



Kumba – Sishen (training)

# PUTTING SA BACK ON THE GLOBAL MINING MAP

Africa Down Under  
Roger Baxter, CEO | 6 September 2019



# About the Minerals Council

Minerals Council South Africa represents more than 70 large, medium-sized, small and emerging miners, and three associations that collectively represent +200 entities. Members make up around **90% of South Africa's mineral production by value.**

## OUR PURPOSE

#MakingMiningMatter

### MINERALS COUNCIL



MEMBERS



# Mining matters to South Africa



Direct contribution  
of mining to GDP:

**R350.8bn**  
(7%)



Direct contribution  
fixed investment:

**R91.1bn**  
15% of total private sector  
investment



Total primary  
mineral sales:

**R498.7bn**  
66% exported sales  
27% of SA's total exports



Royalties paid:

**R7.6bn**



Taxes paid:

**R22.0bn**

Direct employment created  
by mining:  
6.2% of private, non-agricultural  
employment in the country

**456,000**  
people employed

Indirect employment created  
by mining:

For every job in mining  
**at least 2 more jobs** are  
created up and downstream

Economic dependency:

Each mining employee  
supports **5 to 10 dependants**

Remuneration to mining  
employees:

**R134bn**

PAYE paid by employees:

**R21bn**

# And South Africa matters to mining

## South Africa's contribution to world mineral reserves: 2017-2018

Commodity	Unit	South Africa	World	
		Reserves	Reserves	%
Antimony (metal)	kt	27	1,500,000	1.8
Chromium	Mt	200,000	500,000	40.0
Gold (metal)	t	6,000	57,000	10.5
Iron Ore	Mt	770	82,000	0.9
Manganese (metal)	kt	200,000	690,000	28.9
Nickel	Mt	3,700	78,000	4.7
Platinum Group Metals	t	63,000	67,000	94.0
Uranium (metal, up to \$US 80/kg U)	t	279,100	-	5.2
Zirconium minerals (metals)	kt	14,000	75,000	18.6

Source: Department of Minerals Resources and Energy, US Geological Survey

# Economic and transformational potential of mining is huge

South Africa's "MINERAL POTENTIAL – ASSUMING BEST PRACTICE" is ranked by the Fraser Institute as:

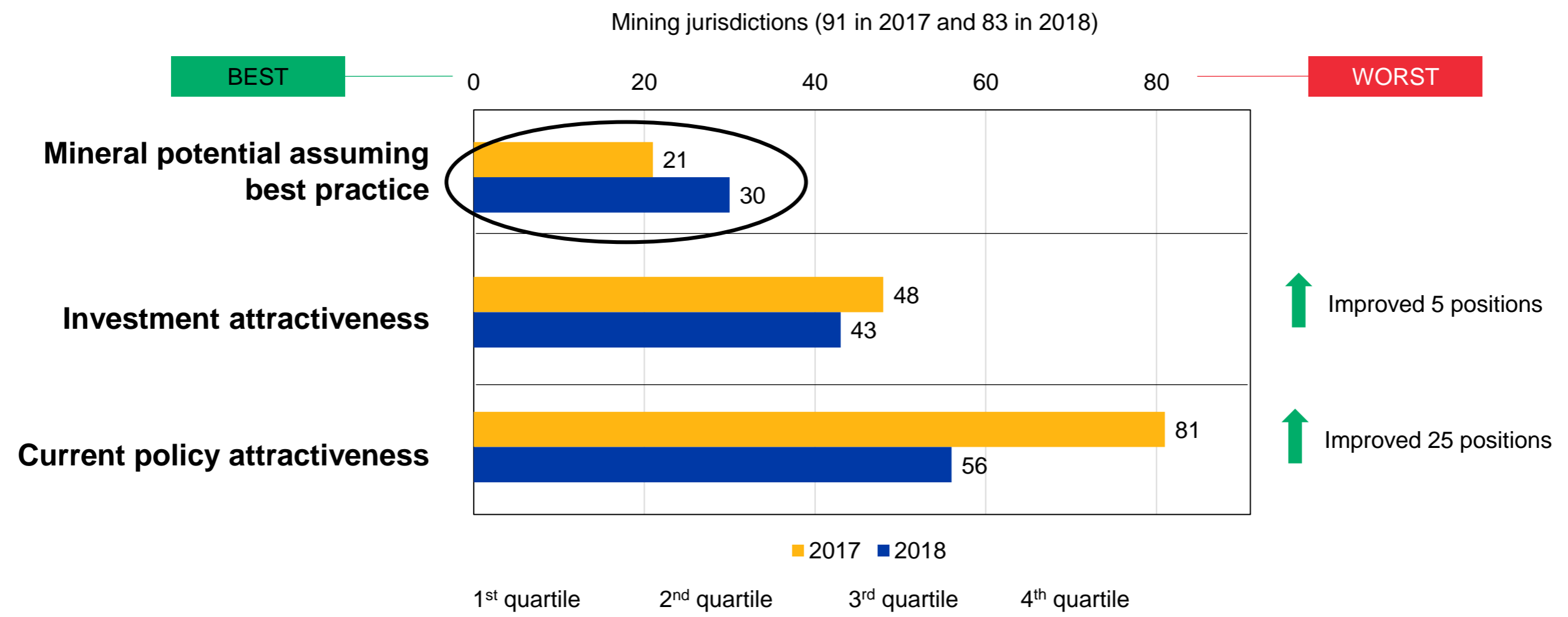
## 30 out of 83 mining jurisdictions (top half)

South African mining investment could almost double in the next four years *if the country was to return to the top quartile of the most attractive mining investment destinations*



