



CHAMBER OF MINES OF SOUTH AFRICA

Putting South Africa First



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PRESIDENTIAL ADDRESS AT THE OCCASION OF THE 125TH ANNUAL GENERAL MEETING OF THE CHAMBER OF MINES OF SOUTH AFRICA

STRENGTHENING OUR RESOLVE

GREETINGS:

Honourable Minister Ngoako Ramatlhodi (as represented by DDG Joel Raphela)

Past Presidents of the Chamber

Members of Council and other Members of the Chamber

Senior members of staff of the Chamber

Members of the Media

Ladies and Gentlemen

I am privileged to have been elected President of the Chamber in the past period and would like to express my gratitude for the support and wise counsel that I have received from the two Vice Presidents and the Chamber's Council over the past year.

The 125th Annual General Meeting of the Chamber takes place at a time when the mining industry is going through a tough period characterised by depressed commodity prices, rapidly escalating costs, electricity supply challenges and continued uncertainty regarding some parts of South Africa's mining and transformation laws. Despite these challenges, the South African mining sector has continued and will continue to fulfil its significant role in contributing to investment, economic growth, transformation and development in the decades ahead. It is our considered view that unblocking constraints and allowing the mining sector to achieve its potential is key for South Africa achieving the growth and development targets set in the National Development Plan. This is the time for all of us as the key industry stakeholders to hold hands to rebuild the confidence of our industry in the interests of South Africa.

In these difficult times the Marikana tragedy remains in our hearts and minds as it left an indelible impact on families, friends and the industry as a whole and we must ensure that this event is never

COUNCIL OF THE CHAMBER: M Teke (President), Ms KT Kweyama (Vice President), G Briggs (Vice President),
A Bam, R Baxter, M Cutifani, P Dunne, J Evans, N Froneman, T Goodlace, C Griffith, G Heale, N Holland, MJ Houston, B Magara,
N Mbazima, T Mkhwanazi, X Mkhwanazi(Dr), D Matlou, R Moodley, M Mothoa, SA Nkosi, M O'Hare, B Petersen, S Phiri, N Pienaar,
N Pretorius, A Sangqu, MP Schmidt, PW Steenkamp, S Venkatakrishnan.

repeated in our lifetime. May the souls of all those who lost their lives rest in peace. As we all know, President Zuma appointed Judge Farlam to preside over a commission of inquiry to look into this tragedy, the final report has been presented to the President and we all wait patiently for its publication. The mining industry learned a lot from the events of Marikana, and we will doubtless find more of value to equip us better to carry out our work in a manner that will guarantee the sustainability of the industry as well as the wellbeing of all our employees and other stakeholders.

Close to our hearts is the resolve of our industry to drive the goal to achieve Zero Harm. We have over the years seen a drastic reduction in the number of fatalities in our industry. In 1993, there were 593 fatalities, in 2003 there were 270 fatalities and in 2014 there were 84 fatalities. The fatalities recorded by Chamber members was 68 in 2014, reflecting a significant focus by the CEO Elimination of Fatalities task team and by the members on safety. We are steadfast that one fatality is one too many. But I am encouraged that through all our efforts, the numbers of those who sadly lose their lives have been declining over time. We need all stakeholders to keep working harder together to ensure that no one loses his or her life at our mines and that every worker returns home unharmed every day. The Mine Health and Safety Summit of 2014 was an historic event where the contribution of all stakeholders was recognised in achieving an 86% improvement in safety performance during the last two decades. All tripartite stakeholders signed the landmark ten year agreement on the new health and safety milestones. This agreement includes our aspiration to eliminate fatalities by 2020 and reduce our lost time injuries by 20% per year. We further congratulate the gold companies who used the summit to announce their commitment to address the legacies of occupational lung disease.

The industry has set ambitious targets for the elimination of lung disease, noise induced hearing loss, HIV and AIDS and TB, by 2024. The Chamber is fully committed to achieving these milestones.

Beyond the work done by the tripartite stakeholders at the MHSC, the Chamber will continue to promote the adoption of leading practices in dust and noise control, thus eliminating disease at the source.

The Department of Mineral Resources introduced a comprehensive HIV and TB reporting tool in 2014 and the Chamber volunteered to pilot the tool. Results show that Chamber members counselled 81% of employees for HIV and screened 84% for TB. These figures are much higher than in other industrial sectors. The new milestone for both these indicators is 100% indicating that more work will need to be done. Our members are ready to tackle this task.

In 2014, the Chamber adopted a position that, in the management and treatment of TB, contractors should be treated the same as employees. We will, this year, review the progress made in the implementation of this decision, which we believe can make a significant contribution to the control of TB in the mines.

We continue to support national and regional initiatives on the control of TB and HIV and are encouraged by the decline in TB cases over the decade.

In the past few days the Chamber has made public our views regarding the progress made by Chamber members on transforming the mining industry. The leadership of the Chamber will continue to engage constructively with government on all issues related to transformation. The perception that there is a breakdown of trust between the Chamber and DMR is incorrect. We are not going to agree on everything.

