



## A ROADMAP FOR MINING TO REALISE ITS ECONOMIC AND TRANSFORMATIONAL POTENTIAL IN SOUTH AFRICA

***Keynote address by Neal Froneman, CEO of Sibanye Gold and Vice President of the  
Chamber of Mines of South Africa, at the Joburg Indaba, 4 October 2016***

Ladies and gentlemen, colleagues.

It would be superfluous for me to start this presentation by saying, *let me be blunt*. For those who know me, *that* comes naturally. In fact I am often accused of being too blunt. This I accept. But I can assure you that what I say, I say from the heart, with passion, and with a real commitment to South Africa and to our mining industry. What follows I present with the same passion and commitment to our industry and our country.

The Joburg Indaba is developing into a unique event where all stakeholders in the South African mining industry, are able to reflect honestly, on the current status of our industry and how we can secure its future. The platform allows stakeholders to engage in open and honest dialogue on critical issues in a robust fashion. I intend continuing that tradition tonight.

At last year's Joburg Indaba, the concept of a modernised mining industry that delivers on the social and economic expectations of all stakeholders was extensively discussed and defined.

Just to recap, I would like to outline the working definition that was validated among the delegates who were present last year as follows:

*“A modern mining industry will optimally extract and beneficiate the country’s natural resources, causing no harm to people or the planet. It benefits both the local community as well as the national economy. It procures locally, it is a preferred employer of well skilled people and creates appropriate risk adjusted returns for investors. Regulations, taxation and incentives are consistent, transparent and recognise mining as a long- term driver of economic growth.”*

From Sibanye’s perspective, the concept of modernisation resonated with what we had already embraced, through our corporate vision, established in 2013, of creating superior value for all stakeholders. We continue to pursue this vision with passion, knowing that it is an imperative for the success and sustainability of our business.

Within the Chamber of Mines too, we have a cohesive leadership group that is driving similar concepts through the Chamber’s Office Bearers and Council. A number of commodity leadership forums have been established and collaborative conduct on key issues such as innovation, employment relations and market development are being discussed. As the Chamber, we mean business in terms of enabling mining to realise its true economic and transformational potential in South Africa. Leadership is key.

I am also pleased to advise that through the Mining Phakisa new connections and commitments have been made between companies, the state, academic institutions and original equipment manufacturers. In less than six months after Phakisa, the old COMRO campus in Richmond was redesignated as a mining innovation precinct, with the aim of transforming the South African mining industry into a safer, more productive one, with better skilled *and* paid employees.

Looking at the agenda for this year’s Indaba, it is clear that delegates will be expected to consider how we, as an industry, will make further meaningful progress towards realising a vision of a modernised industry. This transformative journey will be challenging, and cannot succeed unless *all* stakeholders own the vision and strive towards a common outcome.

My address this evening is intended to provide my perspective on what could be achieved by our industry as a result of the collective and aligned efforts of all stakeholders. I hope this will set the scene for the further conversations that will be taking place over the next two days.

I must stress at the outset that I speak from the standpoint that private sector led growth in a free market economy is the pathway for South Africa to meet its social and economic development goals. And the mining sector has been and must continue to be a major contributor. While there are economists from different schools who would promulgate alternative approaches to transforming the economy involving more radical state intervention, I remain steadfast in my view that a strong state with robust institutions, intact governance, stable policy and certain legislation is necessary to create a climate in which business can participate meaningfully in support of our country's developmental agenda. A recent analysis by Eunomix highlights the global trend that meaningful improvements in economic well-being, as measured by GDP per capita, depend extensively on the integrity and robustness of the State and its institutions.

You might be wondering about the images of the mighty Zambezi on the screens behind me. These are not to lull you into a false sense of security about our future, because any sense that we – as leaders in the South African mining sector – can sit back and be passengers on the journey that lies ahead of us, is false

The Zambezi is a mighty river. From its source at a tiny spring in north-western Zambia, it flows for almost 3,000 kilometres before pouring into the Indian Ocean. It is highly seasonal and varies from year to year. Some years will bring great fruitfulness and bounty to those on its banks, while the impact of leaner years of drought can be easily felt. Its basin is enormous, covering 1.3 million square kilometres, which is larger than the Sahara Desert. It is the lifeblood of many of the countries it passes through – perhaps a bit like the mining industry.

