

CHAPTER 2

RESERVES TO DORÉ: THE GOLD MINING INDUSTRY

CHAPTER 2

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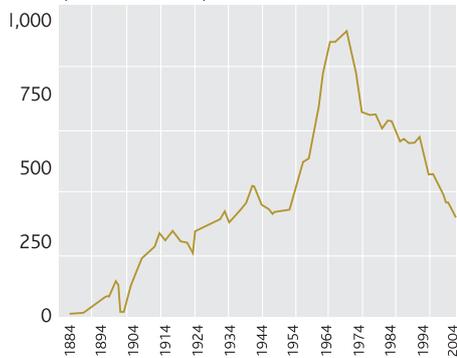
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Photograph: Courtesy of AngloGold Ashanti Limited

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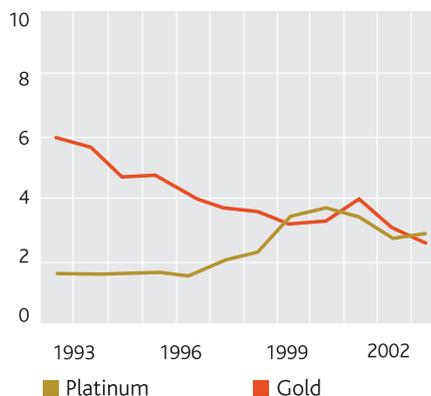
RESERVES TO DORÉ – THE GOLD MINING INDUSTRY

South Africa, 120 years of gold production (1884 to 2004)



Data source: Chamber of Mines.

Gold and platinum – contribution to South African GDP (%)



Data source: Stats SA

2.1 INTRODUCTION

The discovery of the Witwatersrand Goldfields in 1886 led to the development of South Africa's world-class gold mining industry, which has dominated the global gold mining industry for 120 years. In fact, the Witwatersrand Goldfields will probably remain the greatest goldfield ever discovered, surpassing all others by several orders of magnitude¹. From 1884 when records of production were first collected, to 2004, the South African gold mining sector has produced 50,055t of gold which accounts for some 33% of all the gold estimated above the world's surface. Total South African remaining gold ore resources are estimated to be some 40,000t, of which about 8,000 to 10,000t are economically recoverable depending on the Rand gold price and cost scenarios applied.

The emergence of the gold mining sector in South Africa led to the rapid development and industrialisation of the country and, ultimately, contributed to South Africa being by far the most industrialised country in Sub-Saharan Africa. Gold mining was a fundamental catalyst for the development of key infrastructure (water, roads, electricity, rail, etc), as well as many manufacturing and service industries. Soon after the discovery of the Witwatersrand Goldfields, Africa's largest stock market, now the JSE Limited, was started in 1887 specifically for funding the mining sector. Many of South Africa's large-scale parastatals (Eskom, Spoornet, Rand Water) and world-class financial services companies and institutions owe their existence to the gold and diamond mining sectors. The mining sector drove the development of Johannesburg, the industrial heartland of South Africa, which was known as 'Egoli' or place of gold.

South Africa dominated the global gold mining industry for much of the past 120 years, rising to peak production of 1,000t (67% of global mine supply) in 1970. Today, the industry is in a mature, declining phase with production having declined to 342t in 2004. While South Africa is still the largest gold producer in the world, the closure of older mines and shafts could see the country lose this position over the next five years. Nonetheless, the gold mining sector continues to be a key driver of economic growth and a large employer, accounting for just less than 2% of GDP, 10% of export earnings and 187,039 employees in 2004.

2.2 HISTORICAL CONTEXT

There is evidence that small-scale gold mining had been taking place in the country's greenstone belt areas some time before the emergence of the modern gold mining industry, but little recorded history exists for the period prior to the 1830s. The more recent history of gold mining in South Africa started with the mining in the greenstone belts in Northern KwaZulu-Natal in 1836 and the development of mines in the Murchison, Giyani and Pietersburg greenstone belts. In 1875 gold was discovered on the farm Kromdraai, just north of present day Krugersdorp, and this led to the first proclamation of gold in the Witwatersrand region. In 1883 the Pioneer Reef was discovered in Barberton, and in 1886 the very rich Witwatersrand Main Reef was discovered. This led to the influx of miners from around the world, the establishment of many new companies and the commencement of the development of the country's large scale gold mining industry.

While many mining companies were formed in the latter part of the 1880s, South Africa's gold production was dominated in the early years by the following companies:

Company/event	Established
Union Corporation	1886
Gold Fields of South Africa	1887
Johannesburg Consolidated Investment Company Ltd (JCI)	1889
Rand Mines	1893
General Mining and Finance Corporation	1895
Anglo American	1917
Anglo-Transvaal Consolidated Investment Company (Anglovaal)	1934

¹JRF Handley, Historic overview of the Witwatersrand Goldfields, Handley book page VII

These seven companies were the backbone of the South African gold mining industry for most of the 20th century. However, for all the reasons referred to earlier – declining output, mining at increasing depth and increasing costs, weak international gold prices throughout the mid-1980s and mid-1990s, as well as increasing output from other countries – a major restructuring of the industry became necessary.

The industry, however, saw changes taking place throughout the 1990s, the most recent of which are detailed below.

- AngloGold Ashanti Ltd, South Africa's largest gold producer, was formed in April 2004 through the merger of AngloGold Limited and Ashanti Goldfields of Ghana. AngloGold Limited was itself formed in June 1998 through a merger of the gold operations, mineral rights and exploration activities of Anglo American Corporation and the subsequent acquisition of a number of non-South African mining assets. Some of the company's South African mines have since been sold to other producers.
- Also in 1998, South Africa's second largest producer, Gold Fields Limited, was formed as a result of the amalgamation of the gold assets of Gencor Limited (formerly General Mining and Union Corporation) and Gold Fields of South Africa Limited.
- Rand Mines was unbundled in 1992 when the mining interests were separated out as Randgold & Exploration (Randgold). In 1994 Randgold became a pure gold mining house with a portfolio of marginal gold mines. By 1997 this had been rationalised into three South African mining companies (Durban Roodepoort Deep (now DRDGOLD), Harmony Gold Mining and Crown Consolidated Recoveries) and an offshore gold company, Randgold Resources, operating the Syama mine in Mali.
- DRDGOLD Limited expanded in the late 1990s as a result of the acquisition of a number of mines from other operating companies. In 2005, DRDGOLD closed its North West operations following an earthquake.
- In 1995, Johannesburg Consolidated Investments was divided into a non-mining group, (Johnnies Industrial Corp), a gold, ferrochrome and base metals group, (JCI Ltd) and a PGM producer (Anglo Platinum). JCI's primary remaining gold asset is a 50% stake in Western Areas, in partnership with Placer Dome Inc.
- Harmony Gold Mining Company Ltd has grown since its unbundling from Rand Mines, expanding from its single gold mine in the Free State by acquiring both South African and overseas assets. Harmony acquired Elandsrand and Deelkraal from the then AngloGold and, together with ARMgold, the then only BEE gold company listed on the JSE, acquired Freegold from AngloGold. Subsequently, Harmony merged with ARMgold. In 2003, following the merger between African Rainbow Minerals (formerly a major shareholder in ARMgold, and now in Harmony) and Avmin, Harmony acquired Avgold.
- Western Areas was established in 1959 and merged with South Deep in 1995. In 1998, Placer Dome Inc took a 50% stake in South Deep, which it holds in partnership with JCI Gold.

