MINERALS COUNCIL
SOUTH AFRICA

MEDIA STATEMENT

MINERALS COUNCIL SOUTH AFRICA WELCOMES THE GOVERNMENT'S ENERGY INTERVENTIONS IN THE BUDGET SPEECH BUT SEEKS RAPID IMPLEMENTATION OF ACTION ON LOGISTICS

Johannesburg, 22 February 2023. The Minerals Council South Africa welcomed the government's intervention on Eskom's debt and the financial encouragement to stimulate businesses building renewable energy projects by offering generous tax incentives as outlined in the 2023 Budget Speech.

The Minerals Council believes there should be further support from the government in implementing the solutions being developed in the Transnet and Minerals Council Board Recovery Steering Committee to stabilise Transnet's rail performance and return it to growth.

In his 2023 Budget speech, Finance Minister Enoch Godongwana tried to strike a balance between containing national debt and alleviating pressure on Eskom's balance sheet by enabling the government to take on R254 billion of its debt, freeing up the state-owned company to conduct maintenance and invest in new electricity generation.

Eskom has recorded its worst-ever performance in supplying electricity to the economy this year, disrupting businesses and households and damaging perceptions of South Africa. Interventions so far to address Eskom's difficulties in sustaining a reliable electricity supply have not yielded results as loadshedding has worsened in recent days.

"While we welcome the financial measures Minister Godongwana outlined to alleviate Eskom's debt, which will assist with its running income and expenditure, we are absolutely aware that this intervention will not give the country urgently needed electricity in the near term. We believe that the acceleration in the tariff path as outlined by the National Energy Regulator of South Africa will not slow down," says Henk Langenhoven, Minerals Council's chief economist.

The downside risk of no additional electricity coming onto the grid was flagged by Minister Godongwana as a serious economic risk. No alleviation of the current electricity constraint could slow the economic growth rate to 0.2% for 2023 and 1.3% in the next two years up to 2025. In his medium-term budget speech, he had forecast the economy could grow by 1.4%

in 2023 and 1.7% and 1.8% in the next two years respectively. The economy grew at an estimated 2.5% in 2022.

“We welcome the tax break of 125% in the first two years on investments by businesses in renewable energy projects. This is a significant development to encourage the private sector to bring their more than 9 gigawatts of renewable energy projects into production as quickly as possible,” says Mr Langenhoven.

The tax rebate can only be claimed on renewable energy projects commissioned before the end of March in the 2024/25 financial year.

“Unlocking the private sector’s participation in energy and rail will change the game for South Africa by unlocking much greater growth potential for the economy,” says Roger Baxter, CEO of the Minerals Council.

The Minerals Council notes the disappointing performance of the mining sector’s contribution to GDP of about 7.5%, but we must emphasise the sector’s importance to the fiscus with its 30% contribution to the R 75 billion higher corporate tax take. This underscores the potential contribution of the mining sector that was lost due to constraints in electricity supply and transport logistics.

“It makes the implementation of the actions to alleviate these constraints so much more urgent. The time for talk has passed,” says Mr Langenhoven.

Transnet received mention in the Budget Review document which noted National Treasury will assess the freight corridors and ports to identify interventions to improve and optimise freight infrastructure.

It is encouraging that Transnet Freight Rail will be split into rail and infrastructure by October 2023, which lays important groundwork for the private sector to participate on the country’s rail network, improving efficiencies and boosting exports. The urgency of including the private sector on the country’s railways cannot be understated.

The Minerals Council estimates bulk commodity exporters forfeited revenue of R50 billion in 2022 when deliveries of minerals by train to ports are measured against targets. In 2021, the loss was R35 billion. Minerals Council members are reporting full stockpiles at their mines that they cannot send to ports.

“We are concerned about what this development means for mining production and jobs at these operations in the longer term. It is vital the rail and port networks are stabilised and optimised as per the work being done in the Recovery Steering Committee,” says Mr Langenhoven.

The Boards of the Minerals Council and the Transnet Board reached an agreement in December 2022 to establish the Recovery Steering Committee to identify and urgently address bottlenecks on the coal, chrome, iron ore and manganese rail export channels to stabilise Transnet Freight Rail's performance and to return it to nameplate capacity.

Although there were supposedly no tax adjustments, the Minerals Council noted revenue from carbon taxes more than doubled to R1.4 billion compared to R600 million in the previous year. Carbon taxes increased to R159 per tonne from January 2023 compared to R144 per tonne in 2022.

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