



# QUARTERLY UPDATE

A PUBLICATION PRODUCED BY THE CHAMBER OF  
MINES OF SOUTH AFRICA

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## HIGHLIGHTS IN THIS ISSUE



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*The Chamber of Mines of South Africa is a mining industry employers' organisation that supports and promotes the South African mining industry. The Chamber serves its members and promotes their interests by providing strategic support and advisory input. A key role of the organisation is to facilitate interaction among mining employers to examine policy issues and other matters of mutual concern to crystallise and define desirable industry standpoints. The Chamber also acts as a principal advocate for mining in South Africa to government, communicating major policies endorsed by its members.*

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# FROM THE CEO



**Roger Baxter**

**CEO – Chamber of Mines of South Africa**

***This quarter has proven to be exceptionally busy. Both gold and coal wage negotiations have reached their conclusions, while policy and legislation discussion and debate has been a common topic found in the media.***

The Chamber has also been a 'stop' for a number of protest marches over the period, while – importantly – the Mining Phakisa has got underway with intense involvement by the Chamber and various companies. Needless to say, the Quarterly Update provides us with a great opportunity to keep you up to date and informed of the Chamber's activities over the past three months.

## **SECTION 54 STOPPAGE DISCUSSIONS**

In September, discussions were held with the Department of Mineral Resources (DMR) on the topic of Section 54 stoppage implementations and the cost that they have on production and the affected company as a whole. The debate wasn't around whether Section 54s are required or not, as the Chamber fully supports the safety initiatives put in place by the DMR. Rather, the debate is around whether Section 54s are consistently and correctly applied, or applied when a Section 55 or alternatives would adequately serve as a solution to safety concerns.

## **WAGE NEGOTIATIONS**

Both Dr Elize Strydom and Motsamai Motlhamme have been hard at work in bringing to an end the gold and coal wage negotiations respectively, with both sectors reaching agreements. As Elize says, "Was it a desirable outcome – no; was it a good one – yes". Importantly, we have three years in the gold sector and two years in the coal sector to work on the implementation of agreements, and in finding ways of ensuring the profitability of the industry. For a more in depth report on the negotiations, please take a read through the reports in this Quarterly Update on pages [and](#) [.](#)

## **POLICY TALK AND GOVERNMENT**

One of our main areas of focus in the past six months has been Mining Phakisa, with the Lab getting underway in October. Phakisa means "hurry up" and is a process driven by the Presidency that brings together all players to devise an action plan for growth and transformation which encourages investment. As this is a Presidential process it is not possible to divulge the details of the discussions. We will only be able to give more thorough feedback once the process is completed, but we are optimistic about the interactions and the discussions taking place. Given the crisis that the mining sector is experiencing it is critical for all stakeholders to work collaboratively and to produce workable solutions for the industry. See the brief summary in this Quarterly Update on page [.](#)

There has also been significant discussion around the proposed Carbon Tax in the media and the draft Bill has been published for public comment. Treasury has come out saying that the tax will have "marginal negative impact" on economic growth in the short term, while chairman of the Davis Tax Committee, Judge Dennis Davis, has urged government not to introduce the carbon tax in the current economic environment, or to introduce the legislation but not to actually charge the tax as an experiment to see the likely impact.

Our view is that we fully support the country's commitment to lowering greenhouse gas (GHG) emissions, but with the current economic conditions facing the industry as well as there being no other developing country which has implemented a carbon tax, the South African mining industry will struggle to survive and remain competitive.

On a positive note, the DMR announced a twelve-month temporary exemption for the mining industry on compliance to the DTI codes. This has provided some respite for the industry which is already under significant pressure.

I hope that this Quarterly Update will provide you with a clear snapshot of our work over the past three months and keep you well informed of our activities. Once again, we will continue our endeavours to put your positions and views forward in our engagements with other stakeholders.

## DELAY

# CARBON TAX BY FIVE YEARS,

says Chamber

The Chamber has called for a delay in the introduction of a carbon tax following the release of the draft bill for public comment. Citing poor economic conditions and an industry already in turmoil, the Chamber has stated that the carbon tax would significantly impact the industry's ability to competitively produce.

The Chamber fully supports South Africa's international commitment to lowering its GHG emissions. However, the mining sector is currently facing well publicised challenges which have contributed to binding the constraints for growth, and the proposed carbon tax is yet another constraint – particularly 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. The view of the Chamber is that the focus should be on carbon budgeting and other instruments that do not prejudice the competitiveness of the mining sector.

