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OPINION

CHRIS BARRON: How mining's lifeblood is drying up

You can't exploit minerals you haven't found, and exploration is flatlining, says Minerals Council economist Hugo Pienaar

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by CHRIS BARRON

Exploration expenditure, which he points out has been stuck at R1.1bn in real inflation-adjusted terms for the past five years and is down from R6.2bn in financial 2006/7 raises concern about the mining pipeline. Picture: ROBERT TSHABALALA

StatsSA's latest figures showing that capital expenditure in local mining was down almost 10% last year and that exploration is barely happening are a "horror show", says Hugo Pienaar, chief economist of Minerals Council South Africa.

“The combination of the fixed investment number down by 9.6% in real terms, and the minerals exploration number, is a bit of a horror show for our mining sector,” he says. “The fact that companies pulled back on investment quite significantly, and at the same time we’re not spending nearly enough on exploration.”

StatsSA’s gross operating surplus data shows mining profits were down for a second consecutive year in 2024, falling 18.5% in 2023 and a further 1% last year, which Pienaar says is bad news for the whole country. The National Treasury budget documentation shows corporate tax receipts from mining could be down 28% year on year for financial 2025.

Current rates of exploration — “the lifeblood of future mining” — cast a shadow over the future of the mining sector.

Exploration expenditure, which he points out has been stuck at R1.1bn in real inflation-adjusted terms for the past five years and is down from R6.2bn in financial 2007, raises concern about the mining pipeline.

“That number is of real concern, it is simply too low,” Pienaar says. “We need it to go up substantially to secure a future pipeline of mining activity. We have to start seeing more exploration activity coming through as quickly as possible.”

Just 1% of global mining exploration spending is coming South Africa’s way, despite a promise by mineral resources minister Gwede Mantashe in 2018 that the percentage would reach 5% within three to four years — the level it reached in 2003.

“Given South Africa’s wealth of mineral resources there’s no reason why we shouldn’t be at 5%,” says Pienaar. “We have so much to work with underground. Our problem is the above-ground policy and general business environment we think is an inhibitor to unlocking that exploration potential.”

Getting a new online cadastral system, which the minister has promised will be up and running by mid-year, will be “an important start” to unlocking that potential. The current manual system is “far too cumbersome and takes far too long to process applications”. It also lacks transparency, he says. In short, it’s “a real mess”.

But Pienaar says a new system, even if it works "as it should in an ideal world" and provides a one-stop shop for applicants so they do not have to go to a plethora of different departments for water and other licences, will not on its own be sufficient to turn around the struggling mining sector. "We need to go well beyond that," he says.

Besides domestic constraints both exploration and fixed investment are determined by what is happening to global commodity prices. "When they're high you tend to see more investment and exploration, and the converse when they're depressed."

" The cost of doing business in South Africa, not just in mining, is high relative to countries we compete with, and that is certainly also a constraint on mining "

- Hugo Pienaar, chief economist of Minerals Council South Africa.

He concedes, however, that there are other reasons the mining sector has underperformed so disastrously.

The fact that some peers in Africa are outperforming us — Botswana, traditionally known for diamonds, has now overtaken South Africa as a producer of copper and is ranked 15 out of 86 mining jurisdictions (South Africa is at 62) — "tells you that they're doing something right", Pienaar says.

"Their domestic operating environment is more conducive, they welcome investment into the country, whereas South Africa has lagged on that front. The cost of doing business in South Africa, not just in mining, is high relative to countries we compete with, and that is certainly also a constraint on mining."

A combination of things has to come together, for example electricity. "We have a much better supply of electricity and that's fantastic."

But the cost of electricity remains a serious constraint, with Eskom increasing its tariffs 12.7% this year. "That's three times where we think general headline CPI [consumer price index inflation] will be this year, and parts of mining are very energy intensive."

Ask chrome miners, who cannot afford to run smelters to produce ferrochrome, which fetches much higher prices internationally than raw chrome does.

On the bulk commodity side — coal, iron ore, chrome, manganese — logistics remains a major constraint. "Again, we've moved from rock bottom, we've made progress, we're transporting more on rail, but there's still a very long way to go to get back to where we were in 2017/2018," Pienaar says.

"So there are these day-to-day business operational constraints. And then you have overarching regulations in the Minerals & Petroleum Resource Development Act that sets rules of the game that the mining sector has to comply with, be it on localisation, transformation, etc.

"We're not saying all these things are bad, but they all contribute to constraints and bottlenecks in the business environment along with a lot of compliance issues. And that gets you to the situation where the mining industry is now."

And just when it seems South Africa is finally starting to address domestic constraints such as power and logistics, "we're now going into a year where the global economy and global growth is under threat from the Trump trade wars and what that implies".

If global growth expectations are revised down, as is starting to happen, it will "not be good news" from a mining perspective, he says. The net effect of all this remains extremely uncertain, and what drives the kind of fixed investment the mining industry so desperately needs is certainty.

"One of the key drivers of investment is business confidence, and to the extent that the geopolitical situation harms that, it will have an impact on investment in the mining sector."

Another key driver is the local regulatory environment.

"We expect the new iteration of the MPRDA, due later this year, to be broadly business friendly. And we'd definitely like to see structural reforms that were started in the sixth administration moving to a higher level of implementation under the GNU."

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