



A Global Forum

# Sir Mick Davis

in conversation with  
Ann Bernstein



CDE@25 | Democracy | Markets | Development  
A South African resource influencing policy for 25 years

In November 2020, CDE initiated a series of events to celebrate 25 years since its launch in August 1995. The series focuses on global conversations on democracy, business, markets, and development.

**Sipho Maseko**, CEO of Telkom and CDE board member, opened the event: "I am pleased to welcome you to the final CDE@25 event for 2021. We've had a year of excellent contributions by a range of speakers, South African and international, all of whom are experts in their field. The response to invitations to these events have been more than exceptional. The positive feedback we have received regarding the value of these discussions prompted CDE's board to urge the executive director to continue this series beyond just the celebration of CDE's 25 years.

"I've been a board member since 2008, so I've been with CDE for longer than I've been at Telkom! I never fail to be impressed with the contribution that this think tank makes to South African policy debates – the products that reach the public are thoroughly grounded in research and evidence, fact-based and of the highest quality, and they're always very carefully tested with a broad range of stakeholders. CDE advocates for growth and inclusion, seeking strategies to create a more prosperous society for all South Africans and to expand opportunities for the bottom half of our society. I am looking forward to tonight's conversation with Sir Mick Davis."

This is the thirteenth conversation in the CDE@25 series.

**Ann Bernstein:** It's a great pleasure to welcome to South Africa and to CDE, albeit virtually, Sir Mick Davis – a former South African businessman, former CEO of the Conservative Party in the United Kingdom, a global mining dealmaker, an executive director of Eskom in those far away days when we had a surplus of power and later a member of President Ramaphosa's Eskom Sustainability Task Team. Thank you for joining us.

I'm going to cover some big topics in our hour together, to explore your thoughts on mining companies, and on business and society more broadly, corruption, and then look at South Africa in more detail.

I understand that you and I share an admiration for the American author, Doris Kearns Goodwin. I know that you especially like her book about Abraham Lincoln, *Team of Rivals*. Can you tell us why you like that book in particular?

**Mick Davis:** I'm a great admirer of Abraham Lincoln and the impact he had on America. The important thing he did was that he put together a cabinet of people who didn't initially like him. He built common cause with them to foster the interests of the United States. That's a lesson for all politicians today: surrounding yourself with sycophantic people is a recipe for disaster. To surround yourself with people who challenge you, who have intellect, and who have capacity is an enormous way of creating value. That's an important proposition for business as well.

**Ann Bernstein:** For someone involved in big mining deals around the world, and your new venture into battery technology and development, you clearly need an understanding of global developments and trends. What do you think of the prospects for China, India, and Africa?

**Mick Davis:** China was central to my success in business because of its industrialisation – the moving of hundreds of millions of people from an agrarian society into an urban society – which triggered my conviction on how we should grow Xstrata. The company was built on the premise that, although the use of commodities and metals in the developed world was going to decline, in China it was going to erupt.

In that growth, an increasingly complex society would arise. The trade-off between economic freedom and political freedom plays itself out in China almost every single day. The idea is that one can have increasing amounts of economic freedom provided that one doesn't challenge for political freedom. That creates one set of challenges. Another, possibly more important set of challenges flows from the reality that China is about to enter into a demographic deficit, which means that more people are leaving the workforce than are coming into

it. This will drive up wages but will also create many demands on the state at a time when the social safety net that First World countries can afford is not there yet.

This raises the question of whether China is going to be rich enough soon enough to be able to cope with this demographic deficit. Although people are concerned about the rise of China, I'm more concerned about China failing than succeeding, because I fear the consequences of an economy which does not become rich enough to deal with the upheavals that the demographic deficit will create. That would mean rising tensions and greater unrest in that society, and the likelihood that the Chinese leadership will look for external scapegoats to paper over those internal tensions.

India is the economy that has always had the greatest promise and the greatest capacity never to deliver. It has a demographic advantage and some very smart people, yet the Byzantine nature of its politics weighs down on its capacity to break free of being an agrarian economy. When the monsoons are good, India does well; when the monsoons are bad, it doesn't do so well. They have enormous productivity issues because they can't address their infrastructural challenges. The combination of a federal government with bureaucratic constraints that they inherited from the British, and then perfected, and the inability to deal with the power of the individual states, means India is always on the cusp of having a significant influence in the world economy, but it never quite gets there.

