MINERALS COUNCIL
SOUTH AFRICA

***OPINION | If SA pursues unfriendly mining laws, our investment crisis will deepen***

*Neglecting the growth potential of South Africa's mining industry in favour of prescriptive, and unwelcoming mining and trade laws would further deepen negative perceptions of the country as an investment destination, writes Minerals Council SA CEO* **Mzila Mthenjane***.*

The mining industry's contribution to South Africa and its people is — and has for a century been — a cornerstone of our economy despite the regulatory, administrative and operational difficulties that have prevented it from reaching its full potential.

The mining industry has its role to play, for without it, the potential to beneficiate minerals would not be possible. However, once the minerals are mined, the country needs to support the development of a downstream value-chain that can take these minerals and value-add them into products that are sold above the prevailing metal trading prices in the standard markets. This is what true beneficiation looks like; and achieving this is not the responsibility of mines but sits within an enabling environment that should be provided by government policy to harness private sector capital beyond mining and foreign investment and expertise.

South Africa has a long history of mining and adding value to mineral ores, and there remains more opportunity for further beneficiation and fabrication of the minerals that are mined in South Africa. Since 2007, gold jewellery fabrication in South Africa has dropped from 7.5 tonnes of gold to less than one tonne (Jewellery Council., 2015). The statistics show that since the implementation of the Precious Metals Act, 2005, beneficiation (fabrication) of precious metals has declined in all sectors except gold coin fabrication. Even gold coin fabrication expansion was not attributable to an enabling Act, but due to the bullish market in gold.

Eskom has since its founding in 1923 used locally mined coal to provide electricity to grow the biggest and most sophisticated economy and industrial base in Africa. Sasol's coal to liquid fuels processing is another example of value addition from this commodity.

A century ago, Rand Refinery opened, becoming the world's largest single-site gold refinery, producing Krugerrands since 1967 to lead the world in bullion coins, creating additional demand for South African gold. More than 60 million ounces of Krugerrands have been sold in the past five decades. This is beneficiation at work within the country; but it is limited to a very select few businesses. Rand Refinery, among others in South Africa, including Metal Concentrators, produces gold bars and semi-fabricated products used in jewellery manufacturing supporting the beneficiation economy.

However, there is not nearly enough manufacturing in this portion of the value-chain to make a meaningful impact on demand for the precious metals that are mined.

Major platinum group metals (PGMs) producers are engaged in the complex chemistry of smelting and a two-stage refining process to produce the six metals in PGMs sought after around the world by the automobile industry, jewellery, medical products and industrial processes. There is future potential for PGM demand for hydrogen energy. Our local autocatalytic converter industry, at full capacity, had a share of about 19% of the global market.

By the early 2000s, South Africa was a leading source of ferrochrome, ferromanganese and ferrovanadium, all used in the global steel industry. With increasingly expensive and erratic electricity supply since 2008, high transport and labour costs, our global competitiveness has eroded, rendering it unable to withstand downturns in prices as China aggressively expanded its local ferroalloy industry. Today, we have ferrochrome furnaces operational because of persistent operational constraints.

South Africa is now exporting record volumes of chrome and manganese ore, mainly to China, which has become the largest maker of ferrochrome and a major producer of ferromanganese.

Local diamond beneficiation, once employing more than 3 000 cutters and polishers now has barely 300 remaining, has been in decline.

The growing discourse in the government and in the economy about beneficiation of mineral production must be considered against the lived reality of the mining and manufacturing sectors.

Deindustrialisation in South Africa has been underway since 1993. The GDP share of manufacturing has declined from 21.4% to less than 13% in recent years. It is only when specific conditions are met, including that a large offtake contract or a sustainable market is secured and the binding constraints on beneficiation are removed, that punitive measures on the mining industry have any chance in boosting in-country beneficiation that is globally competitive.

Higher levels of beneficiation can only be achieved through the reduction in burdensome red-tape and policy, which has had a proven strong negative effect on local beneficiation as we've seen in the diamond industry. An overly legislated environment has added compliance cost, dissuaded much needed international investment, and has caused wide-spread job losses without any upside benefits.

The pending Mineral Resources Development Bill, as well as possible regulations from a department like Trade, Industry and Competition (dtic) must as far as possible avoid imposing any restrictions or sanctions on the free flow of mineral exports.

In the absence of concrete evidence that restrictions on mining activity will 1) not harm primary mineral extraction, and 2) support more in-country beneficiation, we favour an incentive-based approach to achieve higher levels of beneficiation. Future beneficiation on commercial grounds will only be possible through securing investment and growth in exploration and primary mining.

The Minerals Council is a firm supporter of beneficiation to maximise the benefit of South Africa's minerals and create jobs and wealth for the country and its citizens, but pragmatism and a firm grasp of economic realities must prevail in creating an attractive operating environment for fabricators to beneficiate local minerals.

Fixing the underlying constraints of expensive and erratic electricity supply and inadequate and expensive transport logistics, as well as enhancing the level of manufacturing skills, will go a long way to halting -- and potentially reversing -- the trend of closures of smelters in South Africa's ferroalloys industry, a key factor in reduced load shedding.

The deindustrialisation of our economy needs urgent intervention through structural reforms to encourage and support private sector participation and reverse the constraints leading to business closures and curtailed investments in industrial processes. While the Minerals Council is encouraged by the progress to date, in some cases an enabling environment remains absent for mining and beneficiation.

In remote and rural areas where the bulk of mining happens, the dysfunctionality of municipalities makes daily operation difficult and unattractive for investments for any companies considering setting up businesses. The inability for licences to be validated and companies to be vetted through licencing offices makes compliance an increasingly challenging problem across the value chain and ultimately deteriorates the image of beneficiated minerals made in South Africa.

The Mineral Resources Development Bill's amendments are a pivotal point for our mining industry. The Minerals Council has in all engagements with the Department of Minerals and Petroleum Resources advocated for investor-friendly, pragmatic regulations to encourage growth of the mining industry through increased exploration, mine development and investment in existing mines.

Given our mineral endowment, the number of new greenfield mining operations in South Africa is disappointing.

It would be a tragedy if the growth prospects for the South African mining industry and expansion for fabrication were ignored in favour of a more onerous, prescriptive and unfriendly mining and trading legislation that entrenches negative sentiment towards our country as a prospecting and mining investment destination. Over-regulation of beneficiation in the value chain will continue to constrain and reduce the amount of value that South Africa receives for its minerals and the jobs that the industry could stand to create.

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