2.3 GLOBAL GOLD MINE PRODUCTION

South Africa remains the world's largest gold producer, but the country's output has been in decline for more than three decades, a substantial decrease from the 1,000t produced in 1970 which was equivalent to two-thirds of global supply at that time.

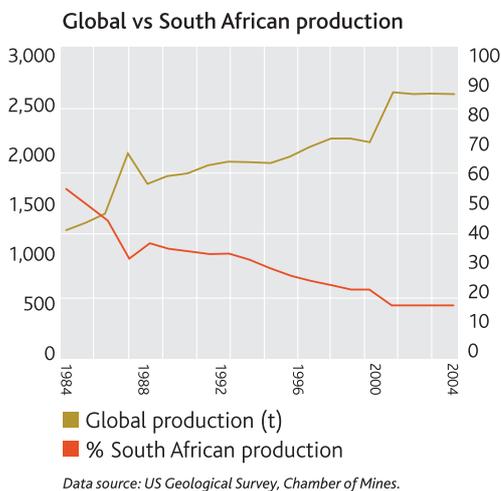
In 2004, South African gold mining output fell by a further 9% to 342t compared with 2003. This amounted to 14% of global production in 2004, Australia and the USA each now producing around 10% of global supply, (although both countries are also mature gold producers and production has fallen recently). However, other countries have begun to expand their gold production, particularly China, Russia, Indonesia, Uzbekistan, Peru, Papua New Guinea and Tanzania.

Seven major mining houses were the backbone of the South African gold mining industry for most of the 20th century...

South Africa remains the world's largest gold producer...

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Five companies accounted for 91% of the fine gold produced in South Africa in 2004...

The following table lists the top 20 global gold producing countries in 2004.

Country	2004 (t)
South Africa	342
USA	260
Australia	253
China	220
Peru	173
Russia	159
Canada	129
Indonesia	100
Uzbekistan	90
Papua New Guinea	71
Ghana	60
Tanzania	48
Mali	40
Chile	39
Brazil	34
Colombia	30
Argentina	27
Mexico	24
Kazakhstan	22
Kyrgyzstan	22

Data source: Raw Materials Group, March 2005.

2.4 STRUCTURE OF THE SOUTH AFRICAN GOLD MINING INDUSTRY

Three of the six largest international gold mining companies in the world are South African.

The South African gold mining industry can be divided into four sub-sectors:

- large, publicly-listed gold mining companies;
- companies producing gold as a by-product of other metal mining, (mainly PGM producers);
- tailings retreatment operations (operated either by the large listed companies or by small-scale companies); and
- junior or small-scale miners.

There is also very limited, informal gold mining undertaken within the country. Collating production information is not a simple task. Data was sourced from the Chamber of Mines of South Africa as far as possible, although not all companies are members of the Chamber or provide it with data.

2.4.1 Large, publicly-listed gold mining companies

There are five large, publicly-listed gold mining companies in South Africa: AngloGold Ashanti, Gold Fields, Harmony, DRD GOLD and Western Areas.

These five companies accounted for 312t, or 91% of the fine gold produced in South Africa in 2004. The following is a brief account of these producers. Further details may be found in the Research Directory of this document. Information on these companies' South African ore reserves is contained in section 2.5 of this chapter.

AngloGold Ashanti

AngloGold Ashanti is headquartered in Johannesburg and has operations in 10 countries around the globe. Its primary listing is on the JSE limited, although the company is also listed on the New York, Australian, London and Ghanaian stock exchanges as well as on Euronext Paris and Brussels.

In 2004, AngloGold Ashanti produced 181.3t of fine gold, of which 95.8t (56%) came from its South African operations. The company currently has seven operating mines in South Africa in two regions. The Vaal River region, near Klerksdorp in North West Province, comprises three mines – Great Noligwa, Kopanang, Tau Lekoa – and the West Wits region, near Carletonville, comprises three mines – Mponeng, Savuka and TauTona.

The four largest mines – Great Noligwa, TauTona, Kopanang and Mponeng – contributed 80% of gold output. The company's dump retreatment operation, Ergo, was closed in March 2005, although a number of other surface assets are still being processed. The Savuka mine is currently in closure mode. The Moab Khotsong mine is currently under development and is expected to come into commercial development in 2006.

As at the end of December 2004, the company was involved in the following growth projects in South Africa: Mponeng shaft deepening (R1.2 billion, of which R50 million was remaining), various projects at TauTona (R1.5 billion, of which R1.2 billion was remaining), Moab Khotsong (R4.0 billion, of which R409 million was remaining).

At the end of 2004, AngloGold Ashanti employed 65,400 people globally (including contractors), 69.4% or 45,380 people in South Africa.

Gold Fields

Gold Fields is also headquartered in Johannesburg, South Africa, with operations in South Africa, Ghana and Australia, and is listed on the JSE Limited (primary listing), New York Stock Exchange, London Stock Exchange, Euronext in Paris and Brussels as well as the SWX Swiss Exchange.

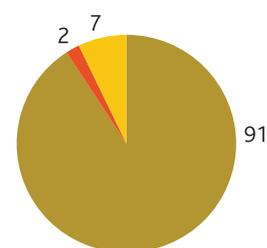
The company was the subject of a takeover bid by Harmony during 2004/2005, which it successfully defended. Gold Fields' own plans to merge with North American gold producer IAMGOLD were thwarted as a consequence of the Harmony takeover bid.

In 2004, the company produced 129t of gold, 68% or 88t from its South African operations, Driefontein and Kloof, near Carletonville, and Beatrix, near Welkom in the Free State. The two primary operations, Kloof and Driefontein, produced 78% of the company's South African gold output.

Planned capital expenditure (reported at the end of June 2005) amounted to R280 million on the Driefontein Expansion project, R230 million at Kloof and R250 million on the Beatrix north section project.

At the end of June 2005, the company employed some 43,942 people (excluding contractors) across its operations, 94% or 41,500 people in South Africa.

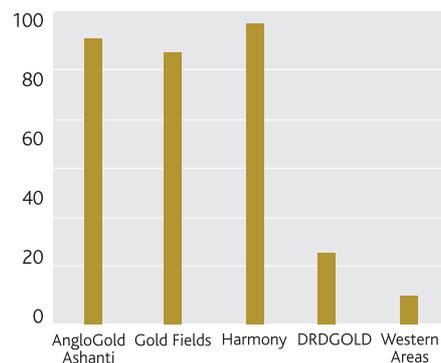
Production of fine gold in South Africa (%)



- Large publicly-listed companies
- By-product producers
- Junior and small-scale miners and by-product producers

Data source: Chamber of Mines.

Production by South African large, publicly listed companies in South Africa in 2004 (t)



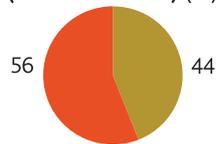
Data source: Company Annual Reports

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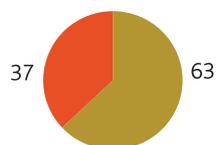
Production in South Africa by top five South African gold producers

AngloGold Ashanti (December 2004) (%)



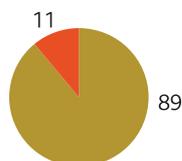
■ South Africa ■ Elsewhere
Data source: Company annual report.

Gold Fields (June 2005) (%)



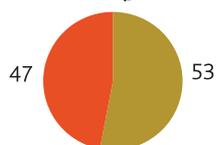
■ South Africa ■ Elsewhere
Data source: Company annual report.