# South Africa's mineral potential is high

## Investment attractiveness and policy scorecard not in sync (but improving)



# A sector emerging from serious headwinds



## 1. Policy and regulatory uncertainty

- Disastrous 2016 Zwane Charter
- Problematic 2012 MPRDA amendment bill
- Continued challenges on environmental and mining licensing
- New carbon tax with no regulations on offsets (budgets, offsets)



## 2. Infrastructure challenges

- Challenges on electricity supply and rising prices (523% increase in 10 years)
- Challenges on availability of rail, and rapidly escalating rail costs



## 3. Community and employment relations instability

- Community protests and disruption to mining
- Strike activity



## 4. Crime and illegal mining's impact on the sector

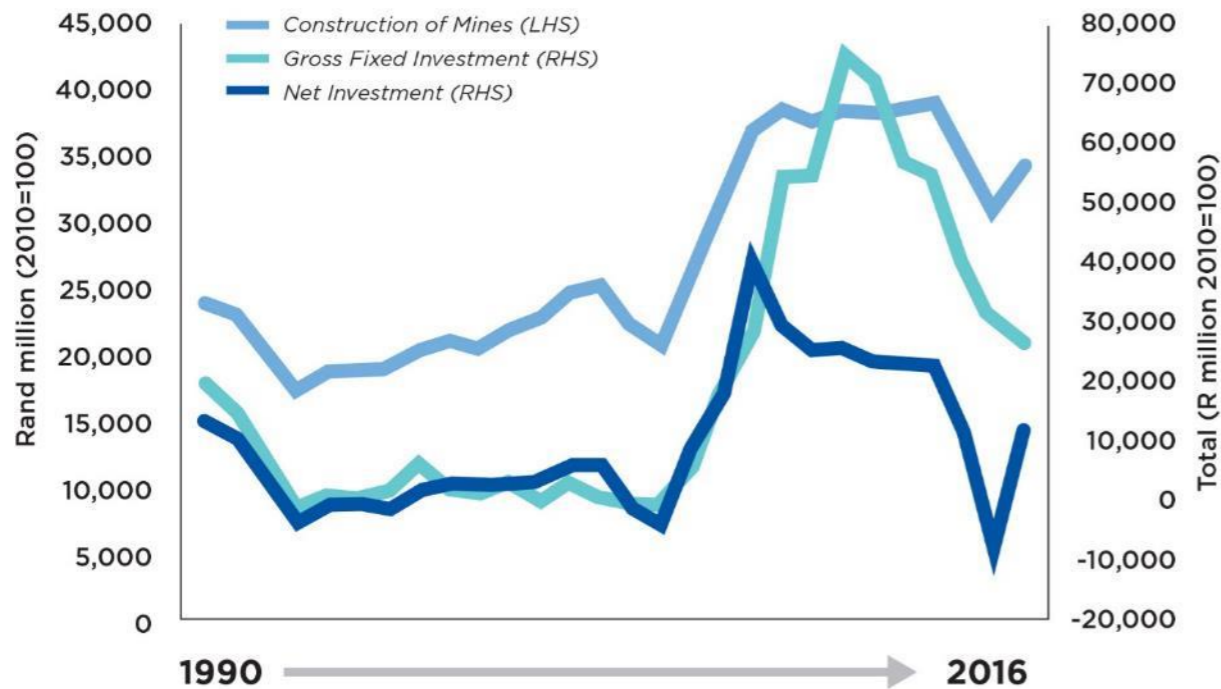
- Huge economic cost to mines and country

**Economic and transformational cost of 'getting it wrong' is huge**

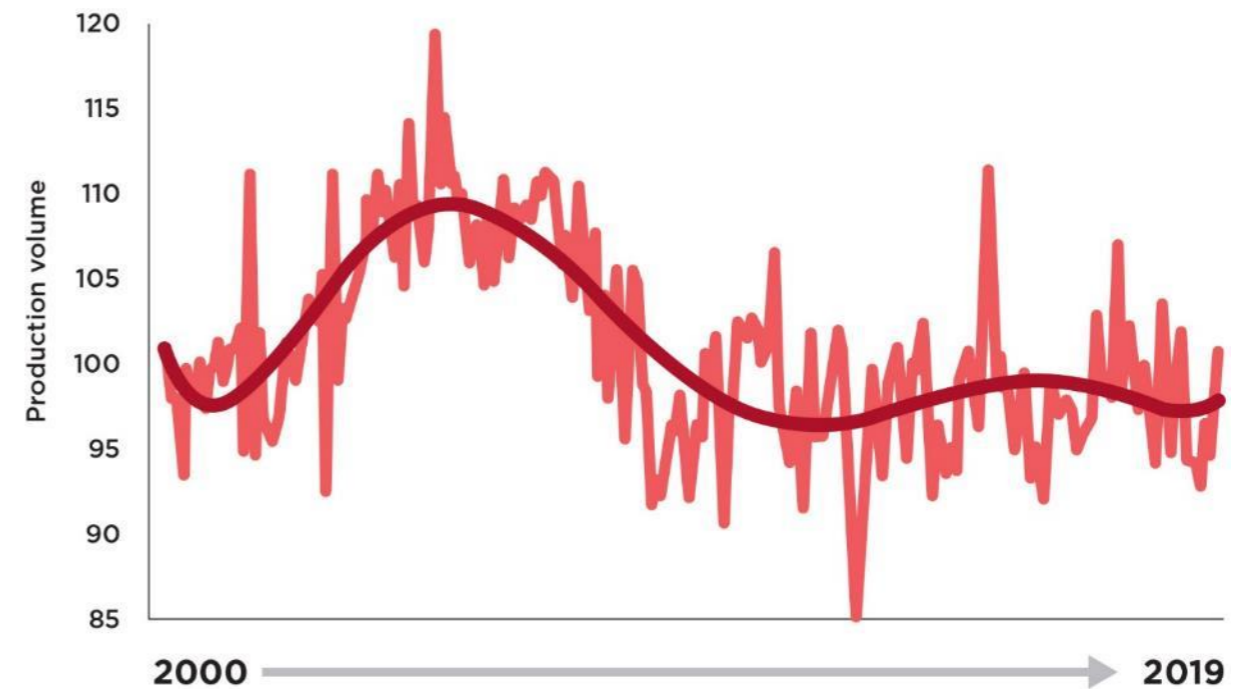
# Mining investment has only just stabilised