There will be times when we will voice our concerns – when this becomes necessary. The fact that we have worked with government to get MIGDETT back on its feet and we have agreed in MIGDETT to jointly approach the courts for a declaratory order on the ownership pillar of the Charter shows the maturity of the relationship between the parties.

Let me reiterate our considered view that the mining industry (as represented by the Chamber) has made considerable progress on transforming the mining industry. The DMR's own numbers made public last week state that 90% of the companies have met the 26% BEE ownership target and that on average all the companies have met the employment equity targets. The Chamber has calculated that the average BEE ownership of Chamber members is close to 38% and that more than R159 billion in net value has been transferred to BEE beneficiaries over the past 12 years. The mining industry has done more for transformation than any other component of the private sector since the advent of democracy. What we are seeking is a fair reflection of the progress made. We do recognise that there are gaps in our delivery on transformation, such as the implementation of social and labour plans. But instead of complaining about obstacles sometimes faced, like, in some cases shortcomings on the part of local government, we would rather continue to work with stakeholders to achieve the objectives. We need to celebrate successes and work together to resolve challenging areas. We remain committed to a proper dialogue process with the DMR and other key stakeholders. We also remain fully committed to the transformation imperative in the South African mining industry.

The Global mining industry is facing challenging headwinds, including the economic slowdown in China, slowing commodity demand and weakening prices.

2014 saw a synchronised decline in the prices of four of South Africa's key minerals: PGMs, gold, coal and iron ore. Although there was some relief from manganese and diamonds, the mark left by this synchronised weakness in prices will be felt for many years to come. The exchange rate provided some relief for South African miners, and into 2015 for the year to date, it is on average 10% weaker than 2014 levels. The significant decline in iron ore prices in 2014 (20% in Rand terms), continued into 2015, with Rand iron ore prices down by 8% year to date. Export Thermal coal prices remain at depressed levels into 2015, averaging 7% lower than 2014 average prices. Turning to precious metals, we see that Rand Gold and PGM prices have been stagnant in 2015. The outlook for commodities for the remainder of 2015 remains strained, as the relative strength in GDP growth in the developed economies, is not sufficient to off-set the Chinese economic growth slowdown.

Not only are South African mining companies facing a commodity bear market, they are also facing significant increases in operating costs. Significant upward pressure on electricity prices for example is very damaging to the viability of gold and platinum mines. The NERSA approved 12% increase in the electricity price in 2015 will add an additional R2 billion in costs on to the platinum and gold sectors. The recently applied for additional 13 percentage point request by Eskom will double this negative impact. Rapid increases in these costs are already affecting the viability of many gold and platinum mines, with 31% of gold mines and nearly 40% of platinum mines loss-making at current prices. The affected sectors

have cut back on capex (which affects longer term production) and may require further restructuring to remain viable.

Beyond this tough competitive environment are other factors related to attracting investment from the local and global investment community. The key question is whether South Africa is still a preferred mining investment destination globally and in Africa or whether other jurisdictions are taking preference. Botswana, the DRC and Zambia carry attractions for many investors. The same question can be asked as to whether South Africa is still a preferred investment destination when compared to jurisdictions such as Australia and Canada.

With its vast mineral resources, South Africa is well positioned to potentially benefit more from its mineral resources. However, this potential can only be realised if the minerals can be mined in a safe, environmentally friendly, sustainable, transformative and profitable manner. To realise this potential requires **significant investment**. In order to get this investment we, as a country, have to create a stable, competitive and predictable policy, legislative and operating environment which encourages investment. We believe that we have a number of the key pillars of a successful mining environment. But there are problematic areas including uncertainty in some areas of our mineral and transformation laws, potential new taxes (the carbon tax), the push for mining companies to subsidise manufacturing (through developmental pricing), infrastructure bottlenecks, skills challenges and so on.

To realise this latent mineral potential we have to work together in a more collaborative problem solving partnership that places the achievement of the 2030 NDP targets as a key vision. It is for this reason that we are excited about the President's announcement of the application of Project Phakisa to the mining sector. It is critically important to get Project Phakisa right and develop strategic and tactical plans that will resolve the constraints facing the sector. Project Phakisa and its eventual implementation can only be successful if all key stakeholders are prepared to cooperate and collaborate strongly.

Ladies and Gentlemen, we have an opportunity to create policy and regulatory certainty in the South African mining industry. As an industry we need to take a bold step and address regulatory uncertainty. We urge our government and Parliament to deal with the MPRDA Amendment Bill on an expeditious basis and to ensure the outcome supports a vibrant and competitive mining sector. Trying to force mining companies to sell minerals in the domestic market at developmental prices will damage the already strained mining sector, and probably do little to help the downstream sectors. Resolving these types of issues will help restore confidence in our industry and improve our investment attractiveness as a country. We need to deal with and get certainty on the Mining Charter so that we can continue with the transformation programme. The agreed pursuit of a declaratory order is key to creating certainty in the interpretation of the ownership element of the Charter. We need to deal with setting new Charter obligations urgently, noting the need for greater alignment with the dti codes. It is in dealing with these regulatory imperatives that we can create certainty for our sector and therefore promote its investment competitiveness.