I've always tried to create my business perspective based on a set of convictions, and I think the challenge that we have today is that forming a conviction is quite difficult. It certainly is for Africa. It's so easy to be negative and to say that much of Africa is disappearing into the abyss with its problems of enormous population growth and insufficient growth in education – which is relevant to operating economies in the technological world – and that many African countries will continue to be underperformers. There is also insufficient infrastructure to support growth, significant corruption, and poor governance, all of which contribute to Africa's huge challenges. Yet it is a continent with enormous advantages as well. With a young population that is strongly consumer orientated, I feel that if it gets a quarter of the ingredients for healthy growth right, the continent will have much to offer. But right now, I'm feeling more negative than positive.

**Ann Bernstein:** How serious is everyone about climate change and doing something about it? You've called tackling this challenge a 'secular change'. Can you explain what you mean by that?

**Mick Davis:** We've received many statements by the G7 and the G20, and the nations that are in Glasgow for COP26, saying that they want to achieve a situation where global warming is limited to 1.5°C above the pre-industrial average. That is one hell of an objective. That requires the 60 gigatons of carbon dioxide Greenhouse Gas Equivalent that we pump into the atmosphere annually to reduce to below 30, equivalent to a 58 percent reduction. That represents a fundamental discontinuity in the way that we source and use our energy.

The only way you can address this is to reduce the amount of electricity you produce from fossil fuels. Currently, nuclear energy does not yet have a political mandate. Even if politicians could today reach common ground with citizens with respect to nuclear energy, it would take 15 years before you have a serious injection of nuclear power into the mix. This means that renewable energy has to go from 25 percent of the energy mix today to somewhere between 85 and 90 percent by 2050, and that can only really emerge from solar power, and offshore and onshore wind. Hydropower is not going to be a significant component. The more you actually introduce this type of renewable energy into the electric grid system the more instability will result because it is intermittent in nature. Therefore, you have to have a significant amount of backstop capacity to smooth out this supply into the grid, and this can't come from fossil fuels, because that defeats the whole objective. So, if it's not coming from nuclear energy, it has to come from very large-scale battery storage systems.

Quite rightly, the consensus is that the internal combustion engine should become obsolete and that transportation should be driven by electric vehicles. I say it's right because transportation sits at the heart of almost everything we do. Changing the way that we use transportation is a fundamental proposition in getting people to understand they have to live their lives in a different way. But we have five million electric vehicles on the road today, and if we want to get near achieving the 1.5°C goal, we need to get to 300 million on the road in the course of the next 20 years, which in turn requires an extraordinary number of gigawatt hours stored in batteries. Given the fact that the supply side of the industry is grotesquely unprepared to meet that level of demand, where is it going to come from? This will dwarf Chinese demand for commodities during their industrialisation drive.



What is happening is a coalition of politicians, activists, providers of capital, and the man in the street – everyone – coming to the simple conclusion that sustaining life in the way that we want it to be lived on this planet requires a significant reduction in the carbon footprint. So, the intent is serious, but I think we have little hope in addressing the real issues needed to deliver on that objective, and that is a big concern. The present plans are not going to achieve that goal in my lifetime.

I talk about a secular change in demand because the mining industry operates in cycles. Here, we're talking about something which is entirely different, where the demand is driven by a revolution in the way that we use energy. In other words, it's secular because you have a structural change to the demand curve which lifts up irrespective of business cycles.

**Ann Bernstein:** One of the big advantages of business is that it can operate under very different governments and regimes around the world. This can sometimes be very uncomfortable. What is your view on mining companies operating in anti-democratic regimes and often very corrupt societies, such as Equatorial Guinea? What are the trade-offs?

**Mick Davis:** The descent into evil happens in small, incremental steps. You start off living a virtuous life and, given the challenges you face, you make a series of small compromises to enable you to live your life within a certain kind of environment. And because they're small changes, the first change doesn't seem so bad. But then you find yourself on a slippery slope, and before you know it you are swimming in a cesspit of evil.