The long-term trend in mining production is at the 2000 level

Disaggregated fixed investment in mining



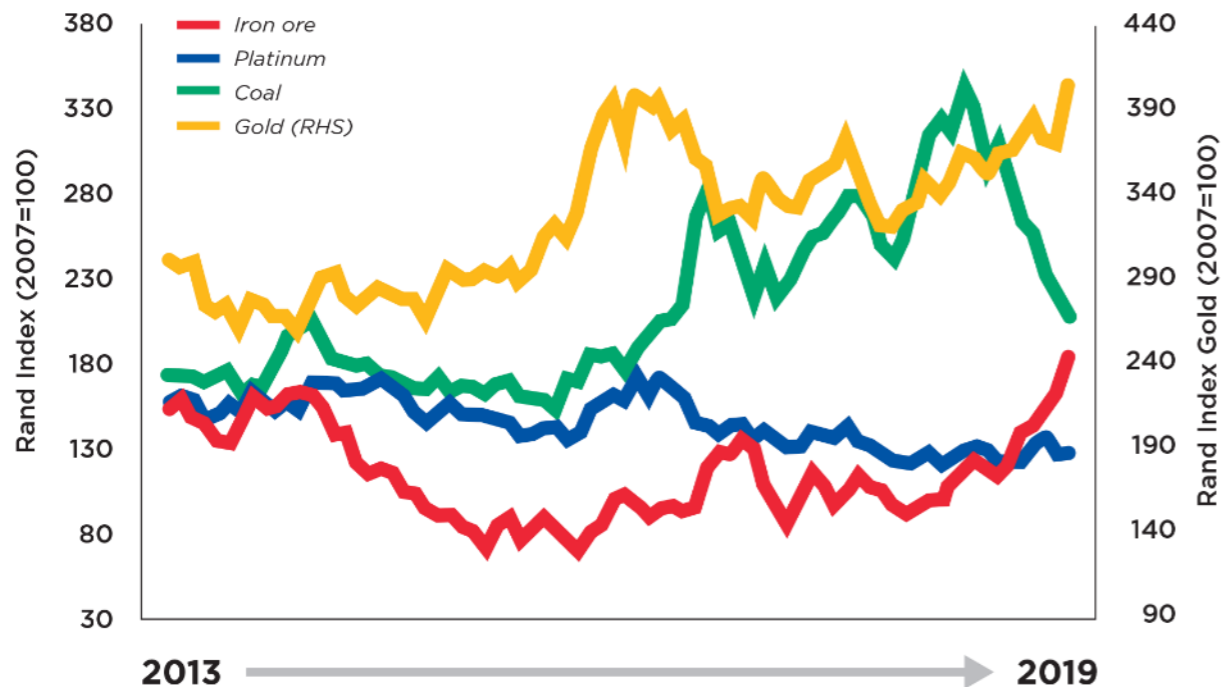
Annual production volume (Index)