The mining sector is also faced with other key challenges that contribute to the binding constraints for growth. One such key challenge is the absurdity of going ahead with introducing a carbon tax and carbon budget, when South Africa's existing carbon trajectory is even lower than the government's "peak,

plateau and decline” commitment made in Copenhagen in 2009, and when electricity prices have increased at a rate that already discourages demand . Applying both a carbon tax and a carbon budget will mean that South Africa is the only developing country to do so and this will prejudice the survival and competitiveness of the carbon intensive mining industry. It is our view that the carbon tax should not be introduced in 2016, and that rather the focus should be on carbon budgeting and other instruments that do not prejudice the competitiveness of the mining sector.

South Africa, in fact the entire continent, and in particular the mining industry, face a big energy crisis that if not addressed properly and with a strong collaboration from all stakeholders, will bring the entire economy to its knees. As intensive energy users we are open to finding long lasting solutions for this current electricity supply challenge. Our representatives are heavily involved in all efforts to ensure that the country extricates itself from the electricity crisis. It is important for government to recognise that it alone cannot solve South Africa’s electricity constraints. Private sector power needs to be contracted urgently. The mining industry is already using up to 20% less than its normal demand as a contribution to the alleviation of electricity shortages. Again, we get little credit for having bailed out the country from a major electricity crisis over the past 7 years. However, government and business need now to join hands and look at all practical solutions to help solve the electricity crisis. This should include improving maintenance of the existing Eskom fleet, ensuring there are no further slippages on the build program, significantly improving energy efficiency in the economy, and allowing private participation on base load power. Again a team effort is required.

We are just about to begin with wage negotiations in Gold and Coal. These are difficult and testing times for both employers and organised labour. As earlier stated, commodity prices are depressed and the costs of production are continuing to increase. As a result of these difficult times, the industry has found itself in an unenviable position of having to explore restructuring which includes potential retrenchments. The trying conditions call for a high level of pragmatism during wage negotiations to realise a mutually acceptable outcome that protects the viability of the industry and the long-term sustainability of the industry and jobs.

Operating excellence is at the centre of every Mining company and several questions have been raised over the years regarding modernisation and mechanisation. We will continue to see several initiatives that advance this. The recent establishment of the Centre of Excellence and the greater collaborative work between stakeholders on research and development should advance this agenda. The mining sector of the future will be more skills and technology intensive. But higher and investment and growth will realise significant economic benefits for the country and will help stabilise employment levels.

During my Presidency, I have worked with Mr Bheki Sibiyi who was Chief Executive of the Chamber of Mines from July 2010 to April 2015 and wish to sincerely thank him for having spent part of his career in our industry. Bheki, your immense commitment to ensuring that we advance the cause of our industry and make it a better industry to work in and a better sector that contributes positively to our economy is highly appreciated. Bheki was very instrumental in modernising the Chamber’s logo to “Putting South Africa First” and help us move away from the rather dated old logo of “Serving the Mining Industry since 1889”. On behalf of the entire Chamber of Mines and all Stakeholders, Siyabonga Sotobe!

The newly appointed Chief Executive, Mr Roger Baxter is no stranger to the challenges facing the mining sector. He will not have the luxury of “finding his feet” or “trying to get them firmly under the table”. But Roger brings a mix of experience and wisdom and a willingness to work for the betterment of the industry and country that should help build on the foundation created by his predecessors. He is a team player and a strategic leader who will help get this industry back on to the front foot. Roger, we wish you success in your new role and you have the full Council’s backing to help the Chamber take the next step up.

Conclusion

The mining sector is not a “sunset” industry in South Africa. It is definitely a “sunrise” industry. We face very challenging headwinds in the short term. I call on the leadership of all stakeholders to work together to help manage the short-term challenges and to help position this sector to realise its vast potential in the years ahead. This is going to require significant leadership investment and a commitment to a new “social and economic pact” for the mining sector. As the Chamber, we have taken the decision to step up from a leadership perspective and to work more assertively to achieving this potential. As per the Chamber’s Council-approved strategic plan we want to get this great industry back on to the front foot, and to try and create an environment that will help double real investment in mining by 2030. Achieving such a vision will be a game changer for the industry and country.

Finally, a few words of thanks.

- Thanks to Minister Ramathodi for his open engagement style and willingness to tackle the tough issues in a constructive manner.
- Thanks to my fellow Office Bearers for their great support and wisdom.
- Thanks to the CEOs of the mining companies that sit on Council – for your great support and wisdom.
- Thanks to the Office Bearers of organised labour for your willingness to engage.
- Thanks to the Chamber staff who have worked hard to achieve the strategic objectives of the Chamber.

Thank you