I was privileged to be part of a group of people meeting on the banks of this great river in April this year. This meeting was convened by the Brenthurst Foundation, under the auspices of the former Nigerian president Obasanjo. The result of this dialogue – which focused primarily on natural resource policy in Africa - was captured in a somewhat unassuming document called the Zambezi Protocol.

Some of you may have heard of it, some of you may even have read it. If you have not, I strongly encourage you to do so. Allow me please to read to you the opening lines of the Protocol:

*“Africa’s mining sector is in crisis. At its root is a lack of trust between mining companies, governments and indeed, the very nations they lead. A failure to tackle the crisis will result in serious, adverse implications for both economic growth and employment prospects at the moment when the continents’ needs are rapidly increasing.”*

At its heart, the Zambezi Protocol sets out a template for Africa to realise optimal value from its vast mineral wealth based on a foundation of trust and more constructive partnerships. The context that is contemplated is seen as a means to improve competitiveness and secure a sustainable future.

Consider the astonishing minerals endowment of our continent: Africa is host to 95% of the world’s known platinum reserves, 90% of all chromite and 80% of phosphates, 60% of gem diamond reserves, more than 50% of cobalt, 28% of vanadium, 25% of manganese, 23% of titanium and about 20% of known gold reserves. And this is one of the few continents where minerals exploration is expected to yield yet further meaningful discoveries.

There will be some of you, saying: “Of course we have potential. If only the government would stop doing silly things. If only the unions would start behaving. If only the

communities and NGOs would stop their disruptive protests and temper their impractical demands”.

That is often how we feel as business. I sincerely believe though that we need to change the way we think and act if we are to secure strong multi-stakeholder partnerships and realise the industry’s full potential.

The Zambezi Protocol challenges us all – as industry’s stakeholders – to develop a vision of what a sustainable, successful industry should look like. And, it challenges us to a great deal of introspection and honesty.

The Protocol provides a useful guide, but it is a guide – a starting point only. What we need to do next – as leaders, companies, an industry and a country – is to take this discussion forward in a meaningful way.

The factors that are inhibiting the potential of the South African mining industry are recognised in the 2015 Fraser Institute survey, covering over 100 mining jurisdictions. The report, which was published earlier this year, clearly flagged South Africa’s poor global position in terms of the competitiveness of its minerals industry but also its potential to improve.

South Africa ranked 65<sup>th</sup> out of the 109 jurisdictions covered with regards to overall investment attractiveness, ranking below fellow African countries such as the DRC and Ethiopia. Factors which contributed to this relatively poor ranking included:

- Firstly, regulatory certainty (or in fact, the lack of it), where South Africa ranked 84<sup>th</sup> out of the 109, or within the lowest quartile of jurisdictions surveyed
- Secondly, labour relations and militancy, a factor which is widely recognised as a significant impediment to productivity and promotion of investment, where only four jurisdictions globally were placed below South Africa.

- And, thirdly, socio-economic agreements or community development conditions, where South Africa featured in the 90<sup>th</sup> position.

From my personal interactions with investors, these factors are considered among the most critical for business to operate effectively, to invest capital with confidence in a sustainable future and contribute to a value generating role in society.

On a more positive note, South Africa was rated positively with regard to its infrastructure and its legal system, where it ranked at 55<sup>th</sup> and 69<sup>th</sup> respectively.

The Fraser Survey also highlighted the potential for South Africa to improve its investment attractiveness through the application of a “best practice” policy and regulatory frameworks. Of the 109 countries considered, South Africa ranked 16<sup>th</sup> in terms of its potential to improve investment attractiveness - that is, in the top quartile.

But it is not as simple as just leaving it up to Government and other stakeholders to sort out the ‘mess’. As business, we also need to think about how we have contributed to the malaise. And we need to play a very significant leadership role in turning around our industry’s decline and realising its full potential for all stakeholders.

I would like to offer some food for thought – or, for the want of a better phrase – a suggested roadmap. I see three key steps or stages on this journey:

- 1. The first step is acknowledging our past, which is a necessary precondition for the next two steps.**

It is true that the South African mining industry was a flywheel in the development of the South African economy. Joburg – or Egoli – was founded on a base of mining, as was much of South African’s infrastructural development, financial services and industrial sectors. It is

also true that today the industry has played, and continues to play, a significant role in our national and regional economies.

But, if we look back, can we honestly say that our industry did the best it could for all stakeholders and that it acted humanely and morally?