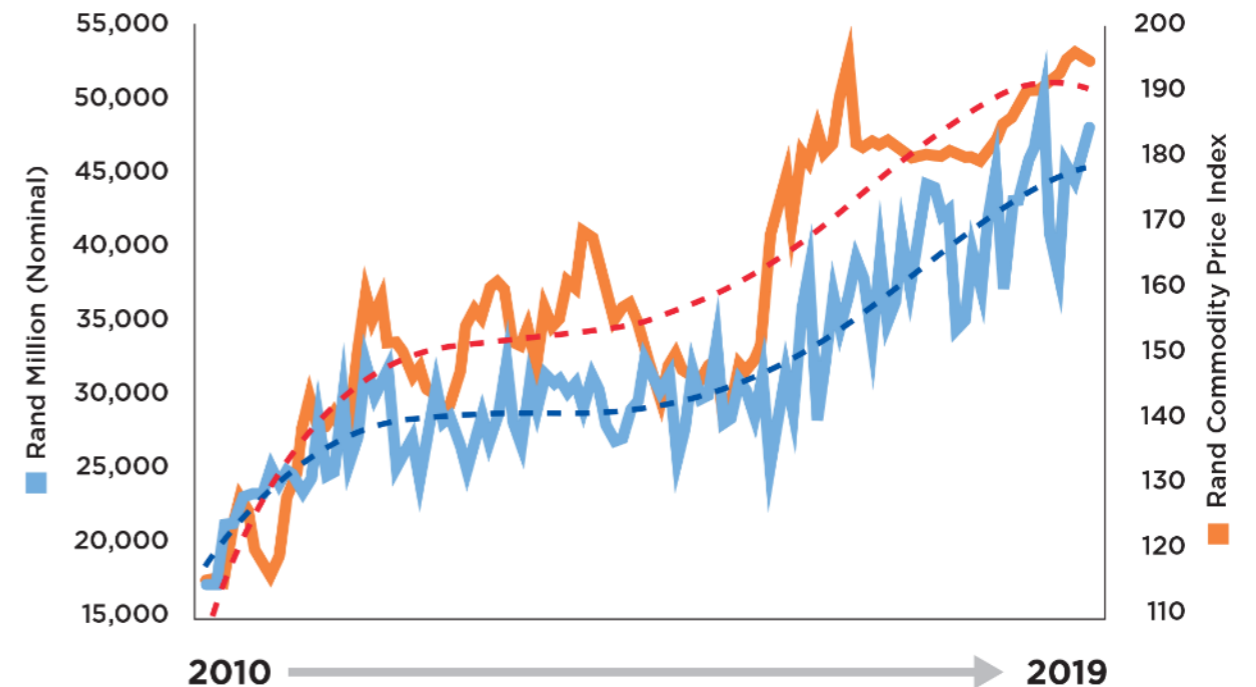
# Commodity prices

# Mining sales (nominal) and Rand commodity prices

Commodity prices



Mining sales (nominal) and Rand commodity prices

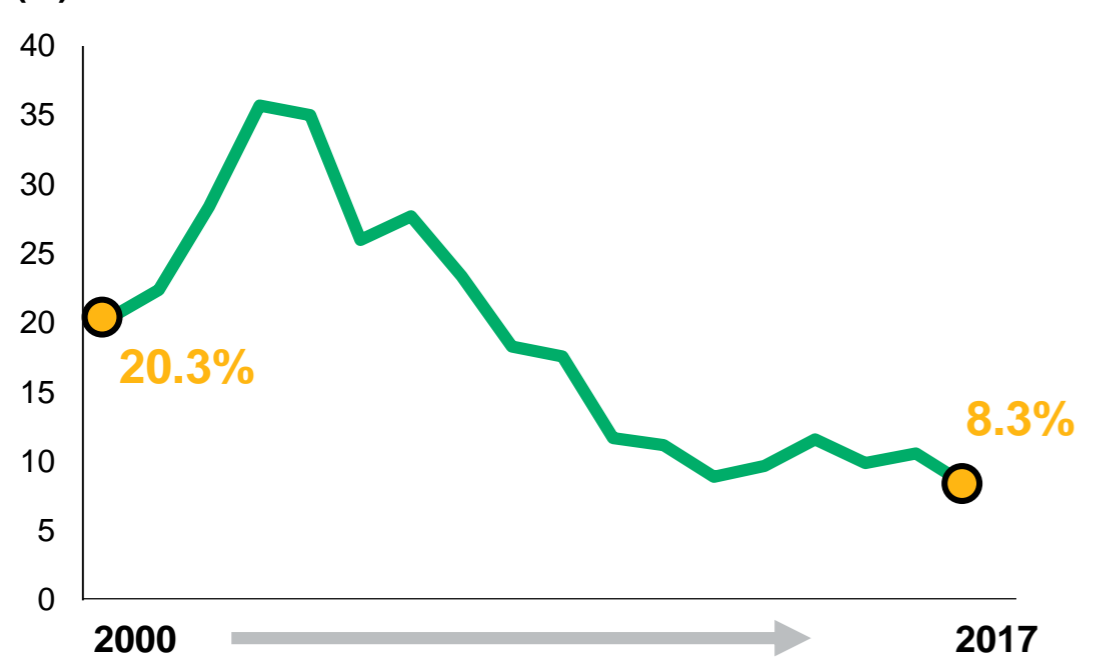


# Exploration and project pipeline has been weak, but positive signs emerging

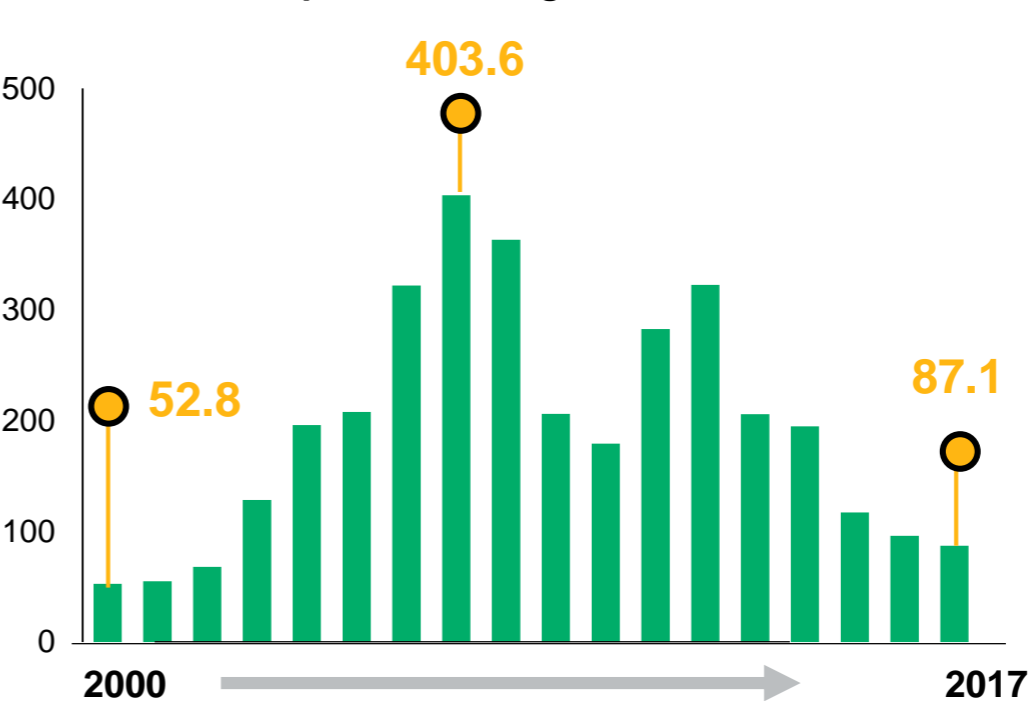
In 2017, South Africa accounted for a dismal 1% of total global exploration expenditure (14% for Canada, 14% for Australia and 13% for the rest of Africa).

