



Enabling the Renaissance of the South African mining sector

Roger Baxter, CEO
05 March 2019



MINERALS COUNCIL
SOUTH AFRICA

Becoming the Minerals Council South Africa



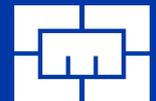
On 23 May 2018, the Chamber of Mines of South Africa was formally renamed the Minerals Council South Africa, unveiling a new logo and brand identity

Decision to rename was taken by the Chamber of Mines Council in 2017, in line with its changing **face, ethos and role**

This was not done lightly - followed extensive research by a leading South African brand agency

While we acknowledged that the Chamber of Mines has had a long history of contribution to the South African mining industry, it is also understood that there are negative associations with its past

The Council was of the view that it was time to signal clearly, that: **this industry is moving forward, building a new legacy, and creating a future which all South Africans can be proud of.**





VISION

To ensure mining matters for South Africa.



MISSION

To play a leadership role in enabling the South African mining sector to achieve its real potential for investment, growth, transformation and development in a socially and environmentally responsible manner.



VALUES

Members are obliged to conduct their business according to the agreed Minerals Council values, which dictate the minimum standards of conduct required of them in order to become a member of, or remain a member of, the Minerals Council. The five values of the Minerals Council are:



Responsible citizenship



Respect



Trust



Honesty



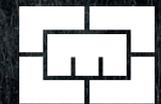
Accountability



SLOGAN

#MakingMiningMatter

#MakingMiningMatter



In 2018, the mining industry:

- continued to be a major contributor to transformation
 - **industry ownership >30% with continuing consequences**
 - **all employment equity targets met and exceeded**
- remains a key contributor to economic and social development
 - **R7.5 billion invested in skills development**
 - **R2 billion in community development**
- contributed R356 billion or 7% to GDP
 - **17% of GDP with multipliers**
- contributed R93 billion to fixed investment
 - **this is 17% of total private sector investment**
- paid R22 billion in taxes, R7.6 billion in royalties, collected R21 billion PAYE
 - **total tax contribution including multipliers = R51 billion**
- employed 453,543 employees who supported some 4.5 million dependents
 - **direct and indirect employment = 1.3 million**
- paid employee wages of R130.5 billion
- spent R300 billion on goods and services



Anglo American Platinum – Dishaba

STATE OF THE SOUTH AFRICAN MINING SECTOR, THE POTENTIAL IS **HUGE**



Economic and transformational potential of mining is **HUGE**

South Africa's
MINERAL POTENTIAL
ASSUMING BEST PRACTICE
is ranked by the Fraser Institute as
20 out of 91
mining jurisdictions
(top quartile)

Even in the absence of a greenfields exploration boom in South Africa, **mining investment could almost double in the next four years** if the country was to return to the top quartile of the most attractive mining investment destinations

DOUBLING INVESTMENT would:

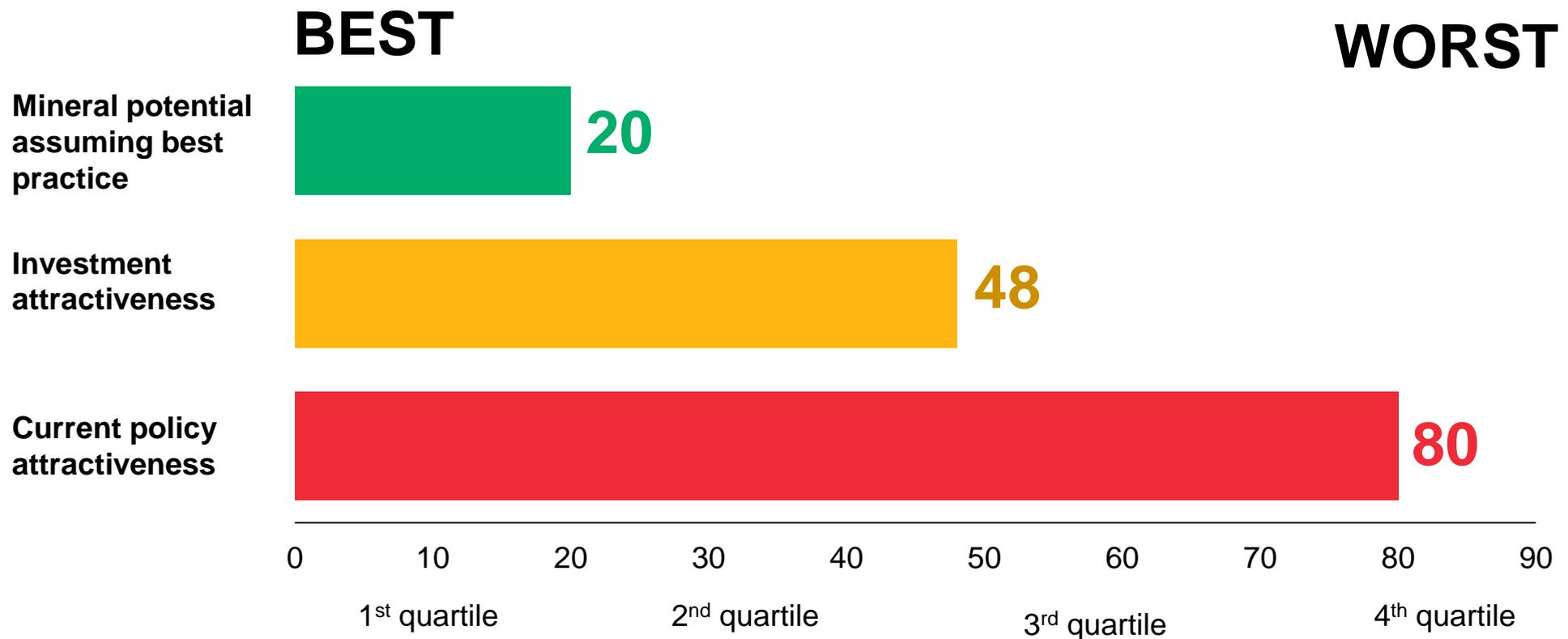
- create another **200,000 jobs** in the economy (50,000 additional direct mining jobs)
- materially **increase output, exports and procurement**
- increase **direct and indirect taxes, and royalties** paid to the fiscus
- fund substantial **infrastructure development and social projects** in mining-affected communities

Given the industry's **commitment to real transformation**, this would also materially advance the entire country's transformation agenda



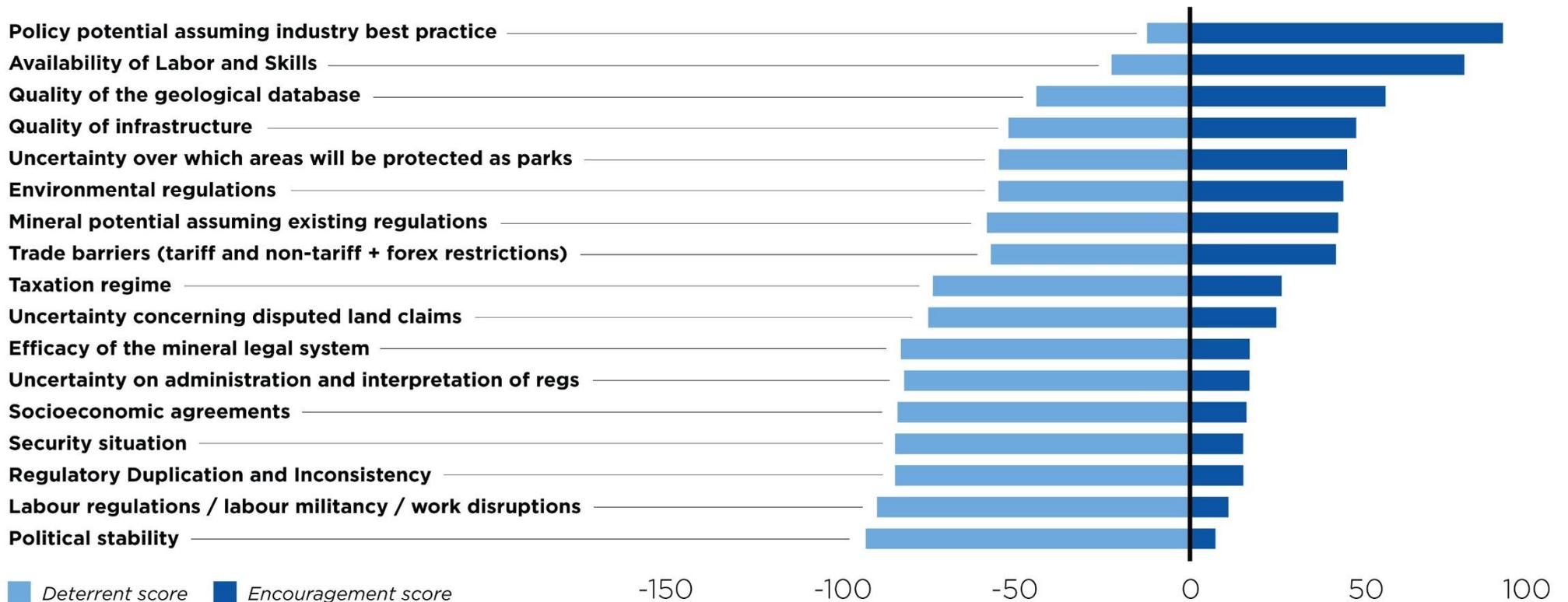
In recent years South Africa did not realise its true mining potential