I for one must acknowledge that it did not. The negative impacts of our industry – from migrant labour which impoverished rural labour-sending areas by forcing men off the land and accommodating them in single sex barrack-style hostels, to job reservation and the lack of opportunity for women and people of colour – continue to make their impacts felt today, and will do so for generations to come.

None of what I have said is new or ground breaking. Through the Chamber of Mines, we have a concerted programme of resolving legacies, such as the great work done on clearing backlogs in the MBOD and encouraging the mining related pension funds to collaborate to speed up payments to ex-mineworkers.

In the words of Chamber President Mike Teke at the Chamber's AGM in May this year, "We have to acknowledge, perhaps more than the industry has done previously, including in its testimony to the TRC, the other side of that legacy. And we need to focus our minds even more than we have done so far, on what contribution we can make to address that legacy."

We need to critically and honestly acknowledge the role of our industry where it acted against the interests of the vast majority of South Africans if we wish to secure full reconciliation with our broader society. Even more importantly, we should embrace our role in developing the South African economy and society of the future, and commit ourselves to a very different way of doing business.

This brings to mind a lecture delivered early last month by Dr Mamphela Ramphele, when she said that "the future we aspire to is imprisoned by our unacknowledged past". This, she

says, will be attained through conversation, by talking about our past and what divides our society. She said that we must go back to the conversations that we avoided in the 1990s, that such facilitated conversations would enable injustice to be acknowledged and for forgiveness to be sought and given.

We have, ladies and gentlemen, *a past that continues to taint our present*. And, *until we secure full and complete reconciliation between business and society, we will not be able to move forward in constructive relationships with common purpose*.

I have to conclude that our legacy of mistrust and polarisation is a predominant factor which prevents stakeholders from working together for mutual benefit. Unclear policy, inefficient regulation, labour militancy and community protests, continue to be seen by various stakeholders as essential levers to force business to transform and transfer value into the broader society. This is a destructive legacy that needs to be unwound through faith and bold leadership. I will outline the envisaged leadership in the third and final step of the proposed roadmap.

## **2. The second step is that we need to agree a vision for the mining industry.**

And, at the risk of inducing further eye-rolling, I am going to refer you to the African Mining Vision as a starting point. The African Mining Vision was adopted by Heads of State at the February 2009 AU summit following the October 2008 meeting of African Ministers responsible for Mineral Resources Development.

The basis of AMV is that, fundamentally, Africa needs to 'shift its focus from simply mineral extraction to much broader developmental imperatives in which mineral policy integrates with development policy.' What this means in practice is using our country's vast mineral resources as a catalyst for development, so that it can play a transformative role.

To do this we need to build appropriate social and economic development linkages that meet national and regional developmental objectives. As noted in the AMV, such linkages are diverse – ‘whether this is with regard to improving equity and transparency in revenue collection and distribution; integrating small scale mining into rural economies, thus improving people’s livelihoods; or linking mineral extraction to infrastructure development and the manufacture of products that support societal needs.’

In practice this means ‘integrating mining much better into development policies at local, national and regional levels’.

The modernised mining industry vision is clearly aligned to the African Mining Vision and is therefore a vision that I hope every delegate to the Indaba, irrespective of stakeholder affiliation, would endorse. The modernised mining industry vision will only be realised when all stakeholders are aligned and contribute towards the industry’s success instead of trying to further their own self interests.

A modernised mining industry will result in all stakeholders benefiting from the creation of superior value. Is this a Utopian dream that can only be realised in an ideal world? I don’t agree – I think it can happen in our world and in our time.

Let us consider the examples of Chile and Zambia cited by the Institute of Race Relations’ Anthea Jeffrey’s research article published last week. These two countries have followed very different trajectories with their copper industries. Through free market reforms aimed at attracting private sector investment, Chile has successfully grown its copper industry eightfold over the past four decades. The increased value flowing into Chile’s economy has resulted in significant social development benefits including low levels of poverty and increased life expectancy. By contrast, in an environment of unclear policy and stringent regulation, the Zambian copper industry has stagnated over the same time frame with poverty and average life expectancy far behind Chile.

### **3. The third and final step in our roadmap is the development of a social and economic compact that creates superior value for all stakeholders**

Once reconciliation has been achieved and a credible, shared vision developed, the third and final step is the development of a social and economic compact which articulates the key principles on which the new relationships are founded, or the new rules of the game.