And, only 10% of this in South Africa was on Greenfields exploration).

South Africa's share of African exploration budgets 2000-2017 (%)



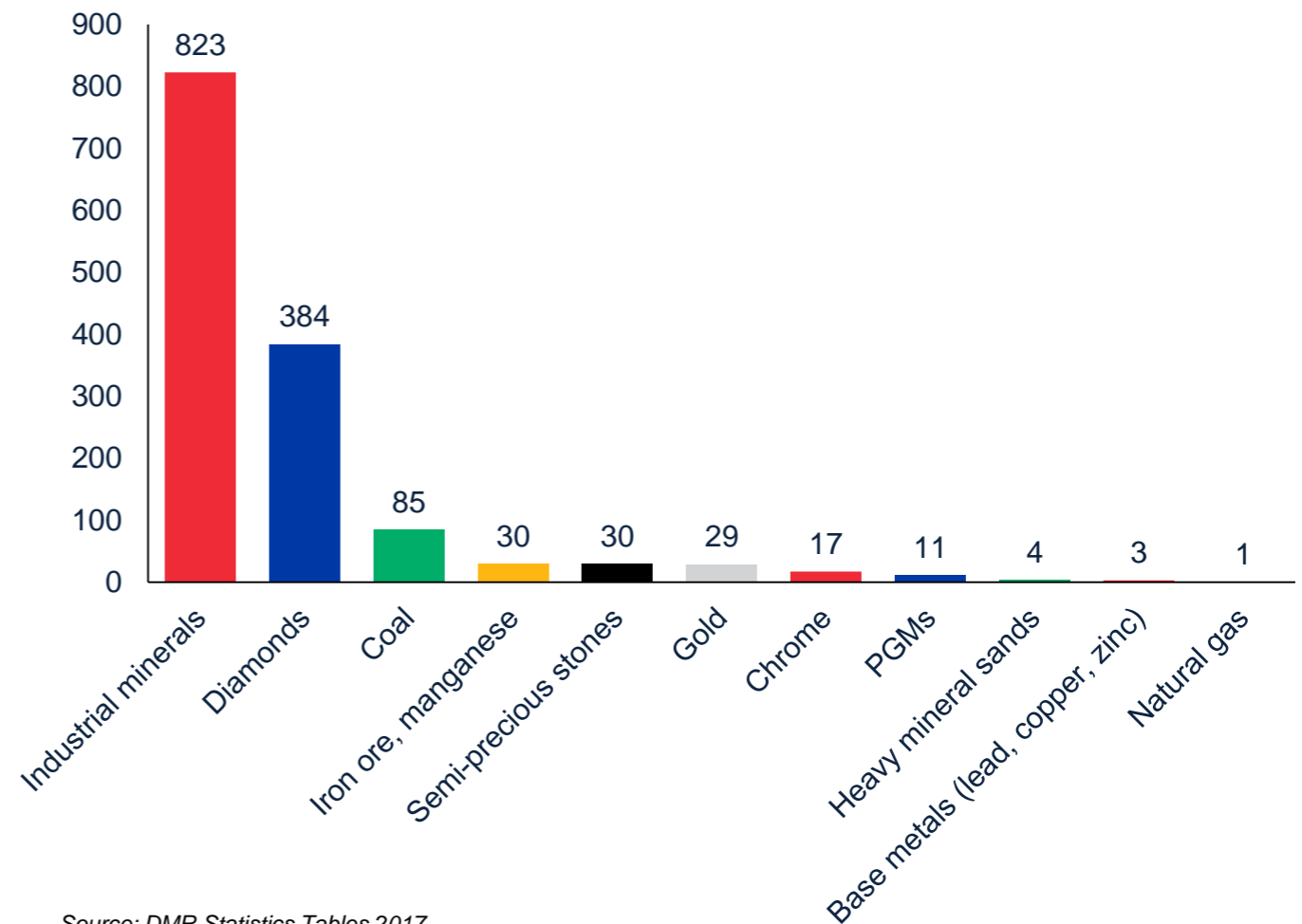
South Africa's exploration budgets 2000-2017



# Junior miner - mining licences\* in South Africa (2017)

- Minerals Council has established a **Junior and Emerging Miners Leadership Forum** and an **Exploration Leadership Forum**
- Minerals Council research shows a **multiplier effect of between 7 and 10 jobs** in surrounding industries for each mining job
- Junior sector could contribute **230,000 jobs** as a conservative estimate
- Government and junior miners need to partner to develop the sector further
- Minerals Council Junior Mining Desk has engaged the DMRE on **signing an MOU on collaboration**
- Imperative that regulatory environment encourages the development of junior mining in South Africa

