

SPEAKER NOTES FOR ROGER BAXTER
RESTORING THE DREAM
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I am very pleased to be here representing the Chamber of Mines of South Africa, the mining industry employers' organisation that supports and promotes the South African mining industry.

The Chamber of Mines represents both large and small companies, and a number of mining associations.

In effect, the Chamber represents companies producing 90% of South Africa's minerals by value.

I am, by nature, an optimist. As you would have seen from the title of my presentation, I would like to talk to you today about how we, as an industry, believe that we can contribute to restoring the South African dream by achieving the full potential of mining.

Mining matters to South Africa. Based on information available:

- In 2017, our projected estimates indicate that the industry constituted 6.8% of the economy, marginally down from the 7% of overall GDP in 2016.
- In real terms, the industry is estimated to have expanded by 3.7% in 2017, with a contribution of R312 billion.
- The direct contribution of mining to fixed investment amounted to R93.4 billion; while total primary mineral sales reached R424 billion.
- Despite the somewhat depressed state of the industry, it paid R5.8 billion in royalties, and taxes of some R16 billion.
- Employment was 464,667 by the 3rd quarter 2017, up from 457,290 at the end of 2016. It was not, as we know, a good year for gold and platinum. This increase in the number of employees across the mining industry is largely thanks to industrial minerals - iron ore, chrome, coal, manganese.

So despite the tough times we've been going through, we've been fighting to hold our own, helped by the market in some sectors thanks to the welcome, albeit gradual, improvement in the world economy.

But the challenges of the regulatory environment in 2017 were arguably the worst the industry has ever experienced.

The extent of the damage done to South Africa's institutions, the economy as a whole and the mining industry in particular, has been immense.

The unilaterally imposed revised Mining Charter resulted in a loss to South African listed mining companies of R51 billion in one day.

Slide 5:

And, as has become very clear, key governance and policy challenges have eroded business and investor confidence

Using just one benchmark as an example: the Fraser Institute Investment Attractiveness Index ranks South Africa in top quartile for mineral potential .

But, conversely, South Africa is ranked lower than other mining jurisdictions in terms of best practice policy, legislation, regulation and operating environment.

There's clearly a mismatch between potential and current outcomes.

We, at the Chamber know that the current policy and regulatory environment has been holding this industry back. But, we wondered, by how much.

So, we asked our members: what would be the outcome in terms of mining investment if there was an improved policy and regulatory environment in South Africa.

We asked members two critical questions:

1. What could happen if the policy, regulatory and governance environment improved substantially?
2. Is the industry's current lack of investment attractiveness and the contrast in rankings for different criteria by international institutions due to a lack of

potential. Or is it due to the negative impacts of the toxic policy, poor governance and an uncertain regulatory environment?

In total, 16 entities representing member companies making up the overwhelming bulk of mining production in South Africa across various sectors participated in the survey.

While this is a useful result, it does tell us that our estimates are under-reported, and that the figures report are likely to be significantly higher in reality.

You will find a detailed report on our website, produced by our Economics team.

In brief though, I would like to share with you some of the Issues affecting investment, production, transformation and contribution to economy.

A critical outcome was that the lack of confidence and investment was largely as a result of the absence of a nurturing environment to stimulate long-term investment, exacerbated by a regulator which has failed to build partnerships for growth.

It should be no surprise that the ongoing policy and legislative uncertainty, with the publication of the deeply flawed June 2017 Reviewed Mining Charter, was the biggest blow to the industry in many years.

Another observation was that of poor governance in the DMR , with political interference in the awarding of prospecting and mining rights, allegations state capture, unethical leadership, the hollowing out of capacity in the DMR.

Other notable outcomes are that infrastructure constraints have curtailed competitiveness and investment.

Also, that failing local authorities has exacerbated the lack of trust between business and society, and has had a very real impact on mining operations

From the survey, it is very clear that the uncertain political outlook, coupled with unprecedented low levels of business and investor confidence, act as disincentives for investment in mining in South Africa, but also in relation to other sectors

A picture tells a 1,000 words. Roger to describe graph.

Apart from the findings mentioned above, a critical finding of the survey was the estimated currently planned capital expenditure over the next 4 years of R145 billion (stay-in-business) capital could increase by R122 billion (or 84%).

This would have a significant direct and indirect impact on our economy and society, not least of which is the potential for job creation.

Around 48,000 could be created in the industry, with both direct and indirect jobs created amount to around 150,000

Delegates may have been struck in recent days with a resurgence in energy and confidence in the South African mining industry (as well as, of course, the Rand). Of course, so much of our investment world is driven by perception and certainty, and we are not out of the woods yet.

That said, the Chamber and its members are cautiously optimistic about initial signals from new leadership of ruling party. The next few months will have a defining impact on the mining industry, and the country.

The road ahead will not be an easy one. So much is at stake. And the newly elected leadership will have considerable task at hand.

We are hopeful, nonetheless of a renewed focus on responsible and ethical leadership in the national interest.