The Draft Carbon Tax Bill was released for public comment on Monday, November 2<sup>nd</sup>. The National Treasury stated at the release of the draft bill that the mining industry will not be negatively affected by the tax.

## USEFUL LINKS

Chamber of Mines media statement, "Response from the Chamber of Mines to the publication of the draft carbon tax bill"

Judge Davis' comments on the Carbon tax, Mining Weekly, 5 November 2015

"Editorial: Now's not the time for carbon tax" Business Day, 06 November 2015

"Taking into account the current state of the mining and other distressed sectors, the combined effect of the rates and exemptions in the carbon tax and the reduction in electricity levy will be designed to ensure that such sectors are not adversely affected."

Further, the treasury emphasised that tax-free exemptions ranging between 60% and 95% of total emissions will remain fixed until 2020, when thresholds may be reduced or replaced with absolute thresholds.



# THE MINING PHAKISA LAB BEGINS

After two years of submissions and preparation, the Project Phakisa Mining Lab commenced on Sunday, 25 October 2015, continuing for a period of five weeks under the banner: 'Galvanising growth, investment and employment creation along the mining value chain'.

The Chamber assembled a team of both company and Chamber experts to participate in the agenda in the five identified work-streams. In total, the Chamber and industry representatives made up around a quarter of the 100 delegates participating.

### SO, WHAT IS PHAKISA?

A 'Phakisa' is essentially a collaborative process, convened by government but involving a range of key stakeholders, to plan and oversee the implementation of initiatives that will have a positive catalytic impact on the economy and society. It is a process in which key stakeholders learn how to solve problems productively together to achieve agreed objectives.

The problem solving process is concretised through the development of reasonably detailed implementation plans to achieve clearly defined objectives. The purpose of having a range of relevant stakeholders in the room is to get a much more holistic sense of what is, and is not, possible and to harness the collective resources and wisdom of the group to develop solutions.

Practically, a Phakisa involves three phases:

- the **pre-laboratory preparation** phase (involving extensive stakeholder consultations and research to develop a clear scope for the laboratory);
- a **laboratory phase** (involving an extended multi stakeholder workshop of four to six weeks); and
- the **post laboratory phase** (which involves the implementation and, where required, the modification of the plans and monitoring, reporting and evaluation).

The Phakisa process is a Presidential flagship initiative of government and is guided by Department of Planning, Monitoring and Evaluation (DP-ME) under the leadership of Minister Radebe.

### FEEDBACK

In many ways, the real work will begin following the LAB process. In the interest of cooperation and good faith, we will not be divulging any details of the discussions during the process, but will revert to members once we have a clear understanding of the way forward.

## THREE-YEAR GOLD WAGE DEAL IMPLEMENTED



**DR ELIZE STRYDOM**  
Senior executive:  
Employment relations

***After five gruelling months of discussions and negotiations, a three year wage agreement has been reached in this year's gold wage negotiations.***

On 21 October 2015, producers AngloGold Ashanti, Harmony, Sibanye Gold, Village Main Reef and Evander Gold Mines signed wage agreements with the National Union of Mineworkers (NUM), the United Association of South Africa (UASA) and Solidarity. At AngloGold Ashanti and Harmony, the agreement has been extended to all employees under the Labour Relations Act, as agreement was reached with unions representing the majority of employees. While Sibanye Gold sought to reach agreement with unions representing the majority of employees, it became evident that this was not going to be possible. Nonetheless, the terms of the agreement signed have been applied to all employees at Sibanye.

On the producers' side, wage negotiations were again led by veteran negotiator, Dr Elize Strydom, who was supported by a caucus made up of senior representatives of the gold industry. We sat down with Dr Strydom to find out more about the wage negotiations from her perspective.



*Producers and labour unions signing the new three-year wage agreement.*

**Q: AT THE OUTSET, THESE NEGOTIATIONS WERE BILLED AS SOME OF THE TOUGHEST EVER. WHAT MADE THIS YEAR'S NEGOTIATIONS MORE CHALLENGING THAN EVER?**

**Dr Strydom:** It is true that these were particularly challenging times. Simply from an economic perspective the gold mining industry faced unprecedented challenges, including:

- Decreasing US dollar gold price – 22% decrease over the past five years.
- Declining production – over the past decade, gold production has halved.
- Rising costs – for example power and water costs have increased 248% since 2005.
- Employment has declined by a third from 180,000 employees in 2004 to around 119,000 employees in 2014.

