

# JUNIOR INDABA 2021

Roger Baxter - CEO, Minerals Council / 1 June 2021



**MINERALS COUNCIL**  
SOUTH AFRICA

The economic outlook  
and current environment for






# JUNIOR MINING AND EXPLORATION

globally and in South Africa

#MakingMiningMatter



# MINING MATTERS TO SOUTH AFRICA

 <p>Direct contribution of mining to GDP:</p>	<p><b>R361.9bn</b></p>	<p>Direct employment created by mining:</p>	<p><b>451,427</b> people employed</p>
 <p>Mineral export sales</p>	<p><b>R575.1bn</b></p>	<p>Indirect employment created by mining:</p>	<p>For every job in mining <b>at least 2 more jobs</b> are created up and downstream</p>
 <p>Total primary mineral sales:</p>	<p><b>R608bn</b></p>	<p>Economic dependency:</p>	<p>Each mining employee supports <b>5 to 10 dependents</b></p>
 <p>Royalties paid:</p>	<p><b>R11.8bn</b></p>	<p>Remuneration to mining employees:</p>	<p><b>R148.5bn</b></p>
 <p>Value added taxes paid:</p>	<p><b>R34.7bn</b></p>	<p>PAYE paid by employees:</p>	<p><b>R26.2bn</b></p>

# IS SOUTH AFRICA AN ATTRACTIVE EXPLORATION INVESTMENT DESTINATION?

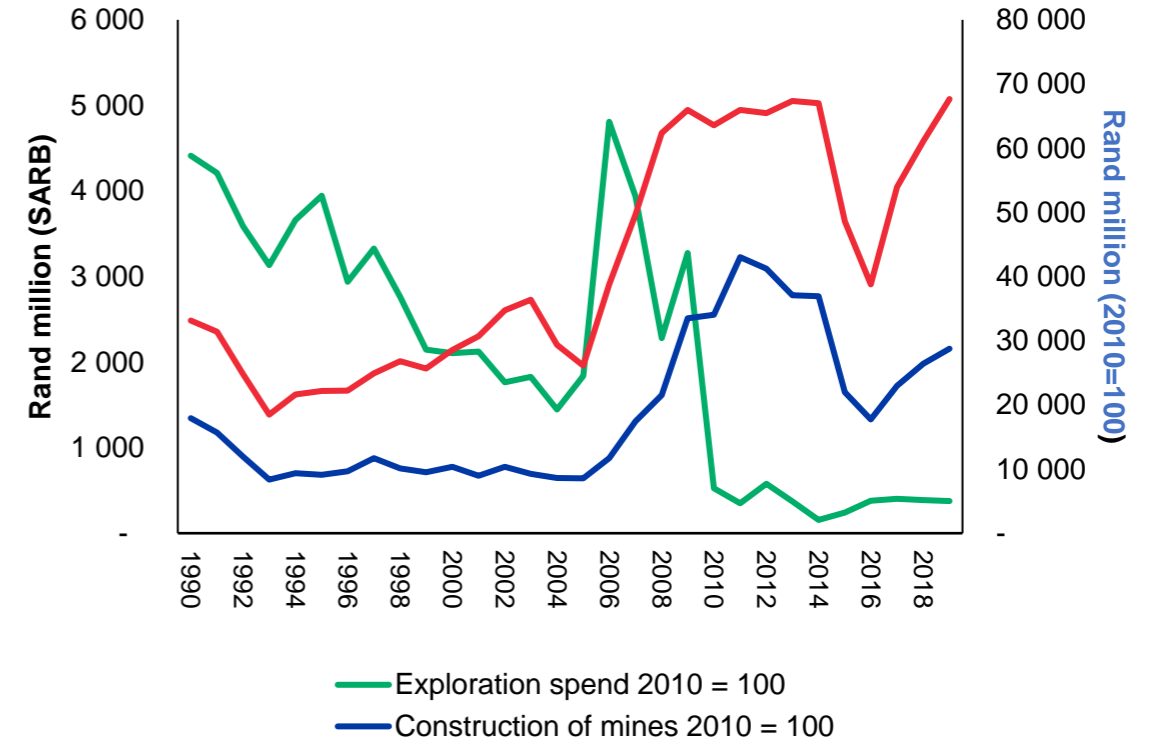
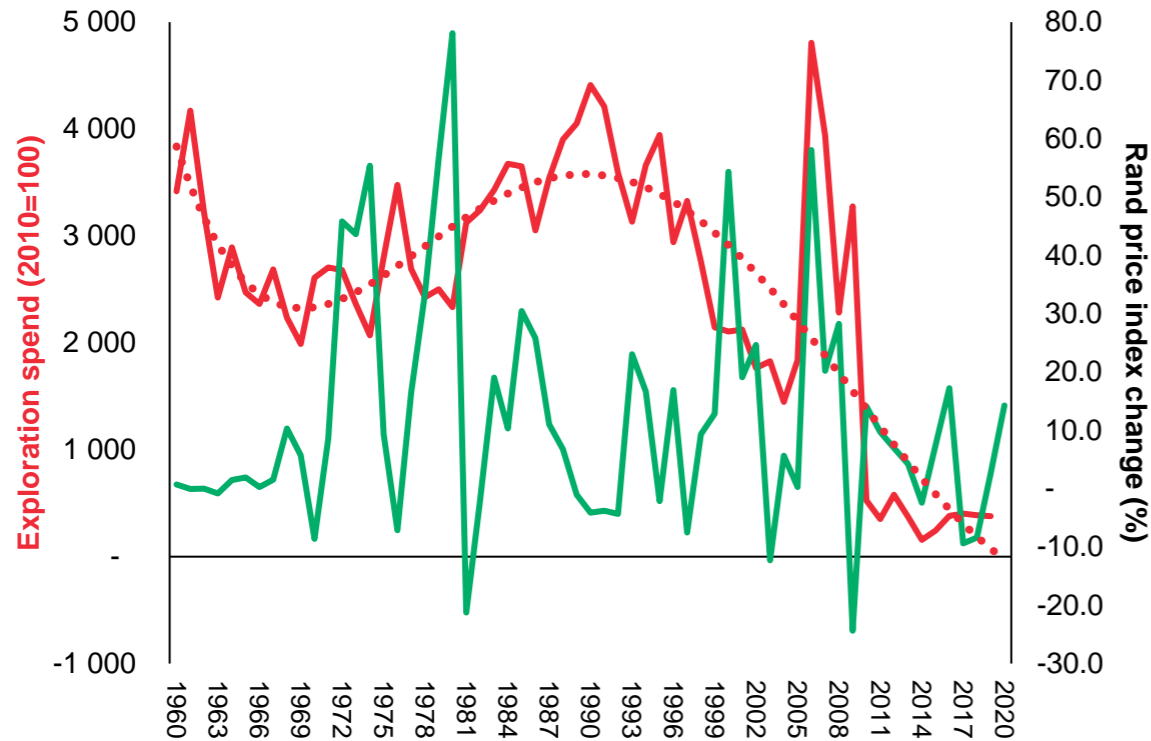
Exploration  
is the lifeblood  
of a thriving  
mining industry...