Harmony (June 2005) (%)



■ South Africa ■ Elsewhere
Data source: Company annual report.

DRDGOLD (June 2005) (%)



■ South Africa ■ Elsewhere
Data source: Company annual report.

Western Areas (June 2005) (%)



■ South Africa
Data source: Company annual report.

Harmony

Harmony's headquarters are in Virginia in the Free State, although the company's corporate office is in Johannesburg. The company is listed on the JSE Limited, on the New York, London and Berlin stock exchanges and on Euronext in Brussels and Paris. The company has operations and projects in South Africa, Australia and Papua New Guinea.

In 2004, the company produced 92t from its South African operations. However, following significant restructuring, the company expects production to decline in 2005.

Harmony has structured its operations into Quality shafts, Leveraged shafts and Growth shafts or projects and does not report production on a mine-by-mine basis. Harmony is currently undertaking a R3.4 billion capital expenditure programme, with five projects underway in South Africa - the Tshepong Expansion, Elandsrand new mine, Doornkop South Reef projects and new mines at Masimong and Phakisa.

Harmony employed 53,588 people (including contractors) at the end of June 2005, 51,610 (96%) of whom were employed in South Africa.

DRDGOLD

Based in Johannesburg DRDGOLD is listed on the JSE Limited, the London, Australian and Port Moresby stock exchanges and on Nasdaq in the USA. The company has operations and interests in South Africa, Australia and Papua New Guinea.

Following an earthquake at its North West operations in March 2005, the company successfully applied for the provisional liquidation of the wholly-owned subsidiary in which these assets are contained, thereby significantly reducing its South African asset base. DRDGOLD subsidiary Crown Gold Recoveries is the country's largest dump retreatment operation.

In 2004, DRDGOLD produced 23.2t of gold from its South African operations. (10t or 58% came from the now-closed North West operations). This includes 4.3t attributable to Khumo Bathong Holdings (KBH), DRDGOLD's BEE partner. In 2005, agreement was reached with KBH that KBH would acquire an 11% stake in DRDGOLD, with the option to acquire a further 15%, and that ERPM and Crown Gold Recoveries would once again become subsidiaries of DRDGOLD. Prior to this, KBH held a 40% stake in Crown Gold Recoveries and ERPM.

No significant new projects are currently being undertaken in South Africa.

The total number of people employed at DRDGOLD's South African operations was 6,390 as at the end of June 2005.

Western Areas

Western Areas has a 50% stake in the South Deep mine, together with joint venture partner Placer Dome. In 2004, the South Deep mine produced 13.4t, of which 6.7t were attributable to Western Areas.

As at 31 December 2004, Western Areas employed a total of 4,914 individuals.

The following table shows gold production attributable to large, publicly-listed companies.

	2004 (t) Production
AngloGold Ashanti	95.8
Great Noligwa mine	24.7
TauTona mine	17.7
Kopanang mine	15.1
Mponeng mine	13.6
Tau Lekoa mine	9.1
Savuka mine	4.9
Surface operations	3.7
Ergo	6.9
Gold Fields	87.8
Driefontein mine	35.8
Kloof mine	32.9
Beatrix mine	19.1
Harmony	92.0
DRDGOLD* (includes 40% interest in ERPM and CGR by KBH)	23.2
South Deep mine (50% attributable to Western Areas and 50% to Placer Dome)	13.4
Total	312.11

2.4.2 By-product and tailings retreatment gold production

In addition to gold mine production, 7.2t of fine gold was produced as a by-product, mainly from PGM mines. The major PGM producers in South Africa are: Anglo Platinum, Impala Platinum Holdings Limited, Lonmin Platinum and Aquarius Platinum. These companies do not report separately on gold production.

The two major dump retreatment operations active in 2004 are accounted for under AngloGold Ashanti (Ergo, now closed) and DRDGOLD (Crown Gold Recoveries). Total dump retreatment production is estimated at 13.1t for 2004. Other small-scale dump retreatment operations are accounted for under small-scale producers.

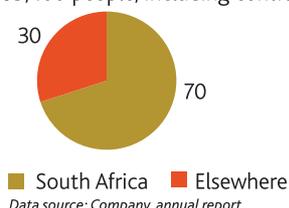
2.4.3 Junior/small-scale gold mining companies

The National Small Business Act of 1996 defines each sector of the economy, including mining, in terms of the number of employees, annual total turnover and total gross net asset value. With respect to mining, junior or small and medium companies would employ at least 200 people, have an annual turnover of R30 million and total gross net asset value of least R18 million.

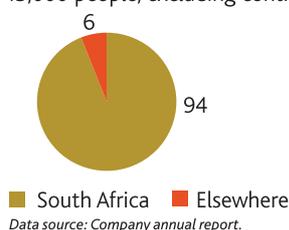
In 2002, the Minerals & Energy Policy Centre² (MEPC), completed research into the development of the junior mining sector in South Africa.³ The report noted the existence at that stage of 20 junior or small-scale mining companies, of which eight were mining gold⁴.

Employment in South Africa by top five South African gold producers

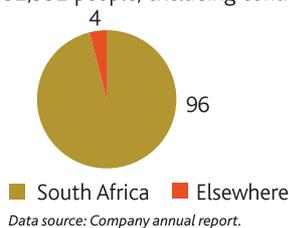
AngloGold Ashanti (Dec 2004)
65,400 people, including contractors (%)



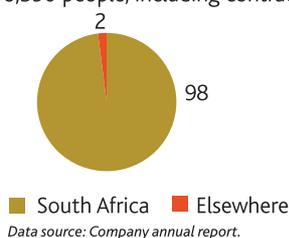
Gold Fields (June 2005)
43,000 people, excluding contractors (%)



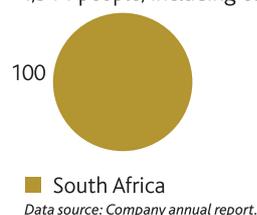
Harmony (June 2005)
52,992 people, excluding contractors (%)



DRDGOLD (June 2005) (%)
6,390 people, including contractors



Western Areas (June 2005) (%)
4,914 people, including contractors



² The MEPC was established in 1994 to research the local economy and specifically issues pertaining to minerals and energy. The Netherlands, through its Ministry of Co-operation and Development, provided seed funding. Other income is now increasingly derived from commissioned research and services.

³ Mitchell, G.C., et al: Research Report 1 to the Interim Committee of Small and Junior Mining Companies on the Development of a Junior Mining Sector in South Africa: Opportunities and Options, MEPC, 2002.

⁴ The others were involved with the mining of PGMs, diamonds, ferrous and non-ferrous metals as well as coal.

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Small-scale gold producers and small-scale dump retreatment operations contributed 22.7t of fine gold in 2004...

Data from the major refineries and the Chamber of Mines indicates that small-scale gold producers and small-scale dump retreatment operations contributed some 22.7t of fine gold in 2004. (This figure excludes Ergo and CGR.)

2.4.4 Informal gold mining

In addition to the formal mining sector, informal gold mining takes place in those areas of the country where there are old mine workings or tailings dams, for example in the vicinity of Nigel in Gauteng, and Barberton and Sabie in Mpumalanga Province. This informal sector is distinct from the illegal operations in which mine output is stolen from the formal mining sector either at the mines or from the smelters.