Producers were faced with wage demands exceeding a 100% increase in some cases. This further emphasised that a different approach would be necessary for negotiations.

Adding a further challenge, the gold price remained volatile during the negotiations. Between the time of the firm and final offers, the gold price declined by a further US\$11 per ounce.

The labour dynamics were also completely different to previous negotiations, with inter-union rivalry playing a part. It was particularly challenging to deal with a union which would not move from its opening position.

**Q: SO, WHAT DID THE PRODUCERS DO DIFFERENTLY?**

**Dr Strydom:** The producers took a number of steps and initiatives to deal with these complications to the negotiations. Birchwood Conference Centre, an independent, external venue was used, while independent chairpersons (Moe Ally, Afzal Mosam and Ian Russell) were brought in to help with the negotiations. In fact, Moe Ally was subsequently appointed by the CCMA as one of their lead conciliators and this continuity was very helpful.

Before the start of wage negotiations, gold company CEOs met with union leadership to discuss the situation the industry finds itself in and the companies' intention to table an economic and social sustainability agreement aimed at ensuring the sustainability of the industry and preserving jobs as far as possible.

The companies indicated early on their intention to move away from potentially adversarial, positional bargaining and sought to engage with unions to reach an agreement that not only touched on a range of issues important to employees, but one that would also help sustain the gold industry for decades to come.

In line with this, the producers tabled – as part of their firm offer – an economic and social sustainability compact. The producers also presented their financial positions to unions to review what the impact of cost increases such as higher electricity tariffs and high wage demands meant for the industry. A number of sessions were held providing the unions with detailed information which was not even shared between the companies.

The producers also offered their financial teams to share financial models on a mine to mine basis to the unions. The four unions declined the offer.

Bearing differing economic circumstance, the companies presented different wage offers throughout the process. All offers made during the process were substantial, above inflation and aimed at making a real difference in the lives of employees, their families and mining communities.

**Q: SO, WERE NEGOTIATIONS SUCCESSFUL?**

**Dr Strydom:** Did we get our desired outcome – no. We wanted to sign with all four unions and were not able to achieve that, and we would have hoped to make more progress with our sustainability compact.

Did we get a good outcome – yes. Employees of the respective companies are receiving significant increases. Additionally, the agreement was reached without any strike action which means that productivity was not affected during these negotiations, nor were employee earnings. And, of course, we

reached an agreement for three years, which means that we have more time to work on the implementation of the agreement.

**WHAT THE AGREEMENT MEANS AT A GLANCE**

**CAT 4 UNDERGROUND EMPLOYEES:**

	Now	2017
<b>AngloGold Ashanti</b>		
Total cash remuneration	R8,927	R11,811
Total monthly guaranteed package	R11,300	R14,950
<b>Harmony</b>		
Total cash remuneration	R8,522	R10,983
Total monthly guaranteed package	R10,819	R13,947
<b>Evander Gold Mines</b>		
Total cash remuneration	R8,494	R10,723
Total monthly guaranteed package	R10,985	R13,880
<b>Sibanye Gold</b>		
Total cash remuneration	R8,336	R10,717
Total monthly guaranteed package	R10,862	R13,972

**USEFUL LINKS**

<a href="#">Economic and sustainability compact</a>	<a href="#">AngloGold Ashanti and Harmony Deal</a>
<a href="#">Sibanye Deal</a>	<a href="#">Evander Gold Mines Deal</a>
<a href="#">Village Main Reef Deal</a>	

SETTLEMENT REACHED

**AFTER SHORT STRIKE IN COAL SECTOR**



**Motsamai Motlhamme**  
Head: Employment Relations

After a short strike in the coal industry, an agreement was reached between producers and unions. On 13 October, Anglo Coal, Delmas, Exxaro, Kangra, Koorfontein, Msobo and Glencore agreed to a two year wage deal with the National Union of Mineworkers (NUM), Solidarity and the United Association of South Africa (UASA). The caucus was chaired by Philip Williamson from Anglo American, with Motsamai Motlhamme leading the Chamber’s delegation in the negotiations. Motsamai shared his views with us on the negotiations.

**Q: WOULD YOU DESCRIBE COAL WAGE NEGOTIATIONS AS EXCEPTIONALLY CHALLENGING THIS YEAR?**

**Motsamai:** Similar to the gold industry, the coal industry was also facing significant challenges entering wage negotiations, most notably the commodity prices reaching their lowest levels in a number of years, while operating costs continued

to increase at rates well above inflation. The demands tabled by unions were significantly more than the companies could afford.