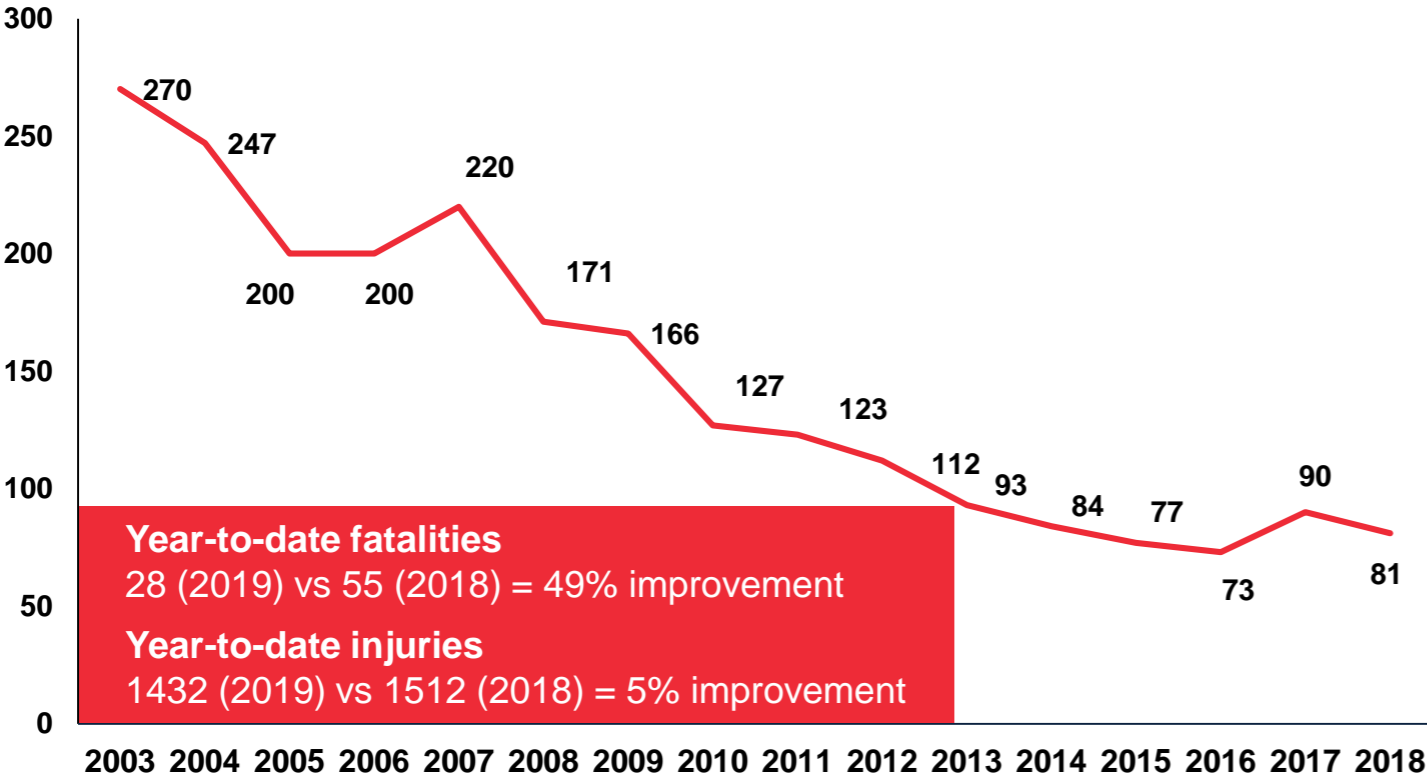
Junior miner mining licences\* in South Africa (2017)



Source: DMR Statistics Tables 2017  
\* Mining rights

# Critical reflection on industry safety performance

Fatalities in the SA mining industry



## ASPIRATION

We sustain our aspiration of zero harm as defined in the tripartite agreement of 2014

Every employee and contractor returns from work unharmed everyday

## ZERO HARM

## STEP-CHANGE 2020

Elimination of fatalities from safety and health

Step-change priority for CEO Zero Harm Forum (2019-2020)  
- elimination of fatalities (safety and health)

