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MINING INDABA 2017

Achieving the mining sector's great economic and transformational potential – what is required?

Comments made by the President of the Chamber of Mines, Mike Teke

Date: 6 February 2016

I am delighted to be able to address you today, towards the end of the first day of the 23rd Investing in African Mining Indaba, which has become an important highlight of the African mining calendar. I have been particularly pleased to see the significant increase in the number of investors at this year's conference, which I see as a positive sign on our mining investment landscape. I have also noted the participation of many high level delegations from around Africa, signalling perhaps a far greater degree of cooperation between our countries. Here in Africa, we believe in taking down walls, not in constructing them.

It has become conventional wisdom to say that South Africa missed the mining boom of the last decade. This tends to be attributed to the new mining rights regime that came into effect in 2004 through the MPRDA, which transferred the ownership of minerals to the state, and with the advent of the Mining Charter. I'm not sure that this is correct. In fact, I know it is not. Yes, total mining output fell in this period, and mining's contribution as a proportion of the South African economy fell too. But we need a sober assessment of why this was the case.

On the latter point, that is, of mining's contribution to South Africa's GDP, that is true. And that this was the case is a good thing too. It happened during the best decade of economic growth in SA since the 1960s and, more importantly, as a consequence of the diversification of the country's economy. We all know it is a good thing, here in Africa, for our economies to become less dependent on the primary industries – mining and agriculture – so we should welcome the fact that other sectors are flourishing. Even if we look at this from the point of view of our own narrow self-interest: if other sectors of the economy are doing well, this is likely to translate into improved mining sales – investment in equities, sales of gold and platinum, and cars and jewellery, more and more construction, etc.

As for mining output, we need to remember that gold and diamonds were, for close to a century, the backbone of the South African economy, diamonds from the 1860s and gold from the 1880s onwards. What we saw during the boom were declines in production of those minerals as long established mines began to reduce production or close as the ore body was exhausted.

If you take gold, SA production in fact began falling in 1970. From the 1,000 ton a year production peak in 1970, it fell to below 700 tons by 1980, during the price boom that had begun in 1973. SA gold production was around 400 tons at the beginning of the commodities boom in the early 2000s and less than 200 tons by 2010, by the time the boom had ended. I am happy to say that many of the very deep level resources that might otherwise remain unmined could well be turned to account thanks to the intensive research & development work the Chamber and its members are doing on new mining methods. That said, the declines in output were not a consequence of regulatory issues. It was a consequence of the maturity of the sector.

And in fact, the commodities boom was wonderful for platinum, good for iron ore, and even coal made money. Investment in the northern and eastern limb of the platinum belt boomed, on the assumption that the world economy would continue to grow as rapidly as it was doing then. Small towns and villages like Rustenburg, and Burgersfort became large cities and towns. New suppliers came on stream – which was a good opportunity to bring new black producers and contractors into the industry. Shareholders in the right sectors did well. So too did employees in certain companies at which employee share schemes were established and vested at opportune times.

One of the attacks on the industry holds that shareholders and executives benefited proportionately more from the boom than did workers. There is some validity in that. There are opportunities to ensure that it doesn't happen again during the next commodities boom.

One thing that managements have sought to do, most prominently in the gold sector in the 2015 wage negotiations (as, incidentally, they did in the early 1990s, unfortunately at the beginning of the gold bear market that decade) was to introduce a link between profit and wages into the pay package. Had something similar been done before the commodities boom, that assertion would have had less (or no) validity. Unfortunately, trust levels have not yet reached a point where labour has been willing to accept the concept. This arguably cost employees during the gold upturn in the second half of 2016, although most gold companies did put in place bonus systems to take some account of this. Still, this is something on which dialogue between management and labour should continue. It is not merely an issue of fairness. It would also mean a more sustainable industry, and more sustainable jobs, where there is a link between performance and pay.

There is another rather sensitive issue that we need to contemplate – executive pay. The growing gap between CEO pay and average employee pay is neither a peculiarly mining issue nor a South African one. It is an issue around much of the world. And it is one that is the source of increased alienation of people in many parts of the world. But in South Africa's mining environment, particularly given the industry's role in our apartheid history, it is a matter of particular focus. The issues are complex, and the solutions far from clear. What is fair and what is not? But we do need to be conscious of the impact on the public consciousness of what are seen as dizzying differentials between the top and the bottom.