Informal miners tend to be one-man operations working on abandoned mine sites and dumps. As they are unregistered with any fiscal or regulatory authorities, the numbers of informal miners and their gold output are impossible to estimate. Discussions with the Department of Mineral and Energy indicate that these informal miners are also transitory, moving frequently from one location to another, making their existence and activities more difficult to trace.

According to the CSIR⁵, it was estimated that in 1998 there were at least 1,250 informal gold miners active in South Africa. Since then, no other figures have been collated. Collectively, these miners are thought to produce less than 1t of gold annually, much of which is believed to be traded mainly with their suppliers of mercury based in Swaziland and Mozambique.

2.5 SOUTH AFRICAN GOLD COMPANIES IN A GLOBAL CONTEXT

A number of South African gold producers have become global players, having extended their exploration activities and asset base beyond the borders of the country. Of the world's six largest gold producers three – AngloGold Ashanti, Gold Fields and Harmony – are from South Africa.

Although it is estimated that close to 50,000t of gold have been mined in South Africa since 1887⁶, South Africa's gold resources still make up 40% of the world's known resources. It is also estimated by the US Geological Survey (USGS) that South Africa has six times more gold resources than the USA and Australia⁷.

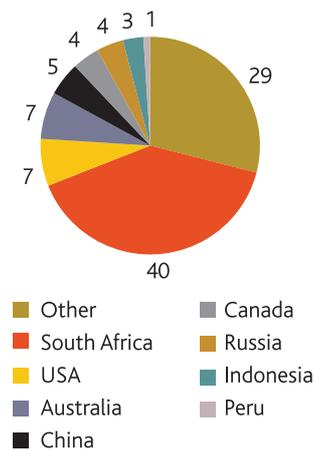
Ore reserves held by the major South African gold mining companies in South Africa are estimated as follows:

Estimates of available (proved) ore reserves in South Africa of major South African publicly listed mining companies as at 30 June 2005

		Calculated on the basis of a gold price per kg (R/kg)	000t	Grade (g/t)	Contained gold (kg)
AngloGold Ashanti (South African)		94,764	30,900	5.21	160,800
DRD GOLD		88,960	55,341	2.07	114,344
Gold Fields	Driefontein	92,000	30,100	7.90	237,800
	Beatrix	92,000	14,400	5.50	79,200
	Kloof	92,000	13,600	10.20	138,700
Harmony	South Africa surface	92,000	26,000	0.45	12,000
	South Africa underground	92,000	55,400	6.49	360,000
Western Areas	Extended SV1 area	91,429	2,012	7.70	15,490
	Phase 1 area	91,429	4,120	10.5	43,265

Data source: Chamber of Mines of South Africa and company annual reports/websites

South Africa's % of world resource base – 2003



Data Source: US Geological Survey.
Note: For details of 'others' with gold production and reserves, refer to the table listing the top 20 gold producing countries, on page 28.

⁵ Council for Scientific and Industrial Research.

⁶ Source: Chamber of Mines.

⁷ This discussion of resources makes use of the definitions as quoted by US Geological Survey as follows: A reserve base is defined as the in-situ demonstrated (measured plus indicated) resource from which reserves are estimated. The resource base includes reserves that are currently economic (reserves), marginally economic (marginal reserves) and some that are currently sub-economic (sub-economic reserves).

2.6 ECONOMIC CONTRIBUTION OF GOLD MINING

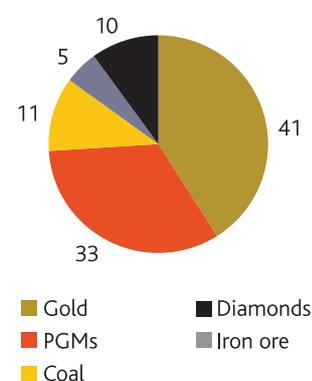
The gold mining industry played a substantial role as a foundation industry in the evolution of South African industry. The discovery of the rich Witwatersrand Goldfield in 1886 led to a substantial influx of engineers, geologists, miners, technicians, financial people, etc., that were attracted from all over the world to the new opportunities presented by the gold rush. The need for housing, water, power, explosives, equipment, communications, food and liquor, were initially met by importing the products from overseas and then transporting the goods by wagon from the coast. Within five years a railway line had been developed from Cape Town and was followed by another line from KwaZulu-Natal. A year after the discovery of the Witwatersrand Goldfields a telegraph service was operational. The material and services requirements of the gold sector ultimately led to the establishment of financial services and manufacturing companies. Roads, railway stations, electricity services and water reticulation, all evolved on the back of large demands from the mining sector. The requirements of the mining sector were increasingly met from local sources and services and industry boomed. Over time the banks, stock market, service providers and manufacturers were able to generate their own critical mass and start providing goods and services to industries and consumers outside the mining sector.

The gold mining sector has been the dominant foreign exchange earner for the country over the past century. More recent numbers indicate that gold export earnings in 1980 accounted for over 50% of South Africa's merchandise exports in that year. The decline in the Dollar gold price, combined with the fall in South African gold production and the increasingly diversified structure of the economy meant that by 2004 gold exports accounted for a smaller 10% share of total merchandise exports. Similarly, the direct contribution to GDP of gold mining peaked at 16.3% in 1980 and by 2004 was a smaller 2% of GDP.

Although the relative importance of gold mining has fallen over the last decade with the performance of the gold price, gold mining still contributed just under 2% directly to GDP in 2004. Taking into consideration the indirect contribution to the economy and the multiplier effects, gold mining's total contribution to GDP is closer to 4.4%. These multiplier effects include:

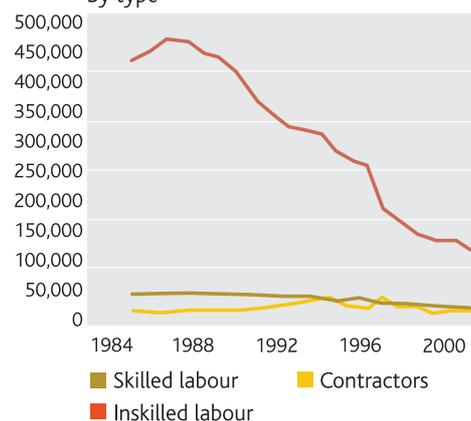
- backward linkages, which arise from the purchase of goods and services by the gold mining industry, which stimulates industrial production and the provision of services (e.g. gold mines consume 15% of all electricity generated in South Africa);
- forward linkages, arising from the use of mineral products in other domestic industries, such as jewellery fabrication and production of refined gold;
- social multipliers which arise from the role of mining in the development of human resources and infrastructure such as schools, colleges, clinics, roads, and housing;
- the primary incomes multiplier which arises from household expenditures of primary incomes derived from mining (in 2004 R13.1 billion was paid to employees in the form of salaries and wages);
- the employment multiplier, which arises from the employment created in other industries as a result of gold mining. In 2004, the Chamber of Mines estimates that in addition to the 187,039 people employed in gold mining another 63,000 jobs were created in related industries linked to the gold mining sector. This multiplier includes the benefits of the provision of employment for workers from deep rural communities and the transfer of funds back to these areas;
- the income terms-of-trade multiplier which arises from the positive impact that gold export earnings have on the balance of payments, foreign reserves,

Share of mining employment June 2004 (%)



Data source: Chamber of Mines.

Gold mining employment By type



Data source: Chamber of Mines.