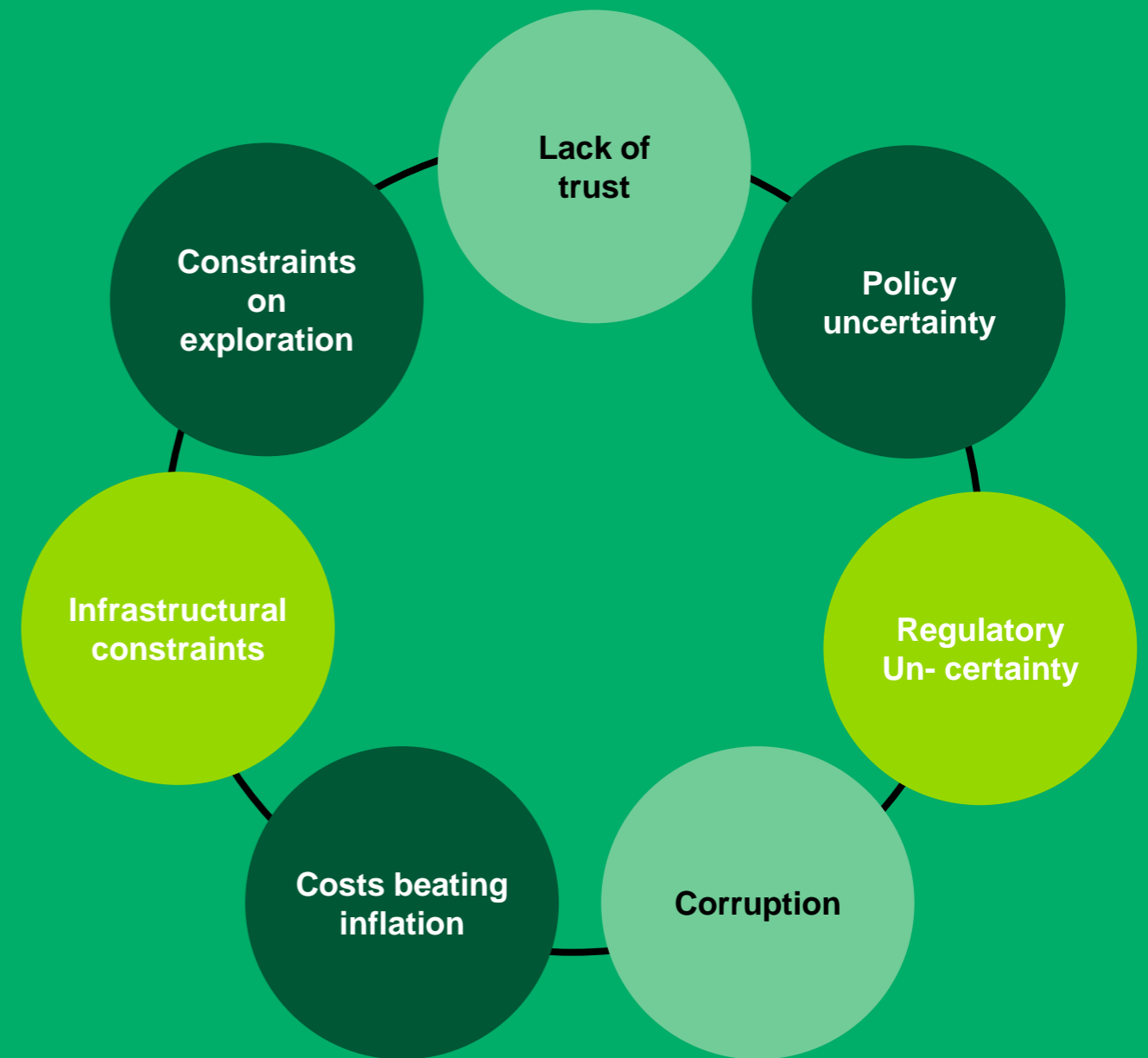
2-year focus on fatalities

## HOLISTIC

## APPROACH

Holistic approach to the elimination of fatalities from safety and health (during and beyond employment)

# Top issues undermining The competitiveness of RSA's mining sector





**Conditions are changing**  
**In 2019, are there grounds for hope?**

# Some green shoots in mining

## Re-appointment of Minister Mantashe and implementation of following key changes/reforms

- Opening of significant robust dialogue between Minister, DMRE and Minerals Council, organised labour and communities
- Finalisation of a 'mostly workable' MCIII (with a few outstanding issues that need resolution)
- Withdrawal of controversial MPRDA Amendment Bill.
- Minister has had detailed discussions with CEOs of Minerals Council commodity leadership forums
- DMRE tackling license backlogs, investigating corruption and improving systems to improve performance.
- Discussions starting on developing a new strategy to promote a greenfields exploration boom in South Africa
- Publication of Treasury economic 'blueprint'

**Significant improvement in some mineral prices  
(gold >R700,000/**

**Greater reliability from Eskom  
(no load-shedding since February)**



# But there remain some potential thorns among the green shoots

- Maintaining South Africa's investment grade sovereign rating
- Trajectory of electricity prices and how Eskom will be restructured
  - Minerals Council is working closely with government and Eskom to assist (technical review team, coal supply)
- Resolution of outstanding issues on Mining Charter III
- Working with government and communities to ensure stable communities and less disruption to mining
- Promoting industrial relations stability and workable outcomes to negotiations



Ethical leadership and  
good governance



Available, efficient,  
cost competitive and  
reliable  
infrastructure



Creating a  
“Greenfields  
Exploration Boom”