That is the challenge that businesses, like human beings, face. Mining companies enter into specific places because that's where God put the resources. They do so on the basis that they're performing a public good and they can have a monumental impact on the communities in which they operate. Such companies have moved people from subsistence living to sustainability, offered them value in terms of education and healthcare, and changed the structure of their societies for the better. At the same time, they are producing commodities vital for the world. And although people think you can't, companies can do this in an environmentally benign way.

These companies often take the view that they can manage the governance within those corrupt countries, and can find accommodations that don't compromise their principles. Most of the time that is possible, but sometimes it is not. It is extremely difficult to know at what point a company needs to take the view that they shouldn't be there. It certainly can't be on the basis that democracy is absent, because then we won't be producing the commodities the world requires. But there are some absolutes which companies can't and should not break: where people in a society are differentially treated, or where governance is so bad that you cannot operate unless you are engaged in large-scale and ongoing corruption.

In my time in the mining industry, I tried to recognise that. There would be some geographies in which I couldn't possibly operate because I don't know how to mitigate the risks of descending into evil. There are other geographies in which this decision is more complex, where there is no democracy or Western set of values, yet where society functions in a way that sees people treated equally, where individuals prosper, and where governments are actually not acting to the detriment of the communities they serve despite the fact that they might not be acting in a way that I would choose. So, I think it's a very complex question and one has to be constantly alert to not fall down that slippery slope.

**Ann Bernstein:** It is unusual in South Africa for business leaders - real entrepreneurs and money makers - to go into politics. Why did you decide to get involved in a political party in the United Kingdom and how did you adjust to the realities of politics? What would your advice be to other business leaders looking to get into politics? "Don't!"

**Mick Davis:** I got engaged with the Conservative Party because I operate out of certain convictions. When Jeremy Corbyn became the leader of the Labour Party, I thought that was dangerous because his value system is corrupt. I thought it was dangerous for British society, and to be frank, I thought it was dangerous for me as a Jew. I couldn't contemplate a world where I did not try to stop him from becoming Prime Minister.

After the 2017 general election, it became apparent to me that the Conservative Party had lost its campaigning capacity, and that it would likely lose the next general election if it did not rebuild this capacity. So, I approached Theresa May and said that she needed to professionalise the running of the Conservative Party, and that she needed a non-aligned person to come in and run it. I said I was prepared to do it for a couple of years and try and deliver this campaign organisation, bearing in mind that I knew very little about how politicians behaved.

I learned quickly, and identified that we needed to refresh campaign capability on the ground, which meant finding new activists who we could deploy across the country. I also determined that we needed to collect data on the electorate across the country and utilise the wonderful techniques that artificial intelligence gives us to interrogate those data and determine the characteristics of a person who could vote for the party. I got the Conservatives to focus on those two specific objectives and we ran the campaign that way for two years, until Boris Johnson became Prime Minister in November 2019. I then became the first person he fired.

Businesspeople should undoubtedly be engaged in politics. There are countries like France, for instance, where there is a natural flow in and out of the political process in the business community. In the United Kingdom, a lot of businesspeople used to be politicians in days gone by. It's a very recent phenomenon in the UK that politics has become the domain of the professional politician. Academics and people from other walks of life should also be engaged in the political process because politicians are supposed to represent the people, and they can't represent the people if they don't understand the way in which actual people live their lives.

I think this is more so the case in a country that has challenging governance and other existential issues, such as South Africa. If the business community remains silent on these, they'll be doing a great disservice to the country. So, whether they become engaged politically with parties, or become vocal within parties, they need to step forward. If they don't do that, I think the country is done.

**Ann Bernstein:** One of the big themes of Theresa May's short term as Prime Minister concerned business and society. How do you think companies should and could establish more legitimacy in the societies in which they operate?