**Q: IN THE END, WERE NEGOTIATIONS SUCCESSFUL?**

**Motsamai:** Once again, it was disappointing that they endured a strike to reach the agreement. The strike had a significant impact on the output of the mines, while also depriving employees of lost earnings over the strike period. However, thanks to the hard work and dedication from both parties, we were able to restrict the strike to just over a week and come to a swift wage agreement

The agreement reached was at the limit of what is affordable given subdued demand and increased cost pressures. Going forward we will need to work hard together to ensure that the industry remains sustainable.

**USEFUL LINKS**

[Chamber of Mines media statement, “Wage agreement reached in Coal”](#)

**THE AGREEMENT IS FOR TWO YEARS EFFECTIVE 1 JULY 2015, IN TERMS OF WHICH:**

- Most category 4-8 employees will receive increases, staggered over a period of time, of between R750 and R1,000 per month in year 1 and guaranteed increases of 7.5% in year 2.
- Most employees in the higher categories will receive increases of between 5.0% and 7.5% in both years.
- Increases to the living out allowance and housing allowance vary from company-to-company.

# SURVIVAL – WEAKER COMMODITY PRICE FEARS CALL FOR DECISIVE INTERVENTIONS



Chamber economist Monique Mathys participated in a number of investor meetings and an international investor conference in late September. Monique's presentation on the SA mining industry landscape was planned to address many of the repeating themes dominating investor perceptions.

*“Clearly companies’ views on commodity prices and market demand were sought, and often challenged,” says Monique. “A widely-held view was that in some sectors shut downs would be required before commodity prices could recover. Concerns about China remain elevated, with a singular distrust of current data on Chinese production evident. A critical question was, what happens if Chinese demand falls further?”*

Investors were of the view that South Africa's country risk is currently at a premium when compared with many other African countries (such as Zambia, for example). Companies were questioned on the SA government's plans to assist the industry and, in particular, what levers would be available to government to be able to provide this support.

*“Investors asked us whether government recognised the relationship between capital investment and long-term labour employment, the need to improve competitiveness and that – from an investor perspective – the value add in South Africa was low when compared to other regions.”*

Further critical areas of concern and discussion related to:

- energy supply and costs, and the ability of companies to undertake Independent Power Producers (IPPs);
- the state of labour relations and union demands, including concerns about high wage increases granted in the past year; and
- higher-than-inflation costs, and what could be done about this.

Another recurring concern was that recent equity raisings were assuming flat-to-increasing price profiles, but what would happen if prices went lower still?

## USEFUL LINKS

[Investor presentation](#)

# MINING INDUSTRY

## EXEMPT FROM DTI CODES FOR 12 MONTHS

The Chamber welcomed the statement released by the Department of Mineral Resources on 30 October that the mining industry will be granted temporary exemption from compliance with the Broad-Based Black Economic Empowerment (BBBEE) Act and the Department of Trade and Industry (DTI) Codes. The industry will be exempt from Section 10 (1) of the BBBEE Act, 2003 to the upstream petroleum and mining industries administered in terms of the Mineral and Petroleum Resources Development Act (MPRDA), 2002 for 12 months. This is pending the finalisation of alignment between the MPRDA and the Mining Charter (which is to undergo review) on the one hand, and the BBBEE Act and the DTI Codes on the other.

Mineral Resources Minister Mosebenzi Zwane stated that, "The exemption is intended to avoid creating uncertainty for the mining and upstream petroleum industries as to the application of the BBBEE Act."

The announcement indicates clear recognition by government that the

mining industry and its stakeholders need continuity and certainty to be able to effect the transformation envisaged in the MPRDA and to continue to sustain and grow investment in our sector.

The industry remains committed to engagement and dialogue with the DMR and other role players to achieve clarity in the application of the MPRDA and the Charter in its current form, the finalisation of MPRDA amendments and the review of the Mining Charter.

### USEFUL LINKS

Department of Mineral Resources media statement, "Mining industry granted transitory exemption from compliance with BBBEE Act and the DTI codes."