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- monetary policy and ultimately upon the general level of business activity in the country. In 2004, gold export earnings of R29.5 billion accounted for 10% of the country's merchandise exports; and
- the capital formation multiplier which arises from mining's influence in attracting foreign capital to the country (via the JSE Limited or via direct investment), and in domestic capital formation.

2.7 COST OF PRODUCTION

The cost of producing gold in South Africa varies between mining companies and operations, as each operates with unique geological and metallurgical circumstances.

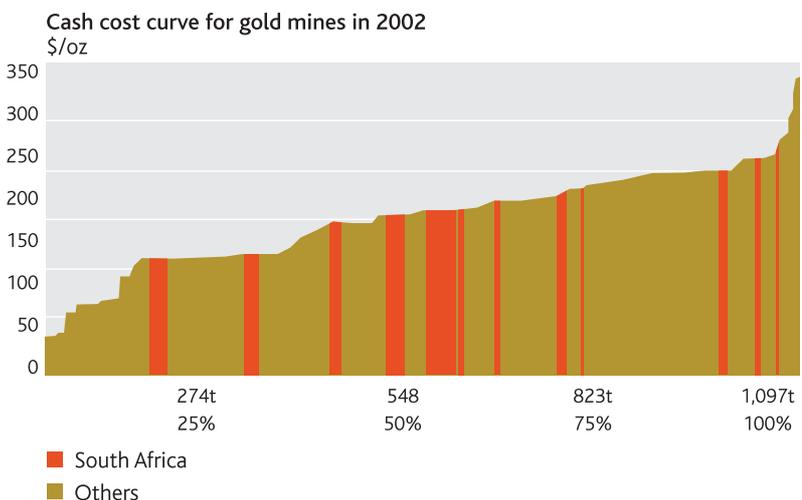
The Chamber of Mines collates information on the components of mining costs from its members.

Components of cash costs for 2004⁸

	%
Company employees (including foodstuff)	58.36
Power and water	12.36
Stores and services (excluding foodstuff)	23.33
Other costs	5.96
Total cash costs	100.00

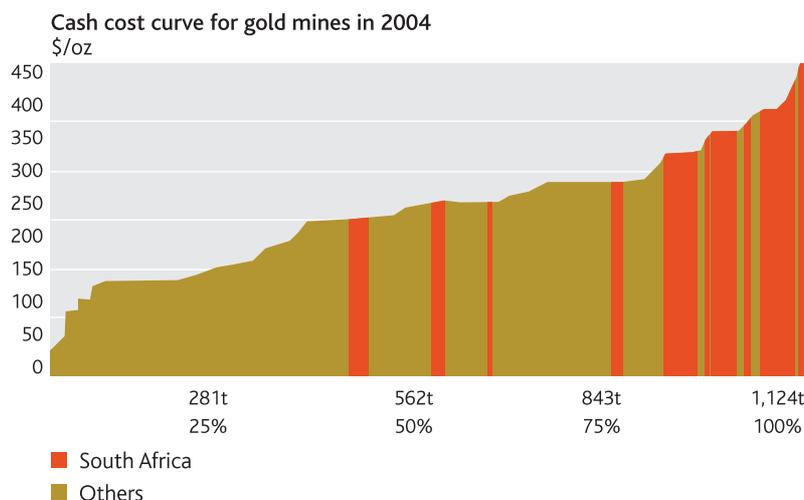
In terms of world ranking, an international gold cash cost curve comparison for the years 2002 and 2004 is shown below and overleaf. The cost curve positions gold mines on a cumulative production chart in a way that allows for direct comparisons between operations.⁹

South African gold producers feature in red and the two different graphs show the deterioration in South Africa's competitive position over the time period. The movement of South African producers up the global cost curve and to the right, between 2002 and 2004, illustrates particularly the impact of the strong Rand on local costs relative to their international competitors.



Data source: Raw Materials Group, Stockholm, 2003.

⁸ The costs shown here are cash costs and exclude capital expenditure, amortisation and depreciation.
⁹ Source: Chamber of Mines, Virtual Metals, Raw Materials Group and USGS.



Data source: Raw Materials Group, Stockholm, 2005.

2.8 EMPLOYMENT

This section analyses the employment profile of the gold mining industry in South Africa. As an initial starting point, industry data collected by the Chamber of Mines was used. More details on particular mining companies can be found in the Research Directory at the end of this review. Historically, the gold mining industry has been a significant employer although employment levels have decreased substantially in recent years.

As at June 2004, the gold mining industry was still the largest employer within South Africa's mining sector, with 41% of all employees, or 187,039 people. Over the past 20 years, this number has fallen, with mine closures, restructuring and mergers contributing to the decline in employment levels. In 1987, the industry employed 537,000 people.

By far the greatest job losses in this industry have been among unskilled workers. The fact that they have historically made up the greatest grouping within the total work force has contributed to this, and when measured in percentage terms the decline in the numbers of unskilled workers (between 1984 and 2003) at 73% was larger than the 52% for skilled workers. The most recent data (for 2004) shows that this trend has continued.

Employment levels in the diamond and the PGM mining industries have been increasing as both the diamond and PGM sectors have experienced expansion and development over this period.

On an international basis, the South African gold mining industry employs substantially more people than do other major gold mining countries. This is due, in part, to the fact that the local industry is engaged in deep-level hard-rock underground mining which by nature is labour intensive. By comparison, the gold mines in Australia and North America are more commonly open pit and are suitable for mechanisation.

Historically, the gold mining industry has been a significant employer, although employment levels have decreased substantially in recent years...

187,039 people were employed in the gold mining sector as at June 2004...

By far the greatest job losses in the industry have been among unskilled workers...

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The MPRDA requires that mining companies transform their ownership structure...

2.9 TRANSFORMATION IN THE SOUTH AFRICAN MINING INDUSTRY

The South African mining industry is regulated by a range of legislation and regulations in respect of transformation and Black Economic Empowerment (BEE). This legislation and the regulations are dealt with in Chapter 6. The following is a brief description of the progress that has been made in the mining industry in respect of transformation.

The Mineral and Petroleum Resources Development Act (MPRDA) requires that mining companies transform their ownership structures or facilitate BEE such that they can show 15% Historically Disadvantaged South African (HDSA) ownership of equity in their companies or the equivalent attributable units of production to HDSA owners within five years of enactment (that is, by 2009) and 26% within 10 years (that is, by 2014). It also requires that mining companies substantially and materially increase the economic participation of HDSAs within the industry, from employment to procurement.

In order to assess progress against BEE strategy in the gold industry, three distinct areas of economic transformation need to be considered:

- HDSA ownership of existing and new enterprises;
- procurement of goods and services from HDSA entrepreneurs and businesses; and
- delivery on employment equity plans.

2.9.1 HDSA ownership

Total mergers and acquisitions in the gold mining industry (including BEE transactions) are recorded in the following table, which shows both the number of transactions and their total value.

Gold mining - Total mergers and acquisitions

	Number of transactions	Value R million
1999	19	16
2000	16	7,172
2001	13	6,853
2002	25	8,097
2003	43	38,341
2004	35	13,432
Total	151	73,910

Data source: Ernst & Young.

Of these transactions, the following levels of BEE transactions were identified, again in total number of transactions and value.

Gold mining - BEE transactions

	Number of transactions	Value R million
1999	n/a	n/a
2000	0	0
2001	5	2,618
2002	6	403
2003	7	13,442
2004	8	695
Total	26	17,158

Data source: VM analysis of Ernst & Young data.