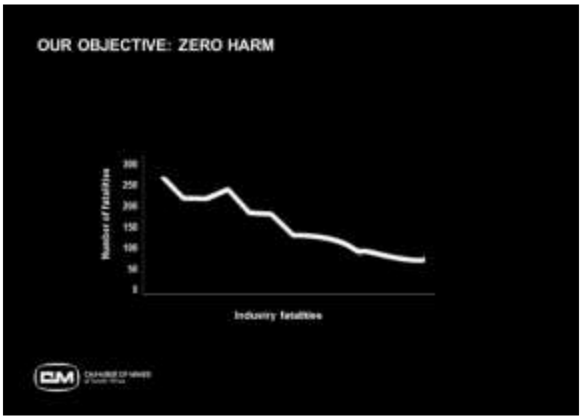
It is always going to be the case that economic development benefits some more than others. Left entirely to its own devices, it can even disadvantage some as others benefit. That unfortunately is a fact of life. We have seen the consequences of that even among the electorates of the US and the UK in recent months, where voters have turned to individuals or solutions out of anger even though those individuals and solutions will ultimately damage their best interests, not only the interests of their perceived enemies.

What that should be telling us is that the winners are alienating many in their societies and hence endangering their own prospects of sustaining the system that, whatever its flaws and setbacks, has produced decades of growth and development around the world.

These are the big questions to be asked and answered around the world. But to keep it just about manageable, let's look at our industry on our continent, with a particular focus, for me, of mining in South Africa, where it has had a profound impact.

Mining is the foundation of the South African economy. Much of the manufacturing and services sectors exist because they were initiated to service and provide inputs to the mining industry since the second half of the 19th century. However, as we all know, mining was also one of the foundation stones of our country's apartheid history.

We'll get to dealing with that legacy in a moment. Before we do, looking at the current state of affairs, mining's first priority must be to do no harm. Zero Harm is and should remain our mantra.



The health and safety of employees comes to mind first. These are areas where much work has been done, with a great deal to show for it over the last two decades. But, as we are painfully reminded with each and every fatal accident, serious injury and illness, there is much that still needs to be done before we can claim to be anywhere near meeting that goal. The industry is absolutely committed to meeting that goal. Within companies, and at the Chamber of Mines, numerous policies, programmes and systems are in place to those ends.

Collective bargaining in South African mining has been a major force for transformation for the last 35 years, since the founding of the National Union of Mineworkers in 1982. Back then mining wages were relatively low compared with other industrial sectors. Today they are among the highest in the country. Of course, as events in 2012 reminded us, there remain labour relationship issues that need to be worked on. The peaceful resolution of wage negotiations in gold and platinum over the last two years suggest that at least some progress has been made. But, as suggested already, a more direct link between profit and employee earnings, is highly desirable.

Cause for greater concern are relationships between mines and mining communities. Conflict between communities – or at least groups in communities – and mine management has become a source of serious financial and reputational cost.

Community grievances about dust pollution, impacts on the availability of potable water, noise, loss of agricultural land to make way for mining activities, with inadequate compensation, are patterns that have become all too familiar, along with assertions that the presence of mines contributes nothing to mining communities and regions. Given the estimated R2bn a year that mining companies are channelling into corporate social investment (CSI) and other initiatives, this is particularly troubling.

All this serves to feed into a conventional wisdom that, in net terms, mining is having a negative impact on communities and on society, which was itself built on the industry's history during the apartheid era.

There are growing numbers of NGOs that offer support to mining communities and orchestrate a great deal of public sentiment against the industry. We are losing the battle for hearts and minds.

This is a tough challenge for the industry. Actually, it shouldn't be a battle. But what do we need to do to overcome the challenge? In essence, the industry needs a business model that aggressively pursues value creation for all if it is to win social legitimacy for the industry – the social licence to operate as some term it:

1. Our shareholders are the foundation of our businesses. They understand the cyclical nature of our business, but ultimately they need and are entitled to a reasonable return on their investments.
2. Industry leaders need to engage with stakeholders in an open and honest way. Engagement involves two-way communication. We need to listen to those who are speaking to us. Where we have had adverse impacts on the lives and livelihoods of stakeholders, let's work out how to avoid doing so in the future, and repair those things that can be repaired.
3. Let us ask ourselves, and our stakeholders, why our best intentions don't seem to be sufficient. Why is the R2bn being spent on CSI annually not having the impact that it should? Perhaps we need to find new ways of spending those funds.
4. Where we can honestly say that they have misjudged us, let us do so respectfully, and let us set out to find solutions where they are to be found. While there are some out there who will remain implacably opposed to mining whatever we do, we may find that most are simply asking to be heard, and that grievances are taken seriously.
5. Our industry's apartheid history remains a huge obstacle:
    - There are some effects that cannot be wiped out, at least not by our generation.
    - But transformation remains possible and feasible. Indeed it is happening in many spheres, even if not as rapidly as many would hope. We have done a lot. But we can do much more. And we can do so in ways that do not damage or destroy the industry's future capacity to create value for all. That is why a sensible outcome to the current Mining Charter talks is so important.
    - The industry has, however, done itself a disservice by not fully acknowledging its history. That failure continues to burden the industry and its reputation in the eyes of many of its stakeholders. One of my greatest wishes is that the industry resolves to deal with this. And soon.

Ladies and gentlemen, the task that lies before us is complex and huge. But we have no choice but to take it on.