**Mick Davis:** I've always believed in a lot of what Theresa May was trying to do. I certainly believed in her view that capitalism can only survive if we create a society where we don't have the few prospering and the majority looking in from the side lines, wondering how they get a legitimate piece of the action. Unfortunately, with increasing automation and digitisation, we are creating a society where many people don't have access to opportunities, and they don't have the capacity to be upwardly socially mobile.

The business community plays an important role in this, because if they want a free-market society where markets determine prices and the allocation of resources, and if they want the ability to prosper in that environment, they then have to make sure that they are seen as a force for public good. This means that you cannot simply have 'generating the highest possible return to your investors' as being the only metric of success. You have to recognise that your success in business comes from a range of stakeholders, including your employees and customers, but also the society in which you operate and the people who constitute that society. You have to deliver value to those stakeholders as well, because if they contribute to the success of a business, they're entitled to a return.

So, business has to think very deeply about how they can be a force for public good. Up to now, the response of the business community has been formulaic – they've developed a social development fund, they dole out a cheque here and there, and they get lots of publicity when they write their annual reports. What is needed, however, is a fundamental contribution to society itself growing in a way which is for all the citizens. Not everyone is going to be a millionaire, but everybody should be entitled to the opportunity of getting a decent education, of being capable of contributing in a technology-based economy, and of being able to take themselves out of poverty into the middle class. I think that business can contribute to all these things. This would entail joining the debate on how that should be achieved.

Education is one particular area where business has not only a legitimate right to participate, but is almost obligated to do something to ensure its own survival. Unless there are properly educated people, businesses will not be able to be productive, effective, and profitable going forward. This is not just a challenge for South Africa, it's a challenge all around the world. We have massive education deficits where people come out of schools ill-equipped to contribute valuably to societies. Business could actually change that by becoming part of a growing mechanism to invest in education, both in terms of the provision of relevant materials to be taught and by ensuring that the most outstanding people are hired as teachers.

When I was still running Xstrata in South Africa, I proposed to the then-President that we use video conference facilities to create access to the best teachers around the world in South African classrooms. I was prepared to fund the construction of relevant classrooms and technology to allow that to happen. The offer was not taken up, but those are the sort of things that I think that business should be doing.

**Ann Bernstein:** Let's move to South Africa now. In December 2018, the President appointed you to his Eskom Sustainability Task Team. This team reported in February 2019 – a report that has not been made public, as far as I know. What is your view on Eskom and how South Africa has been handling it in the last few years? Is Eskom in a death spiral? What should the country do?

**Mick Davis:** Eskom is a Greek tragedy in the sense that, like all state-owned enterprises in South Africa, there is an inevitability of decline and degradation. Eskom, unfortunately, is so large and so integral to the South African economy that its decline is potentially fatal for the economy itself.

This decline has clearly built up over a period of years through mismanagement, a loss of skills, and significant corruption, which has raised the cost of its operations and created massive risks across the economy. All this has culminated in ongoing loadshedding and Eskom's capacity to supply energy always being on the cusp. The fact is that it's selling less electricity today than it did 10 years ago. No economy should be in that position. It has inhibited the growth of businesses, preventing some businesses from being established, and raising the cost base in South Africa.

I fear for South Africa, because Eskom can fall over, and its ability to be rebuilt will then be somewhat limited. Having said that, there is no reason why Eskom cannot return to a situation where it can be a credible, reliable supplier of reasonably priced electricity. Eskom is a solvable problem. This can be done within a 10-year period – and you can start right now.

I am full of admiration for the current CEO of Eskom, of the battle that he's fighting, and of the initiatives that he's taking. But he cannot be successful unless there is a purposeful response by government to do the right thing, namely, to address the issue of Eskom's crippling debt and remove that burden in some appropriate way so that Eskom does not pay out such a significant amount on interest, which inhibits its ability to address operational considerations. It needs to force municipalities to pay for electricity or find some alternative resolution to that. It also needs to fundamentally address the issue of the skills of people operating the current system. Running a power system is an art, not a science. It needs a significant skills base and people with experience. I strongly believe that one of the ways of getting that experience is to go around the world and tap into the best operators you can find, bring them in for a three-year period to work alongside the current Eskom team, and train them as they redesign the running of the system. All that is possible if you're prepared to give the Eskom management a credible licence to do what it needs to do without government getting into the engine room. One of the big impediments to Eskom's functioning has been the constant micromanaging by government.

