

Canadian investors turn wary on South Africa

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[miningmx.com] -- SOUTH Africa is still the most important destination for Canadian investment in African mining projects but the country is losing its attraction because of growing investor uncertainty over its future.

That's the opinion of Bruce Shapiro – president of the Canada-South Africa Chamber of Business – in a hard-hitting presentation to the Africa Mining Congress 2008 being held in Sandton.

Shapiro lambasted the SA government over the country's crime rate, its reluctance to intervene in Zimbabwe and its incompetence as revealed by the Eskom power crisis.

"Investors do not like uncertainty and South Africa is facing a severe period of political uncertainty which is already stopping money flowing into the country.

"Zimbabwe is the thorn in the foot of the entire sub-Saharan region of Africa. In the view of Canada and the US the policy followed by South Africa of sitting back and doing nothing is nonsense.

"The energy crisis in South Africa should never have happened. They (the government) knew about it but did nothing and the crisis was self-created. The clear message is that the leadership is incompetent.

"Billions of dollars have been lost and a reputation that was high now has to be rebuilt. How could they have let that happen?" Shapiro asked.

He added that, "South Africa has a litany of issues to face with crime being its Achilles heel. This is the most violent country in the world after Colombia.

"Another is the new president's likely attitude to foreign investment. No-one can read that yet. You get two sides to the story as well as everything in between.

"By contrast, Botswana is viewed by Western nations as an island of peace. It has the seventh lowest country risk for global investment. This is your neighbour. Learn something from it."

Shapiro also attacked the Government's attitude to HIV/AIDS as, "lacking foresight and a crime."

Shapiro's views are important because of the role that Canadian mining companies listed on the Toronto Stock Exchange (TSX) are playing in the development of mining projects throughout Africa.

According to Shapiro there are currently 140 TSX-listed mining companies with 1,322 projects in Africa.

He said Canadian firms planned at this stage to invest some \$15bn over the next four to five years developing operations in 15 African countries. He said that, so far, 26% of Canadian mining investment in Africa had gone into South Africa with 18% into the Democratic Republic of Congo (DRC) and 14% into Madagascar.

"So South Africa is still the main game but whether it retains that position depends on a number of issues.

" If South Africa is feeling comfortable and sitting back then it needs to realise times are changing. If the DRC gets its act together then there will be a rush with billions of dollars going into that country," Shapiro said.

He added, "South Africa is dependent on outside funding. There is not enough money in the country to do what needs to be done.

"You don't just get money. You have to court it. You have to address foreign investors' concerns because the greater the uncertainty, the less the money."

Shapiro also attacked the policy of "ministerial discretion" which is a feature of South Africa's Minerals and Petroleum Resources Development Act although he did not specifically single out that piece of legislation.

"Ministerial discretion leads to bribery and corruption which leads to a failed economy, " he said.

Shapiro also raised the topic of beneficiation, in particular South Africa's moves for greater beneficiation of its diamond production through legislation designed to make more of the country's rough diamond output available for local cutting and polishing.

"Beneficiation in the Canadian diamond industry did not work and I have no reason to believe it will work here. The cost structures are wrong because you have to compete against the Indians cutting at costs of \$10 a carat or less," he said.

But Shapiro acknowledged there was an issue of double standards with developments in Africa getting a far more negative treatment by the media than similar developments in developed nations.

He singled out De Beers experience building a new diamond mine in Canada's Ontario province as an example.

"Two premiers of Ontario publicly stated that there would be no change to the tax regime for the De Beers mine. Yet, no sooner than the last dollar had been spent on building the mine than Ontario jumped the royalty up from 5% to 15%.

"I don't know what De Beers intends doing about that but, if I was in their position, I would sue. So that's what can happen in a nice, supposedly well-governed country like Canada," Shapiro said.