# Strategy to enable South African Mining to realise its potential



Having a shared  
vision of the future of  
the RSA mining  
industry

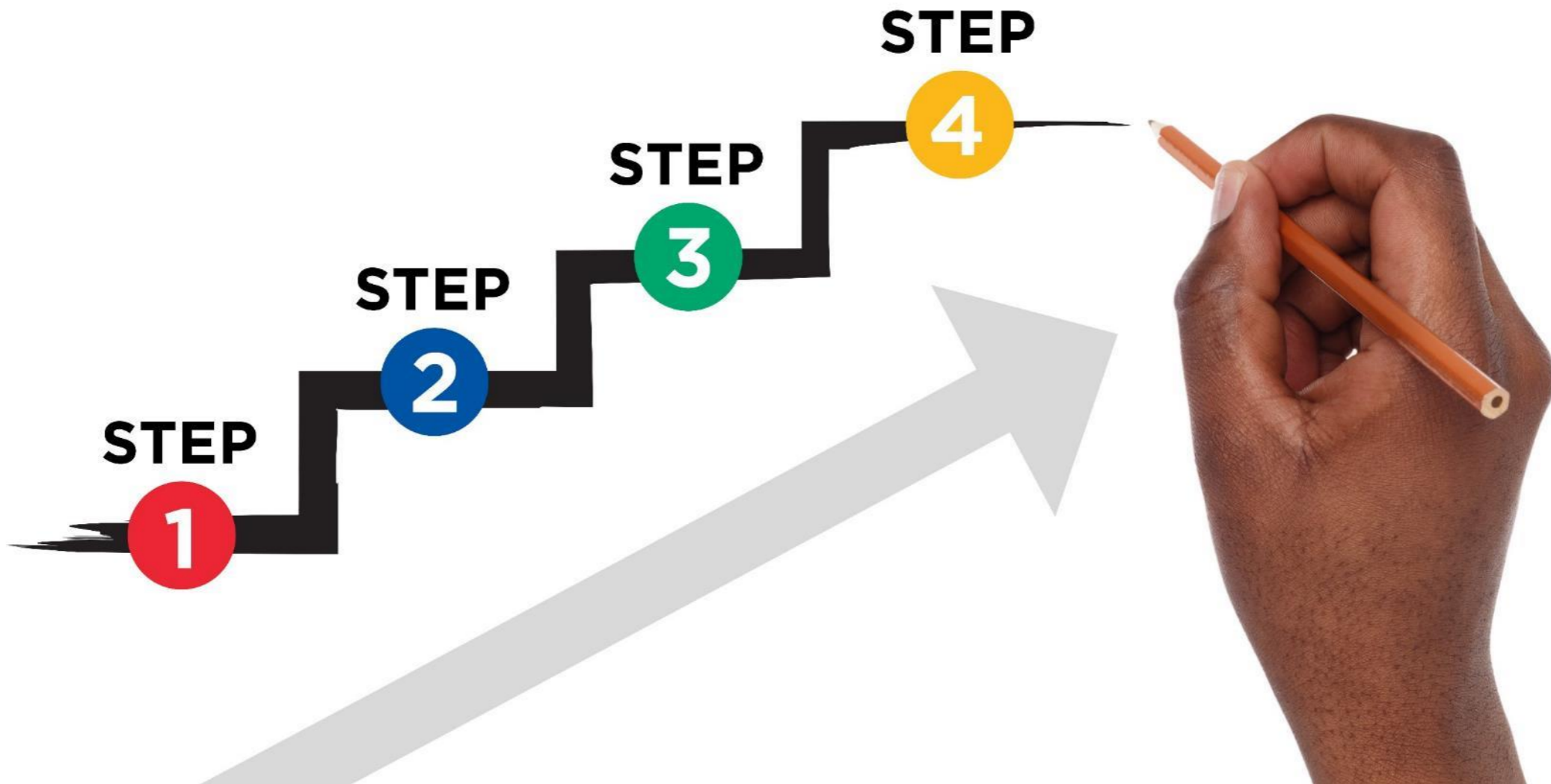


Policy and regulatory  
certainty and  
competitiveness



Improving  
productivity  
and competitiveness

# Steps to restore mining back to top quartile of most competitive mining jurisdictions



# STEP

## 1

## Governance

- **Developing a social pact for competitiveness, growth and transformation between key stakeholders**
  - **Leadership compact signed in February 2019**
- **Re-establishing trust with global mining and investment community**
- **Significant crack-down on corruption and unethical leadership**
  - 5 regional DMRE offices investigated, two closed. Good progress made.
- **Significant improvement in licensing system and turn-around times required**
  - Good progress resolving back-log
- **Minerals Council has played its role**
  - It has terminated the membership of a company did not meet the Membership Compact values

# STEP

## 2

## Creating a stable, predictable and competitive policy, regulatory and operating environment that encourages long-term investment in mining

- Better Charter finalised in September 2018. Key unresolved issue is non-recognition of continuing consequences for renewals. Engagement continuing
- Withdrawal of MPRDA AB is positive. But, a set of new amendments is required to fix s11's, regulation of dumps, turn-around times
- Environmental laws and regulation under discussion
- Carbon tax should be implemented as part of a package of measures (not by itself)
- VAT refunds, diesel rebate system and changes to tax system need resolution

# STEP

## 3

## Facilitating growth

- **Infrastructure constraints and uncompetitive costs need to be resolved**
  - Mining requires much better visibility on future trajectory of electricity prices
  - Significant work to restructure Eskom, incl separation of transmission into a single-state controlled company (to allow wheeling on the network), competition on generation and re-adoption of REDS model (as per 1998 Energy Policy White Paper)
  - Significant changes required to rail model, including private concessioning. Introduction of greater competition into railway network will improve efficiencies and promote investment and growth
- **Strategy to encourage exploration boom**
  - CGS remapping SA's high level geophysical data
  - DMRE has removed BEE ownership requirement on exploration

# STEP

## 4

## National strategies for each commodity

- Several commodity CEO sessions with Minister Mantashe have taken place
- In platinum, key outcome is creating greater demand (such as platinum being adopted by BRICS as a reserve asset, the Platinum Rand bullion coin project, driving the hydrogen economy and raising domestic emission standards, co-funding platinum promotion activities (such as co-funding the PGIs platinum jewellery initiatives in China and the WPIC investment initiatives)
- In coal, require stability in Eskom/Government rules and greater export capacity on RBCT line

# On coal

- Public debate on coal and other fossil fuels is necessary. Minerals Council advocates a **‘just transition’ to a lower carbon energy economy**
- South Africa’s energy mix a consequence of many decades of industrial development - change to a cleaner, less carbon-intensive economy a result of targeted and deliberate efforts
  - older, less efficient power stations that emit higher levels of CO<sub>2</sub> will be phased out as newer, cleaner power stations take up a greater share of the load
- Economic and practical hurdles to installing large scale and renewable energy sources. Enormous ‘red tape’ faced by companies who attempt to put in place alternative power projects
- In the transition to a lower carbon intensive economy, we cannot destroy what we have as a country: an established coal sector that taps into South Africa’s 33 billion tons of coal resources.
- Despite its reliance on coal, South Africa’s carbon emissions are well below commitments under. The Paris Climate Agreement

Coal sector a significant contributor to South African economy

- Largest component of mining by sales value, critically important source of primary energy (electricity and liquid fuels) that drives the South African economy
- Significant employer and socio-economic contributor

Significant amount of South Africa’s liquid fuels, chemicals, plastics, polymers and fertilisers produced from coal

# Imagine taking a R5bn gold expansion project to the “Investment Committee of the Board”

The Chairman of the Investment Committee asks Mr Baxter some questions:

Mr Baxter, what is your view of the electricity price and supply by 2029, given that electricity costs are now 25% of cash costs (vs 11% in 2009) and given the 523% increase in the past decade?

Mr Baxter, is the project guaranteed continuing consequences of previous BEE deals when the company must renew the mining right in 2025 – or will the company have to top up?

Mr Baxter, what will the carbon tax liability of the project be in 2029, given the total lack of visibility on any regulations or tax-free portions for the R170/ton CO<sub>2</sub> tax that will apply in 2023?

**ARE WE MAKING PROGRESS?**  
**“SIGNIFICANT ENGAGEMENT WITH GOVERNMENT ON SOLUTION”**

# Thank you

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