One of the biggest challenges for South Africa is that the government believes it has to be at the epicentre of the economic and social system. Governments should not ever be at the epicentre; they should be creating the environment and the arrangements for society itself – including businesses – to add the value.

My view is that you should support the current chief executive, employ the best management team that you can possibly find, bring in the best skills that you can, and accept that there are some people who work in Eskom who have become redundant and deal with the trauma of that appropriately. If you put those ingredients together over a 10-year period, Eskom can be resurrected from the current depths of despair. I also really believe that one of the ways that we can address the issue of insufficient capacity of the system is to not only allow private generation, but to positively encourage it.

**Ann Bernstein:** Well, we have this year managed to get some changes to allow for private generation, but it's all happening too slowly and hasn't been ambitious enough. If you were looking for a location to build a new factory, would you invest in South Africa today?

**Mick Davis:** Investing in South Africa is quite a difficult proposition because there are so many risks that one has to try and quantify and decide if you can mitigate. There are risks pertaining to one's ownership, especially in the mining industry. The whole question of empowerment is an important, relevant, and legitimate issue that has to be dealt with in this country, but if you have a situation where empowerment can change and you continuously have to fund new empowerment to maintain empowerment status, you have to question how much you actually own your assets.

Another way in which rent is extracted from the mining industry is when the industry has to step in and become the provider of services that local government should be providing to communities. You also need reliable logistics and power.

The cost of doing business in South Africa is rising. So, would I invest in something which is very energy-intensive at the moment? Absolutely not! Would I invest in an anode facility, which is not energy intensive, and which is located with good logistics infrastructure? I would be prepared to take that risk, yes. But I take the risk because I think that unless people like me are prepared to commit to South Africa, then I shouldn't be speaking on your programme. But I can tell you now that global investors view South Africa as a country where risk has spiralled. Attracting foreign investment at the moment will be very difficult.

**Ann Bernstein:** Let's come to the big issue then. South Africa is in crisis on almost every front. What would be your advice to the President, and to the country, on how to get out of this terrible downward spiral?

**Mick Davis:** I don't think it's good enough to determine what the issues are that need to be addressed. There are so many of them that you have to determine which are the most important and which are the ones you can actually address in a reasonable period. What we're talking about here is not just solving issues on the ground but solving issues that give a sense of hope that South Africa can once again become a country that offers growth, jobs, and relief from poverty. People need to see an issue being resolved. For that to happen, you need to determine a strategic plan which prioritises five key issues, whether it's housing, property ownership, or education, and you need to ask what can be done with these issues – realistic things irrespective of ideology, based on a practical delivery plan.

In my view, the current policy initiatives relating to land ownership are unconscionable. The idea that you have to fiddle with the Constitution is dangerous and, to my mind, simply not necessary. You have sufficient land out there available to government to address the issue of people's lack of access to land. There are ways of dealing with the issue of land ownership which do not require taking land away from people without any compensation. If I were advising the President, I would counsel him to identify one or two things where you know that, if you act practically and eschew ideology, you can have an impact. I would get ahead of the curve, lead people instead of nudging them from behind. There must be a thirst in South Africa for that.

**Ann Bernstein:** What would you say to business leaders in South Africa? What should they be doing?

**Mick Davis:** I guess I have the requisite degree of arrogance that any successful businessman should have, but I'm not that arrogant to give advice to other businesses. I think that they're in a tough position and I think that they have played an incredible role in the current Covid-19 crisis with respect to the solutions they have come up with. But I think that business has to be robust in its debates with government and challenge the ideology that underpins government's determination to control the economy. If business can fight that proposition, it can then find credible solutions that, in partnership with government, can take the country forward. I would hope that they continue to do that and don't lose heart.

**Ann Bernstein:** Thank you very much for spending an hour with CDE and all of our guests tonight. I've taken you all around the world and back to South Africa and I hope the audience has found this as fascinating, informative, and thought-provoking as I have.

**Mick Davis:** Thank you, Ann.

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