghana)** *Mining Weekly*. Parliament ratifies regulatory and fiscal agreements for the redevelopment of **South Africa**-based **AngloGold Ashanti's** **Obuasi** gold mine;

21 Jun 2018 **Temane (Mozambique)** *ESI Africa*. **South Africa**-based power producer **Globeleq** signs a joint agreement with state-owned energy company **Electricidade de Moçambique E.P.** to construct a 400 megawatt gas-fired power project in Temane;

20 Jun 2018 **Lusaka (Zambia)** *Reuters*. Finance minister **Margaret Mwanakatwe** urges **South African** businesses to invest in public projects in Zambia;

20 Jun 2018 **Johannesburg (South Africa)** *eNCA*. The **National Union of Metalworkers of South Africa** and the **National Union of Mineworkers** reject **Eskom's** proposed 4.7% wage increase;