But, in 2019, SA accounted for **only 1% of global exploration** expenditure and **only 0.1% of greenfields exploration** despite having an estimated resource of more than \$2.5 trillion of non-energy minerals.

Considering South Africa's untapped mineral wealth, this is a massive missed opportunity.

# NO GREENFIELDS EXPLORATION



## Exploration dollars

attracted per annum,  
between 2000 and 2018:

Canada

~US\$2 billion

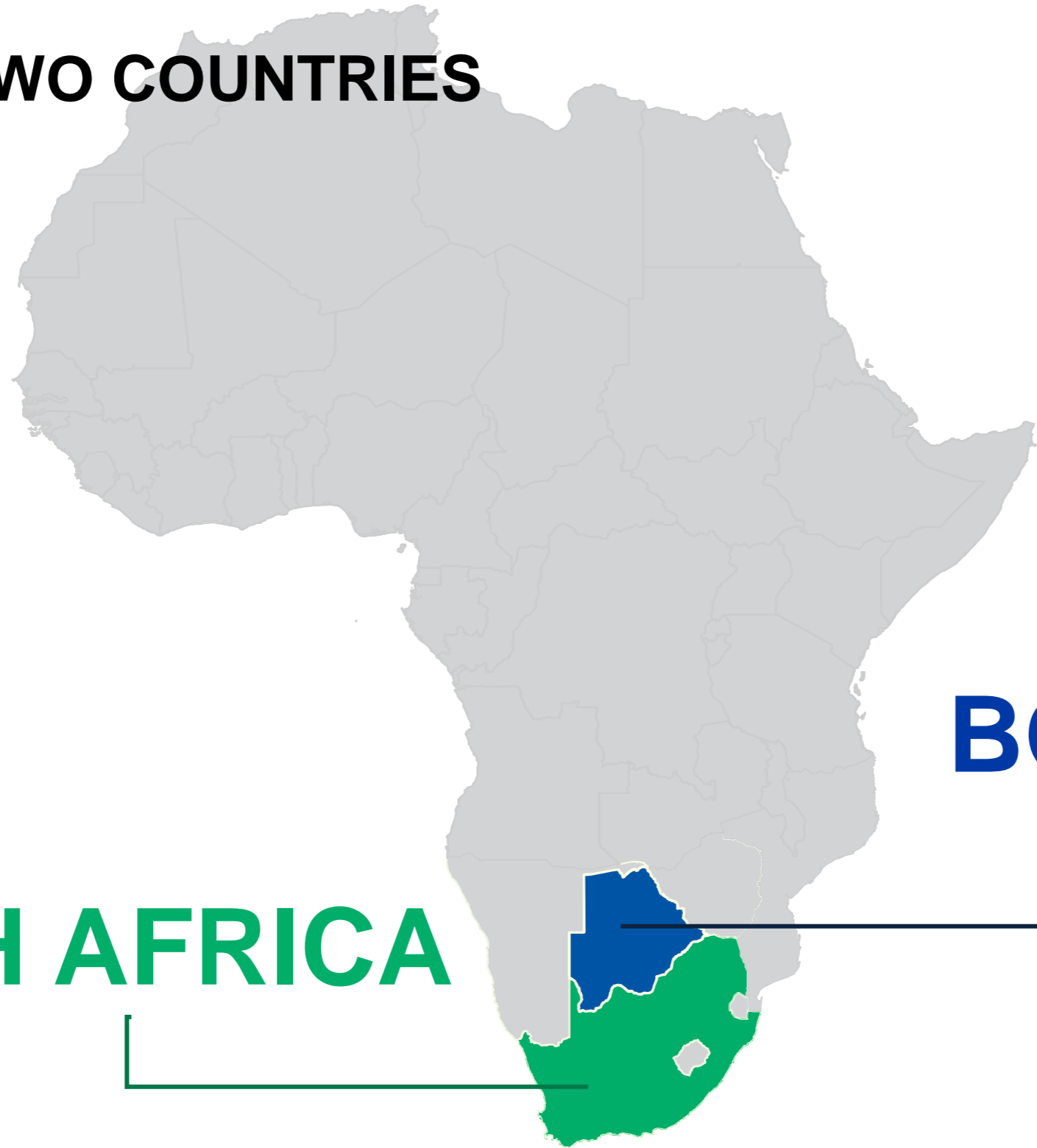
Australia

~US\$1.8 billion

South Africa

only US\$194 million

# A TALE OF TWO COUNTRIES



**BOTSWANA**

**SOUTH AFRICA**

# HOW DOES SOUTH AFRICA COMPARE TO OTHER JURISDICTIONS?

## Fraser Institute Investment Attractiveness Index 2020

South Africa		Botswana	
2020	60 <sup>th</sup> out of 77	2020	11 <sup>th</sup> out of 77
2019	40 <sup>th</sup> out of 76	2019	45 <sup>th</sup> out of 76
2018	43 <sup>rd</sup> out of 83	2018	32 <sup>nd</sup> out of 83
2017	48 <sup>th</sup> out of 91	2017	43 <sup>rd</sup> out of 91
2016	74 <sup>th</sup> out of 104	2016	19 <sup>th</sup> out of 104

African countries ahead of SA: Botswana, Mali, Ghana, Guinea, Mauritania, Mozambique, Zambia, Namibia, DRC

## Fraser Policy Perception Index 2020

South Africa		Botswana	
2020	66 <sup>th</sup> out of 77	2020	15 <sup>th</sup> out of 77
2019	56 <sup>th</sup> out of 76	2019	22 <sup>nd</sup> out of 76
2018	56 <sup>th</sup> out of 83	2018	12 <sup>th</sup> out of 83
2017	81 <sup>st</sup> out of 91	2017	21 <sup>st</sup> out of 91
2016	84 <sup>th</sup> out of 104	2016	12 <sup>th</sup> out of 104

African countries ahead of SA: Botswana, Mali, Guinea, Ghana, Mauritania, Namibia, Zambia, Mozambique, Mauritania, Burkina Faso

# HOW DOES SOUTH AFRICA COMPARE TO OTHER JURISDICTIONS?

## Fraser Institute Best Practices Mineral Potential 2020

South Africa		Botswana	
2020	57 <sup>th</sup> out of 77	2020	16 <sup>th</sup> out of 77
2019	34 <sup>th</sup> out of 76	2019	59 <sup>th</sup> out of 76
2018	30 <sup>th</sup> out of 83	2018	53 <sup>rd</sup> out of 83
2017	21 <sup>st</sup> out of 91	2017	64 <sup>th</sup> out of 91
2016	66 <sup>th</sup> out of 104	2016	38 <sup>th</sup> out of 104

African countries ahead of SA: Mali, Botswana, Ghana, Mauritania, DRC, Mozambique, Guinea, Zambia, Burkina Faso