South Africa's country ranking for mineral potential assuming best practice, versus current policy perception ranking (Fraser Institute Survey 2017)

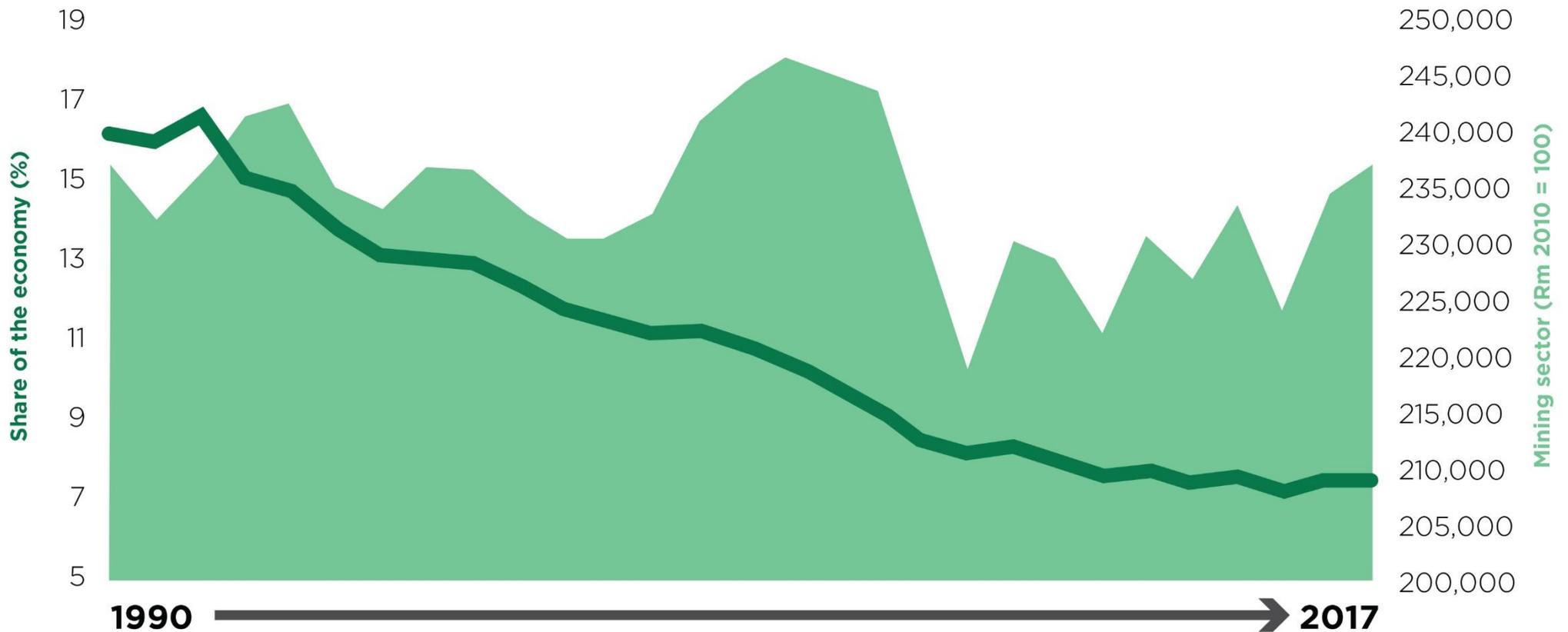


Policy and regulatory uncertainty