This data shows that between 2000 and 2004 (inclusive), an average of 19.7% of the total number of transactions in the South African gold mining industry were associated with BEE, as was 23.2% of the total value. The annual breakdown of this figure for the period is shown in the table below.

BEE transactions as percentage of total M&A activity in gold mining		
	Number of transactions	Value R million
1999	n/a	n/a
2000	0	0
2001	38.5	38.2
2002	24.0	5.0
2003	16.3	35.1
2004	22.9	5.2
Average (2000-2004)	19.7	23.2

Data source: VM analysis of Ernst & Young data.

Individual BEE transactions that can be identified during this period are listed below.

Black economic empowerment transactions in the gold mining sector			
Acquirer	Target	Seller	Value
2001¹			Rm
Komanani Mining	Harmony	Harmony	394
Komanani Mining	Harmony	Harmony	6
African Rainbow	Assets	AngloGold	10
Simane Security	Harmony	Harmony	8
Harmony/ARM ²	Free State mines of AngloGold	AngloGold	2,200
2002			
Khumo Bathong	Crown	DRDGOLD	105
Khumo Bathong	Crown	Crown	68
Lwami Invest	Afrikander Lease	Undisclosed	120
Khumo Bathong	10% Elandskraal	Hanson	105
Masakhisane	Stone & Allied	AngloGold	na
BEE Stone & Allied Ind	Stone & Allied	AngloGold	5
2003			
Metorex/ Millennium Cons	ETC Assets	AVGOLD	255
African Vanguard	Doornkop	Harmony	250
Harmony	African Rain	Shareholders	4,900
Mvelaphanda	SA Gold Assets	Gold Fields	4,100
Kabusha mining	Afrikander Lease	Peter Skeat	127
Randgold & EX	Viking Pony Prop	Phikoloso mining	268
Anglovaal	Harmony	ARM	3,542
2004			
Randgold & EX	Luxinge Alluvial	Koketso Anglo JV	24
Randgold & EX	Dando Kwanza	Masupatsela	28
Randgold & EX	Somba Sul	Quantum African mining	25
Randgold & EX	Mining Equip & Assets	Trans Benguela Log	28
Inkwenkwezi Gold	Western Areas	Anglo American	515
Randgold & EX	Lunda Alluvial	Undisclosed	57
Undisclosed	Makonjwaan mining	Simmer & Jack	3

Data Source: Virtual Metals' analysis of Ernst & Young data.

Note 1: prior to 2000 data on individual transactions is not available.

Note 2: Only ARM was a BEE company.

Between 2000 and 2004 (inclusive) an average of 19.7% of transactions in the South African mining industry were associated with BEE...

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The process of transfer of equity to HDSA participants will inevitably take time to gather pace...

Where data on individual companies' BEE procurement was available, it was not in a format which made consolidation and comparison possible...

The volume of the above transactions shows that progress has been made towards HDSA ownership in the gold mining sector. It would, however, be misleading to use this data to estimate the proportion of the gold mining sector which is now HDSA owned, given the debt structures of the transactions that have been undertaken to enable transfer of ownership to HDSA participants. It is also clear that, given the capital-intensive nature of the gold mining sector, the process of transfer of equity to HDSA participants will inevitably take time to gather pace.

2.9.2 BEE through procurement

Gold mining and refining companies largely source goods and services via a tender process. Decisions on the awarding of tenders are usually based on price, quality of goods, reliability of services and, additionally, the BEE status of the vendors.

Mining companies are required to identify current levels of BEE procurement in terms of the Mining Charter. However, at the time of publication, this data was not available in a consolidated form for the industry. Where data on individual companies' BEE procurement was available, it was not in a format which made consolidation and comparison possible.

However, the following information reported by the primary gold producers offers some indication of the aggregate volume of HDSA procurement which has been achieved:

- AngloGold Ashanti reported that, in 2004, R711 million of total procurement spend in South Africa was attributable to companies with at least 25% HDSA ownership, and offers the following breakdown of this spend in 2004, and HDSA procurement targets for 2008:

Procurement category	% HDSA spend in 2004	% 2008 Target
Site works	41	41
Consumables	39	99
Services	17	22
Capital	7	9
Total	22	48

- Gold Fields reported that the company is increasingly doing business with small and medium-sized enterprises on a competitive basis. Procurement from such companies (excluding capital expenditure) increased from 18% in the 2004 financial year to 25% in the 2005 financial year;
- Harmony reported that, for the 2005 financial year, HDSA spend increased to 28% of procurement spend;
- DRDGold reported that procurement spend with HDSA suppliers rose to 12% by the end of 2004; and
- Western Areas reported that 48% of its R368.3 million spend in 2004 was with companies accredited by the South African Materials Preferential Procurement Forum (SAMPPF) detailed as follows: 26%: BEE ownership 0 to 5%; 13%: BEE ownership 5 to 25%; 8%: BEE ownership 25 to 50%; 1%: BEE ownership above 50%.

2.9.3 Employment equity

The Employment Equity Act No 55, which prescribes employers' responsibilities in respect of employment equity, came into effect in 1998 and is described in Chapter 6. The Mining Charter also deals with employment equity, particularly relating to the participation of HDSAs at board and management level, as well as women in mining. While the legislation requires that employment equity information be made publicly available, once again the format of reporting differs from company to company. Information on the individual mining companies is made available in the research directory at the end of this document.

2.9.4 Women in mining

As can be expected in the mining industry, men far outnumber women in the South African gold mining workforce. There is a legacy of legislative exclusion of women from the South African mining industry, this restrictive legislation only having been removed in the last decade. According to the Department of Mineral and Energy (DME), in June 2004, there were only 3,739 full-time female employees, or 2% of the total number of people employed in gold mining, and they were employed mainly in administrative and technical roles as opposed to actual mining.

An analysis of the published statistics contained in the individual companies' employment equity plans bears out the predominance of men in the mining industry. The following table gives a breakdown of the presence of women in the various job categories, as reported by the mining companies.

Women in gold mining by job description Dec 2003-June 2004

Weighted averages	% of total employees
Senior Management	6.4
Professional	8.1
Technical	7.6
Clerks	28.3
Craft related	6.2
Machine operators	1.7
Unskilled	2.1
Temporary	2.3

Data Source: Analysis of individual company data. Employment equity plans where available.

With the exception of clerical staff (at 28%), job categories in the local gold mining industry have less than 10% of their payroll consisting of women.

2.9.5 HDSA employment in mining

The weighted average number of HDSA employees by job category for the gold industry is tabulated below.

HDSA employees in gold mining by job description Dec 03-June 04

Weighted averages	% of total employees
Senior management	14.2
Professional	12.3
Technical	36.3
Clerks	85.6
Craft related	55.2
Machine operators	98.1
Unskilled	99.5
Temporary	90.9

Data Source: Analysis of individual company data where available.

This analysis was undertaken on the basis of the available data. Only AngloGold Ashanti included a job description to cover temporary workers employed by the company, of which 91% were HDSA. The other mining companies appear to have incorporated temporary employees in other categories of employment and therefore the HDSA percentages may be overstated.

There is a legacy of legislative exclusion of women from the South African mining industry...

The South African gold mining industry is staffed predominantly by black people...

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During the 20th century the Chamber of Mines was one of the most effective employers' organisations in South Africa...

In recent years, the Chamber has responded to the changing environment in which it operates and has redirected many of its core activities...

The South African Mining Development Association (SAMDA) was formed to promote the interests of the junior and black economic empowerment sector in South African mining...