# TOUGH TIMES FOR THE INDUSTRY

ACCORDING TO AUDITING FIRM

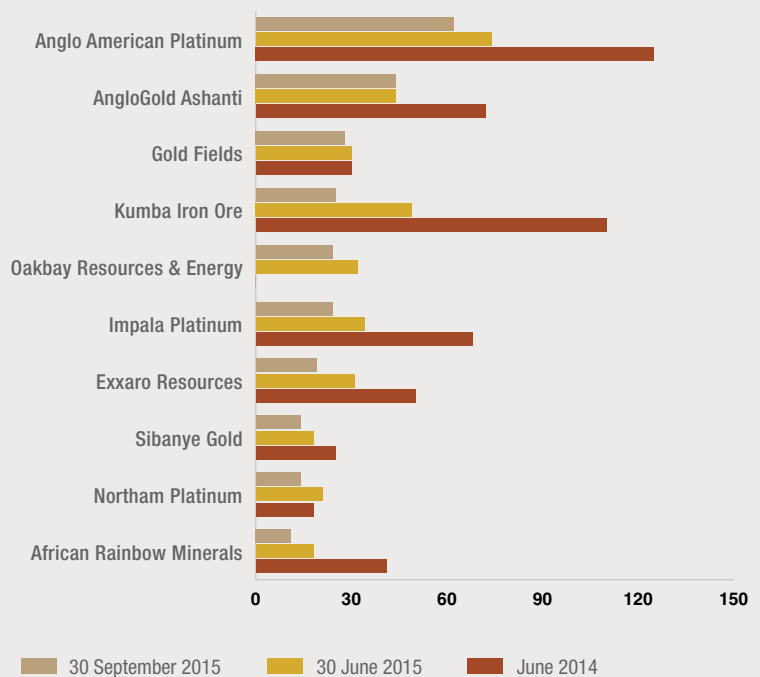
*PricewaterhouseCoopers released the 7<sup>th</sup> annual edition of "SA Mine", a report that highlights the trends in the South African mining industry.*

According to the report, the 2015 financial year was negatively impacted by falling commodity prices and increasing costs, with marginal support coming from the weak performance of the rand. It did not, however, weaken as much as other commodity producing nations.

The industry was seen to reflect the operation of the global mining industry, while the tough trading environment has been reflected in the weaker financial performance as well as active management of liquidity risk.

Specifically on Mining Charter compliance, the report presented a positive image of the performance of the industry. 41% of board members were represented by historically disadvantaged South Africans (HDSAs) compared to the 40% minimum representation requirement, while 53% of board members are HDSA. Female representation at board level also exceeded the minimum requirement of 10% representation by 2014.

Market capatilisation of the top 10 mining companies R billions



### USEFUL LINKS

SA Mine report

# EDUCATION AND SKILLS DEVELOPMENT

## TERTIARY EDUCATION ON THE NATIONAL AGENDA

Over the past month, South Africa has witnessed the first united protest action of the youth since democracy as students joined together in protesting against unaffordable fee increases. Protests extended to every campus around the country under the banner #feesmustfall, and soon spread to encompass further concerns relating to transformation of campuses and outsourcing.

The cost of education in South Africa is a significant challenge which the country needs to tackle collectively. The mining industry fully appreciates the importance of educating the leaders of tomorrow and has significantly contributed to the education and improvement of all South Africans, both young and old.

The mining industry is one of the largest private sector investors in skills development, having invested around R3.8 billion in education and training for employees and others in 2014. On average, mining companies fund more than 3,000 tertiary institution bursaries per annum. Over and above this, the industry contributes towards the payment of academic staff, funding research and also certain endowment projects.

## QUICK FACTS

- R3.8 billion invested in skills development in 2014
- Learnerships provide employees with on-the-job training
- 11,347 artisans trained since 2003
- Funded over 10,000 students at various universities over the past 10 years

## USEFUL LINKS

[Training and development in the gold industry](#)

## CHAMBER RESPONDS TO EFF 'DEMANDS'

On Tuesday, 27 October 2015, the Chamber's Employment Relations head, Motsamai Motlhamme, accepted a memorandum from the Economic Freedom Fighters (EFF). The EFF hosted a march for economic transformation, making stops at South Africa's Reserve Bank, the Chamber of Mines and the JSE.

The Chamber acknowledged receipt of the memorandum presented to Chamber management by representatives of the EFF and welcomed the opportunity to engage with all sectors of society and recognises the importance of many of the issues raised by the party.

After receiving the demands, Motsamai stated that, "The Chamber recognises that education is absolutely key to South Africa's future. The Chamber and its members are committed to developing the skills of young people and others who are employed in our industry and affected by the work that we do."

## USEFUL LINKS

[Chamber of Mines media statement, "Chamber of Mines response to Economic Freedom Fighters \(EFF\) memorandum of 27 October 2015 "](#)



*Economic Freedom Fighter's president, Julius Malema*