Job cuts and threats of defaults as commodity prices fall

A reporter
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Plummeting oil and commodity prices are cutting a swathe through entire economies, bringing announcements of mass layoffs and the possibility of defaults by so-called emerging markets on their debts.

On Thursday, the South African mines minister Mosebenzi Zwane announced that as many as 32,000 jobs could go in the iron ore, platinum and manganese mining industries. At the same time, the International Monetary Fund and the World Bank sent officials to oil-exporting Azerbaijan to try to avert a debt default in what could be the first in a series of such interventions.

Last September the National Union of Mineworkers in South Africa warned that as many as 22,000 mining jobs were threatened. Zwane said this figure was now 32,000. “Commodity prices have fallen for quite some time and that is causing problems in terms of jobs and restructuring,” he said.

Zwane said the government would do everything in its power to “control the situation” until “the price of commodities improves.” While there may be limited fluctuations, any general increase is not going to occur, according to the World Bank, which last week lowered its estimates for prices in 36 of the 47 of the commodities which it monitors. It warned that “while we see some prospects for commodity prices to rise slightly over the next two years, significant downside risks remain.”

As the minister issued his update, the Anglo American-owned Kumba Iron Ore unit announced that it was set to reduce its workforce by more than a third with a plan to axe 3,900 jobs. The cuts will hit 2,633 workers directly employed by the company plus some 1,300 contractors.

The cuts are part of the plan announced in December by Anglo American to reduce its global workforce from 135,000 to 50,000 and close or sell-off 60 percent of its assets.

Kumba management said it had experienced a 35 percent fall in iron ore prices in the past year and would cut back production at the mine and convert it into a “smaller, more focused operation.” The latest decline in prices is part of a longer-term trend which has seen iron ore prices fall to a quarter of their peak levels reached in 2011.

Lonmin, one of the world’s largest platinum mines, has announced that it has carried out 85 percent of the 6,000 job cuts unveiled last November in the wake of a $2 billion loss.

The fall in commodity prices is having a devastating impact on the South African economy which is highly dependent on mineral exports. Mining employment at 444,000 accounts for 14 percent of all employment and is the biggest economic sector after agriculture. Primary mining exports account for 35 percent of all the country’s merchandise export revenue and accounts for 25 percent of all investment in the economy.

Towards the end of last year, the rand fell to an all-time low and the central bank has lifted interest rates for the second time in two months in the face of rising inflation. The central bank forecast is that after hitting 4.6 percent last year, inflation will rise to 6.8 percent this year and 7 percent in 2017. It is being fuelled by the decline in the rand and rising food prices, with a heavy impact on the country’s unemployed who account for 25 percent of the workforce.

There is no end in sight, with mineral commodity prices under continual downturn pressure. Earlier this month the International Monetary Fund revised its forecast for economic growth to 0.9 percent for this year, the lowest since 2009 when South Africa was hit by the global financial crisis.

Falling export revenues and currency values, coupled with rising inflation and the threat of debt default, are becoming the characteristic features of a number of oil-exporting countries. The IMF-World Bank intervention in Azerbaijan has raised the question of which country is next.

It could well be Venezuela. Dependent on oil for 95 percent of its export revenue, the country has been hard hit by the fall in prices, raising questions about whether it will be able to service its debts. According to a report in the *Financial Times* last Tuesday: "Caracas might be making soothing noises about plans to service its debts but there are growing fears that the government, and state-owned oil company Petroleos de Venezuela are running out of money. As the state printing press continued to churn out new banknotes, inflation is expected to hit a fantastical 720 percent this year."

Barclays bank has warned that a "credit event," that is, a default, is likely unless oil prices start to rise.

Nigeria is in a similar position, relying on oil for more than 90 percent of its export revenue. A visit to the capital Lagos by IMF managing director, Christine Lagarde earlier this month sparked media speculation that the purpose of the visit was to discuss bailout terms. Lagarde dismissed such suggestions and the government said the country was not seeking a loan, claiming it did not need one. But the government and the World Bank are engaged in discussions on a possible $2–$3 billion loan to provide budget support.

Ecuador could be on the same path. Dependent on oil revenues, it is a fully US-dollarised economy, meaning that its trade position is being worsened because of the rise in the value of US currency in global markets.

The jobs cuts announced so far and the growing threats of default are only the beginning of a wave of destruction as the breakdown of the global capitalist economy which began with the financial crisis of 2008 intensifies.