Ethical leadership, good governance and adoption of competitive, stable and predictable policies would:

- mean considerable new investment in mining
- create huge economic an transformation benefits for the country
- sizable increase in jobs, export earnings, GDP and transformation

The Chamber is looking forward to a situation where it will be possible again to work co-operatively with government to get the economy and mining sector back on track

To get mining back on track requires policy and regulatory certainty

To achieve this requires recognition of mining's unique characteristics, including:

- high risk investment with long lead time from exploration – to mine development – to closure
- capital intensive – large portion of capital is spent on mine development
- exposed to cyclical commodity markets
- price-taker – cannot pass on cost increases to final consumer

We recognise that the industry itself has much to do:

- In making its contribution to the responsible, safe and sustainable exploitation of the country's mineral resources
- In addressing and bridging the deficit in trust between the industry and our neighbouring communities
- In delivering lasting benefits and upliftment to employees and their families and
- In addressing and redressing legacy issues.

One of those critical areas where the Chamber (and its members) is focusing much attention on, is safety and health, where Zero Harm remains our goal. The deepest mine in the world recently achieved a milestone of two years without a fatal accident, proving to us that Zero Harm is possible.

The Chamber was deeply disappointed by the deterioration in safety performance during 2017. This is particularly disappointing given the consistent improvement we have seen over the past two decades as a result of various tripartite health and safety initiatives adopted by the mining industry.

Between 1993 and 2016, the number of fatalities declined by around 88% while fatalities as a result of fall of ground incidents declined by 92% over the same period. This improvement in safety performance over 23 years illustrates that achieving the industry's ultimate goal of Zero Harm is possible if all stakeholders work together.

A particular concern during 2017 has been the number of accidents related to seismic activity and subsequent fall of ground incidents. We have seen a notable increase in the number of rockbursts. At the same time rockfalls, which are typically the main cause of fall of grounds, decreased.

The industry picked up on this development, and immediately put plans in place to address this. This has, in fact, been one of the areas that has received much attention of the industry's Zero Harm CEO task team.

The Chamber's MOSH learning hub established a task team to develop leading practices on rockbursts, and its findings will be shared across the industry.

Addressing fall of ground incidents, particularly at deep-level mines, is an area that joint industry efforts have focused on most intensively over the past several years. Recognising that South Africa operates the deepest mines in the world, this focus is reflected in the more than R150 million that the Mine Health and Safety Council (MHSC) has invested in falls of ground research.

Through the Mine Health and Safety Council, more than R250 million has been spent on research into the seismicity associated with our deep-level mines. In addition, R40 million has been spent on fundamental and applied research and technology transfer. The research outcomes led to new mine designs and methods. The number of fatalities associated with seismicity has fallen from 48 in 2003 to 7 in 2016. If we could achieve that step change, we can address these new challenges.

Ensuring the safety and health of all mining employees requires active collaboration between management, employees and regulators. All stakeholders need to remain committed to achieving Zero Harm.

Finally, a key driver of modernisation is the emphasis on Zero Harm. While mining is still largely a labour-intensive process, the mining industry makes use of a wide range of technologies to reduce and prevent incidents related to health and safety. Central to curbing underground accidents, as far as possible, is the removal of miners from working-face dangers and in-stope health hazards. Where that is not possible, technology is directed at protecting employees. Among the research and development initiatives underway are mechanised forms of ore extraction that replace historical drill and blast methods.

Another area that the Chamber and its members are fully committed to addressing is meaningful transformation of the South African mining industry.

In 2017, we carried out a survey of Chamber members to assess the progress the industry has made in terms of the 2010 Mining Charter's transformation pillars.

In total, 28 mining companies covering all sectors and representing an estimated 70% of the industry by production and 67% by employment, participated in the survey.

The outcomes showed that, based on the principle of recognition of continuing consequences of previous transactions, ownership of the industry by HDSAs stood at 39% at the end of 2016, which is significantly above the Charter target of 26%. In 2016 alone, some R2.2 billion flowed to HDSAs in dividends from the surveyed companies.

In respect of procurement – another Charter pillar – the industry continues comfortably to exceed targets, as it does in most categories for employment equity.

Also in 2016, the industry spent 5.5% of its annual payroll – of R7.74 billion - on human resource development. This is over and above the skills levy payment of R1.46 billion.

So, in conclusion, what will it take to restore the dream, and enable the mining industry to achieve its full potential to the benefit of all South Africans.

In our view, it will require five things:

1. Ethical leadership and good governance from all parties, and a stakeholder leadership partnership to drive a proper growth and transformation strategy for the country.
2. A regulatory and legislative environment that is stable, predictable and competitive
3. A stable and constructive labour relations environment and an earned social license to operate
4. Access to available, efficient and cost effective infrastructure (such as electricity, rail)
5. And finally, solutions to improve productivity in terms of next generation mining, and to reduce cost pressures

The Chamber remains committed to finding workable solutions in the national interest.