Let me give you a view on the sort of commitments I would expect from key stakeholders under these new rules. I will start with business:

Business will be required to commit to open and transparent disclosure of information as the basis for meaningful engagement with all stakeholders. We will need to ensure that forums for stakeholder engagement are effective in promoting inclusivity and securing a sustainable future for mining operations.

Business will need to adhere to exemplary standards of environmental and social performance and governance, including, as priorities, aspiring to zero harm in respect of safety and health. The development of local economies and communities will be imperative, with the establishment of a sustainable local economy post mining critical. Granted none of this is new but we can and must improve many aspects of what we do

We know that sustainable viable businesses attracts investment, growth, creates huge economic benefits and employs large numbers of people. They are also key drivers of transformation.

More importantly business will have to ensure that value flows equitably to all stakeholders according to an agreed and specific framework, including employee benefits, profit sharing, taxes, social expenditure and dividends to shareholders. Commitments to invest in growth projects and sustainability under the right investment climate will be a necessity.

And what would we expect other stakeholders to commit to as their contribution towards realising the vision and securing an equitable share of value? I'm sure this will be discussed over the course of the next few days.

It is my view that unions should focus on promoting their members' interests in the context of the economic sustainability of mining operations. We understand the important historical role of unions in promoting a political agenda, but the unions of the future should see their role as serving their members' interests first.

Unions would engage pro-actively around the sustainability of mining operations and industrial action that could compromise the business should be avoided. As stakeholders who benefit from a more prosperous industry, unions should be more supportive of measures that enhance business performance, and critical and possibly difficult business decisions required in the interests of sustainability should be supported.

Employees will be required to apply themselves responsibly to safely deliver required operational performance, recognising the role that a strong and sustainable business plays in achieving their personal life ambitions. Greater alignment with the fortunes of the business will result in employees securing an increasing portion of their remuneration through profit sharing arrangements, so that they benefit alongside shareholders and management from positive upticks in the economic cycles, but also contribute to the industry's survival through economic downturns.

Community organisations will ideally represent the needs of their constituencies and actively participate in constructive engagement. Communities need to understand and appreciate the implications of up- and down- cycles in the minerals economy, and the affordability of the social programmes, as well as the shared responsibility of Government and business in delivering these.

Government will need to provide clear policy and a regulatory framework that provides the level of certainty that is required for confident investment in mining projects.

Increased incentives for investment in mining growth projects and a fair taxation regime will promote investment, both from industry as well as from local and foreign investors. Government can further promote growth by contributing towards partnerships with the private sector in new technology and market development. Fair and efficient administrative processes will be in place, and adhered to, as enshrined in legislation without impeding business operations.

*Can we possibly see such a future being realised?* I think everyone would agree this would be by far a preferable way for our mining industry to function than through the adversarial and hostile interactions that are commonplace in our current climate and which only serve to destroy value.

This ambitious vision *can* be realised through a renewed collective will and re-booted relationships that are not contaminated with historical perceptions and legacies.

Ultimately all South Africans have an interest in creating an environment in which the mining industry delivers on its potential in building a stronger nation. As stakeholders in the South African mining industry, our futures are inextricably linked. We urgently need to make the bold call to support each other in securing a stronger shared future that delivers on economic growth and contributes towards the achievement of South Africa's National Development Plan.

I want to remind us all what the Chamber President Mike Teke said at the Chamber of Mines AGM in May this year. He said: "The journey to our greatness, cannot be carried out by one person alone or indeed, one group alone. It cannot be carried out by government alone, or the unions alone, or the industry by itself. Optimising mining's contribution to this country, the neighbouring countries, our employees and their families, does not lie in

litigation, mutual enmity and ongoing conflict. The road to a better future for all mining's stakeholders lies in collaboration and partnership.”

The Zambezi Protocol represents a fresh multi-stakeholder socio-economic compact based on a revised set of key principles and relationships, and provides the key to unlocking value from Africa's vast mineral endowments. *But*, we need to act speedily and with resolve.

In closing, I don't think it's a utopian scenario where communities welcome our entrance as neighbours into their communities, and where mineral endowment is seen as a blessing rather than a curse. We can learn from the example of Botswana, where a stable context has allowed increasing economic benefit from mining activity to act as a catalyst for social development.

I appeal to each and every one of our industry leaders to engage with one another on an equal, open and transparent footing whether we come from business, government or labour.

Lastly, I would expect all stakeholders, as their first priority, to collectively protect the industry's sustainability as the source of the value that will accrue to all South Africans.

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