2.10 INDUSTRY BODIES AND INITIATIVES, GOVERNMENT BODIES AND UNIONS

2.10.1 Industry bodies

The Chamber of Mines of South Africa

The Chamber of Mines was formed on 7 December 1887 in Johannesburg and was succeeded by the modern Chamber on 5 October 1889. Funded by its members, it is a producers' organisation, representing mine owners to government, labour and others. Its key mandate is to promote and protect the interests of mining groups and the mining industry in general.

During the 20th century it was one of the most effective employers' organisations in South Africa. As well as dealing with government, it also negotiates with trade union bodies and sets labour policy and standards for its membership.

Currently, membership of the Chamber consists of two financial corporations, eight gold mines, and a large number of coal, diamond, PGM and other mining companies and associated bodies. The Chamber of Mines members account for some 90% of South Africa's mineral production (by value) or 86% of gold production. The Chamber is organised around a committee system, the most senior of which is the Executive Council, responsible for setting the overall policy direction of the Chamber.

As far as gold mining is concerned, the Gold Producers Committee (GPC) is responsible for directing policy in this sector. In addition to the GPC, there are committees dealing with such common industry concerns as environmental issues, occupational health and safety, health issues such as HIV/AIDS, human resources, education and skills development, taxation, mining titles and mineral rights.

In recent years, the Chamber has responded to the changing environment in which it operates and has redirected many of its core activities by:

- refocusing to position itself as the principal advocate to government of major policy positions endorsed by the mining industry;
- ending its direct involvement in the financial subsidisation of various industry services; and
- expanding its membership base.

South African Mining Development Association (SAMDA)

The South African Mining Development Association (SAMDA) was formed to promote the interests of the junior and black economic empowerment sector in South African mining.

Founded in 2000 and funded by its members, it was registered as a Section 21 company at the end of 2002. Its key function is to lobby stakeholders such as government, labour and organised business on behalf of its membership.

Junior mining companies in this instance are defined as those companies with annual sales valued at between R30 million and R1 billion. The lower end of the scale is obtained by using the definition of small-scale mining in the National Small Business Act of 1996 with the upper end limit agreed at an interim committee of SAMDA in 2002.

SAMDA's membership includes 62 companies (comprising 181 individual mines including diamonds, coal, gold and other minerals); 94% are involved in production. The rest are involved in contract mining.

Of the 62 companies, 14 (22%) are BEE companies, wholly-owned and managed black enterprises; 15 (24%) are involved in gold production, with 21 individual gold mining operations.

SAMDA's current work includes:

- developing a coherent position on the Royalty Bill;
- lobbying government with respect to new mineral policies;
- conducting local and international research into junior mining issues;
- negotiating with the Chamber of Mines on matters of mutual interest;
- negotiating with banks and other financial institutions;
- assisting BEE and junior companies with advice on policy and mining;
- assisting educational institutions with curriculum development;
- skills development; and
- consultations with the National Union of Mineworkers.

Mintek

Mintek was established in 1934, initially as a technical adviser to the mining industry in general. Since then, the organisation has broadened its service base considerably. Apart from specialising in mining, metallurgical and engineering projects, Mintek has branched out into social and human resource initiatives as they apply to the mining industry, including training, HIV/AIDS treatment and prevention, and jewellery manufacturing projects. Details of Mintek's jewellery projects and the small miners' programmes are discussed in Appendix 3.

Mintek is financed by a combination of government grants and fees earned from external services. The ratio of these revenue sources is broadly 50:50. Mintek is directed by a Board, which includes a Chairman and Mintek's CEO, plus an additional six to nine other members. The Chairman is selected by the Minister of Minerals and Energy. The CEO is supported by an executive management team, 18 divisional managers and over 400 employees.

In 2001, Mintek signed a three-year letter of intent with the South African Government in terms of which the main focus of the organisation would be to:

- add value to South Africa's mineral resources;
- expand the country's mineral technology industries;
- develop minerals industries in the Southern African Development Community (SADC) and throughout Africa; and
- support the growth of small, medium and micro enterprises in the minerals sector.

Since 2004, this relationship with the Government has become known as the Mintek Compact.

Apart from the technical services offered, Mintek also has an information centre through which fee-paying members access data. Currently, Mintek has partners in Canada, India, Brazil, Argentina, Bolivia, Uruguay and Peru, and is actively undergoing a process of commercialisation via wholly-owned subsidiaries.

The commercialisation of Mintek

In 2002 Mintek established Mindev (Pty) Ltd, a wholly-owned holding company designed specifically to support the commercialisation of Mintek's technologies via joint venture partnerships.

Mindev currently has non-controlling shareholdings in four companies namely Apic Toll Treatment (Pty) Ltd, Mogale Alloys (Pty) Ltd, Musuku Beneficiations Systems (Pty) Ltd and Tollsot (Pty) Ltd. Of the four, Mintek has capital invested only in Apic Toll Treatment, and is involved in the remaining entities as the provider of licences and Mintek technology. Musuku is discussed in more detail in Chapter 3 as is the associated Minataur (Mintek Alternative Technology for Au Refining) process that was developed by Mintek.

Tollsot was formed in conjunction with MikroSort SA, B&E International and the SPA Group to assess and develop optic sorting to upgrade ore types.

Apart from specialising in mining, metallurgical and engineering projects, Mintek has branched out into social and human resource initiatives as they apply to the mining industry...

Currently, Mintek has partners in Canada, India, Brazil, Argentina, Bolivia, Uruguay and Peru, and is undergoing a process of commercialisation via wholly-owned subsidiaries...

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The Department of Minerals and Energy reports to and advises the Minister, who, in consultation with the cabinet, takes final responsibility for policy...

The Mining Qualifications Authority (MQA) is a statutory body made up and funded by the State, and by employer and employee organisations in the South African mining industry...

2.10.2 Government bodies

Department of Minerals and Energy (DME)

The DME is the primary government department responsible for formulating and implementing mining and minerals-related policy. It reports to and advises the Minister of Minerals and Energy who, in consultation with the cabinet, takes final responsibility for policy.

Within the Department, the Electricity and Nuclear Branch is responsible for electricity and nuclear affairs; the Hydrocarbons and Energy Planning Branch is responsible for coal, gas, liquid fuels, energy efficiency, and renewable energy planning, including the energy database; while the Mineral Development Branch manages, among others, mineral prospecting and mining rights. The Mine Health and Safety Branch is responsible for the application of mine health and safety legislation.

With respect to the gold industry, the main function of the DME is the administration of minerals and environmental regulation through the MPRDA.

Other departments of the DME are:

- the Mineral Regulation Branch which is tasked with processing applications for prospecting and mining rights, and mining permits;
- the Environmental Management Directorate which administers issues concerning environmental management;
- a Social Plan Directorate which deals with mining rights;
- the Mine Economics Directorate which deals with issues such as royalties;
- the Mineral Policy and Investment Promotion Chief Branch of which the DME has a Small-Scale Mining Directorate for the promotion of small-scale mining, although its function also incorporates SMMEs involved in the beneficiation of gold, mainly jewellery and craft manufacture; and
- the Directorate of Mineral Economics through which the DME deals with statistics and mineral economics in relation to gold. The statistics section collects and assimilates production, local sales, export sales and labour data in relation to gold mines and recovery works. The DME also monitors developments in the gold mining industry regarding both mineral economics and policy. The department disseminates mineral economic statistics and information on developments in reports, annual reviews and bulletins.

