Mozambique loses gold 'subsidy'

The formal abolition of the long-defunct official gold price has had consequences both for the South African gold mines, and for the government finances of neighbouring Mozambique. Black workers from that country have hitherto been employed in South Africa's gold mines under the terms of the so-called Mozambique Convention, which required part of their wages to be paid in deferred form to their government in gold valued at the official price.

The benefit of this arrangement to the Mozambique government — although not to the mine workers, who continued to receive their deferred wages in their own national currency — has increased in recent years along with the free-marked price of gold, and at its peak exceeded $120 million in a single year. In 1977 the figure was down to nearer $30 million owing to the contraction in the Mozambique labour force to about 10% of the black workers employed on the mines. But even at this reduced level it still represented the major proportion of Mozambique's total foreign exchange earnings. With the gold price climbing steadily, South Africa's liability was virtually open-ended so long as any Mozambique labour continued to be employed at all.

It also imposed an altogether unnecessary cost burden on the South African gold mining industry, and especially on the marginal mines. These are the main employers of Mozambique workers, and the extra cost they were carrying on that account was probably in the region of R20 million ($23 million) a year. Spokesmen for the industry believe that for this reason the ending of the "gold subsidy" could result in the increased employment of Mozambique workers as well as an improvement in the competitive position of the marginal mines.

The ending of the Mozambique Convention is the result of South Africa taking advantage of the International Monetary Fund's new articles of agreement, which came into effect from April 1. The country's gold reserves will in future be valued monthly under a new formula whereby the price will be the average of the last 10 London fixing prices in that month, less 10%.

The first new price calculated by this method is $163,27 an ounce, which puts a value of about R1 370 million ($1 575 million) on South Africa's gold holdings and R1 730 million ($2 000 million) on the country's total foreign exchange reserves. This figure does not take into account the short-term liabilities, however. These probably amount to R1 530 million ($1 760 million), so the net figure for the reserves is a modest R200 million ($30 million) or so.

Even the paper profit on the gold revaluation is mainly illusory. It is to be used in a bookkeeping operation to offset the considerable losses accumulated by the Reserve Bank on the Government's behalf in protecting forward contracts against currency changes. The current total of these losses is about R1 134 million ($1 304 million) but more are likely to accrue as existing contracts expire.

Announcing the change in parliament, Finance Minister Owen Horwood explained that "In future, the mines will receive the market price for all gold sold by them to the Reserve Bank." Previously the mines were paid only the official price for their gold when bought by the Bank, with the remainder paid over to them after gold had been sold on world markets. The result was that the bank was under strong pressure to sell as quickly as possible so as not to retard the flow of cash to the mines. Under the new arrangement there should be more scope for the Government to choose the most suitable time for selling the country's gold. In other words, to play the market.

Mozambique miners: more jobs available