### Average score for investment attractiveness

42 out of 100

South Africa scored 0 ratings of 100

1 out of the 18 areas in the top quartile

### Average score for investment attractiveness

73 out of 100

Botswana scored 100 in six of the 18 areas

14 out of the 18 areas in top quartile

# WHAT'S THE DIFFERENCE?

## South Africa

### Annual GDP growth rate

Between 1966 and 2019 SA's achieved an annual growth rate of 2.6%. In the last decade, the rate has been under 1.7% (lower than population growth)



Economic growth

**Huge changes** to mining laws and framework over the past 25 years  
Some necessary, but changes should be sensible, clear, predictable, stable and **globally competitive**



Policy certainty

**355 days** to award a mining right  
**245 days** to award a prospecting right



Licencing

## Botswana

### Annual GDP growth rate

Between 1966 and 2019 Botswana's economy grew by 8.3% per year

Mines and Minerals Act in place **since 1999**

**20 days** to award a mining right  
**40 days** to award a prospecting right  
Limited discretion in the hands in the hands of bureaucracy

# BACKLOGS AND DELAYS

## Backlogs reported by DMRE in February 2021



**Based on a survey of Minerals Council members representing over 170 mining company right applications conducted in December 2020:**

Projects worth about **R30 billion** have been prevented from being developed **due to red tape**

- including exploration and mining operations, some have been delayed for **2 to 3 years** or longer
- excluding projects not progressed through investment committees, expenditure on self-generation power projects to supplement electricity supply from Eskom

# WHAT SOUTH AFRICA NEEDS TO BECOME AN ATTRACTIVE EXPLORATION DESTINATION

1

Replace SAMRAD with a transparent and efficient online mining cadastral system

2

No delays in the issuing of permits

3

Regulatory certainty, accountability and transparency

4

Efficient, cost-effective and reliable infrastructure

5

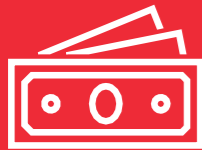
Access to funding and properly structured incentives

# KEY PILLARS OF A NEW EXPLORATION PLAN



## Availability of pre-competitive information, and access to geophysical data

- Validated geological mapping reduces the risk associated with exploration projects
- Mining cadastre provides extensive information on exploration allowing investors to track their application
  - increases transparency, prevents mal-administration or corruption and improves investor confidence



## Access to funding and incentives

- Companies in flourishing exploration jurisdictions have greater access to venture capital funding through stock exchanges
- With Section 12J of the income tax code removed, we propose that Treasury supports an equivalent flow through share tax incentive
- Flow-through share tax incentive
- Tax credits and exploration expense claims



## Stable and predictable regulatory environment

- 4 major mining legislative changes since 1999 with negative consequences for investment

# KEY PILLARS OF A NEW EXPLORATION PLAN



## **Competitive high-level administration of prospecting applications**

- To attract investment into capital intensive, high-risk exploration projects, fast turnaround times on licensing required
- Need an efficient online application system for exploration permits to encourage exploration boom
- Limited human interaction and ministerial discretion outside of the prescribed compliance criteria stipulated in the regulations



## **Available, efficient, cost competitive and reliable infrastructure**

- Access to efficient, cost competitive and reliable infrastructure needed to reduce operating costs
- Open access to rail, ports and electricity sector required to stimulate competition

# NEED FOR A BRAND NEW CADASTRAL SYSTEM

A cadastre system is an essential component of a modern mining economy, especially in attracting exploration investment



Critical to achieve Minister Mantashe's call to increase exploration investment to 5% over the next 5 years

Countries that successfully attract investment have efficient systems in place to apply for, grant and manage mining rights and permits

While the DMRE is responsible for assessing applications and granting mining rights and licences, the industry offered to contribute to reasonable costs of a new cadastre provided that the SAMRAD system is discontinued

A new cadastre system for South Africa must:

- 1 Improve transparency and security of tenure
- 2 Ensure standardisation of licensing procedures
- 3 Be user-friendly and automated as far as possible
- 4 Be secure, reliable and accurate
- 5 Manage the full lifecycle of mining, prospecting, exploration and production rights and permits

# PROGRESS



Exploration Task Team  
established



Material progress in  
engaging the DMRE  
on the areas where  
we think there are  
constraints

Submitted details of all  
outstanding licensing  
applications holding  
back R30 billion of  
committed investment  
due to red tape



Working in partnership  
to unlock the real  
capability of the private  
sector and the mining  
sector's full potential



# WHAT WE NEED:

## 5 sets of reforms essential to South Africa's economic recovery:



Fiscal reform to stabilise the country's finances and to avoid a full blown sovereign debt crisis and systemic banking crisis.

Need to completely reform the civil service.

Reducing government's role in key network industries and unlocking private sector investment and competition.

Improve impact on global competitiveness of policies, legislation and regulation.

Security and criminal justice cluster to ensure a major crackdown on lawlessness and criminality.



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