If the Precious Metals Bill (See Chapter 6 for further details) is enacted in its current form, the Minister of Minerals and Energy (through the proposed Diamonds and Precious Metals Regulator) will assume administration of the Precious Metals legislation, except for exchange control and security-related matters.

Mining Qualifications Authority (MQA)

The MQA is a statutory body made up and funded by the State, and by employer and employee organisations in the South African mining industry. It was established as a result of the South African Qualifications Authority (SAQA) Act 58 of 1995 and the Mine Health and Safety Act 29 of 1996.

The MQA advises the Department of Minerals and Energy on matters relating to education and training standards and qualifications in the mining industry. It has adopted a constitution, set policy and devised a business plan.



The MQA's objectives are to:

- develop the mining industry;
- promote a safe, healthy, competitive and productive industry;
- promote access to education and training for all who participate in the industry; and
- redress inequalities of the past, especially in training and education.

The MQA has five core functions. These are to:

- develop and implement a skills plan specific to the mining sector;
- develop standards and qualifications for the sector;
- establish, register, administer and promote learnerships and apprenticeships;
- maintain quality and learning provisions; and
- regulate the distribution of grants from the Skills Development Levy.

In order to meet the need for a higher level of skills in the mining and minerals sector, the MQA, via the National Skills Fund (NSF), offers bursaries to students who are currently registered at a university or at a university of technology. The MQA/NSF bursary funds are available for 2002, 2003 and 2004.

MQA-supported fields of study include:

- mining engineering;
- mine survey and mapping;
- metallurgical engineering;
- chemical engineering (with minerals processing);
- mechanical engineering;
- electrical engineering (heavy current);
- geology;
- jewellery design and manufacture;
- environmental studies;
- analytical chemistry; and
- industrial engineering;

The MQA is also discussed in Appendix 3 in connection with training and skills transfer.

2.10.3 Trade unions

National Union of Mineworkers

The National Union of Mineworkers (NUM) is the largest union in the mining industry and the largest affiliate union of the Confederation of South African Trade Unions (COSATU). It was established on 5 December 1982 in Klerksdorp. The union initially served four regions – the Free State, Klerksdorp, Westonia and Carletonville, and had an initial membership of 14,000. As at July 2004, the latest data available, membership totalled 264,659 and according to COSATU, 80% of gold mine workers are members of NUM or other trade unions.

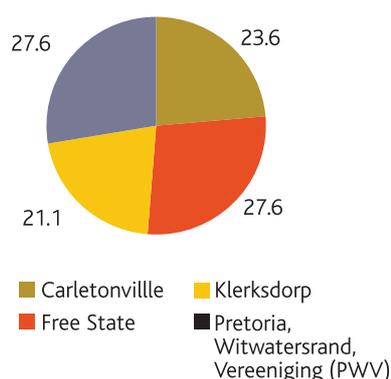
The regional breakdown of NUM members is shown on the chart on the right:

The union consists of the following structures:

- shaft stewards and shaft or workplace committees;
- branch committees;
- regional committees;
- the National Executive Committee (NEC);
- a central committee; and
- the national congress.

The National Skills Fund (NSF) offers bursaries to students who are currently registered at a university or university of technology...

Regional membership of NUM July 2004 (%)



Data source: Chamber of Mines.

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NUM remains the largest recognised collective bargaining agent in South Africa...

UASA came into being in its current form on 1 April 1998...

The objectives of the union are to:

- recruit and unite into a single labour organisation all workers employed in the mining and energy industries in order to enhance their economic and social welfare;
- improve the wages and terms and conditions of employment of members through collective bargaining;
- protect job security of members;
- improve the political, social, economic interests and material welfare of former, current and prospective members of NUM and that of workers and labour organisations in general;
- foster co-operation among all workers in the mining and energy industries and other industries;
- establish contacts and relationships with other trade unions, trade union federations and labour organisations nationally and internationally for the benefit of the members; and
- embark on other lawful activities which are in the interests of the NUM and its members and which are consistent with its constitution.

NUM remains the largest recognised collective bargaining agent in South Africa, representing the mining, construction and electrical energy sectors and is the largest affiliate of COSATU.

The NUM is funded by individual member subscriptions, which its constitution states must not be greater than 1% of the individual member's monthly basic pay.

Collective bargaining with employers remains the union's primary function, although the organisation involves itself in job upgrading and re-skilling, education and training, social security, housing and providing legal services to its members. It also makes representations to government on issues of industrial and political relevance to its members.

UASA

UASA's roots date back to the beginning of the century, but it came into being in its current form only on 1 April 1998, with the amalgamation of the Administrative, Technical and Electronic Association of SA (ATEASA) and the Officials' Association of SA (OASA). It is the second largest union representing workers in the mining industry, and its membership is primarily composed of white-collar workers in clerical and technical job categories. Current membership, excluding pensioners, is 98,000, of which approximately 53% are black, coloured and Indian and 47% white.

UASA aims to provide the following benefits to members:

- advice and assistance on all matters pertaining to the member's conditions of employment, including pension funds, medical benefits, labour legislation, etc;
- free participation in a funeral benefit scheme covering the member's family;
- maternity benefits;
- unfair Dismissal Assistance Fund, which could assist members to tie over between an unfair dismissal and the final outcome of any court action;
- training of Branch Committee members by means of the Association's recommended Industrial Relations Course, which is accredited by the South African Labour Development Trust (SALDT);
- representation of members during disciplinary and grievance procedures and assistance and legal advice in respect of any work-related accident and/or employment problem;
- assistance to the dependants of a deceased member to ensure that they receive all the benefits they are entitled to; and
- assistance by a registered psychologist in the event of members losing their employment by no means of their own doing.

Solidarity

Solidarity was established in 2001 with the incorporation of the South African Workers' Union, (SAWU), Denel Union, Transporter's Union and the Forestry and Plantation Management Union into the original Mineworkers' Union. In 2002 the Association of Meteorological and Allied Workers joined Solidarity. The original Mineworkers' Union was established in 1913 and it expanded in the 1980s to include the chemical, electrical, telecommunications and steel industries. Membership comes predominantly from those industries' skilled white production employees, usually blue-collar workers such as miners and artisans.

Membership totals 130,000 including employees from the mining, steel, telecommunications, engineering, chemical, motor, rubber and general industries.

The main objectives of Solidarity are to:

- offer traditional trade union services;
- offer financial and insurance services to its members; and
- address training and re-skilling needs.

SAEWA

The South African Equity Workers Association (SAEWA) was established in 1937 and in its early days membership was primarily drawn from the electricity industry. It later expanded to include members in the food and beverage and mining sector. In 2001 it merged with the South African Allied Workers Union (SAAWU) and in 2003 with the United Metal Industries and Allied Workers Union of South African (UMIAWUSA).

SAEWA has in the region of 30,000 members, drawn from a range of industries. In the mining industry its membership is drawn largely from electricity workers.

SAEWA's objectives include:

- protecting and furthering the interests of members in relation to their employment;
- providing legal assistance to members in connection with their employment;
- encouraging the settlement of disputes through conciliation;
- assisting members to obtain employment;
- encouraging a higher degree of skill among members; and
- promoting, supporting or opposing, as deemed expedient, any proposed legislation which might affect the interests of members.

Solidarity was established in 2001...

The South African Equity Workers Association (SAEWA) was established in 1937...