Fraser Institute Survey 2017 factors encouraging investment in exploration and mining versus deterrents to investment for South Africa

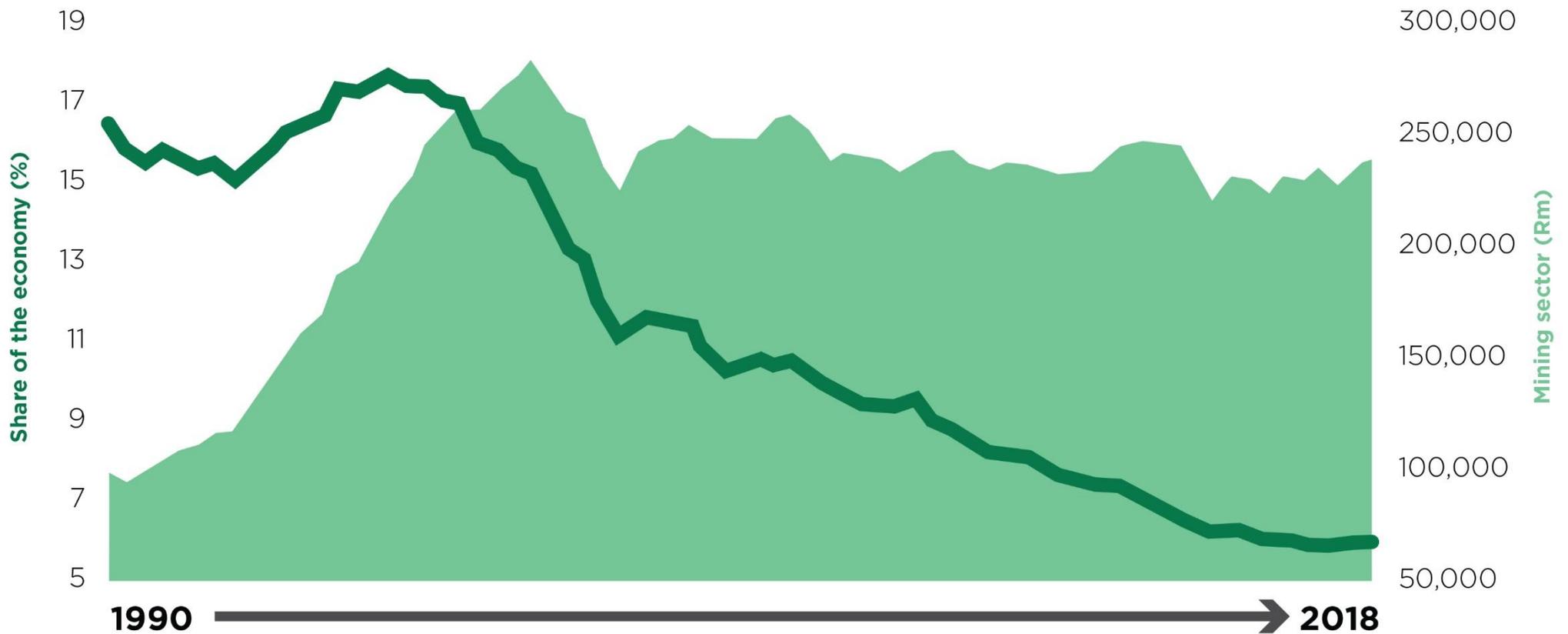


Mining sector contribution to economy



Source: SARB, Minerals Council South Africa South Africa

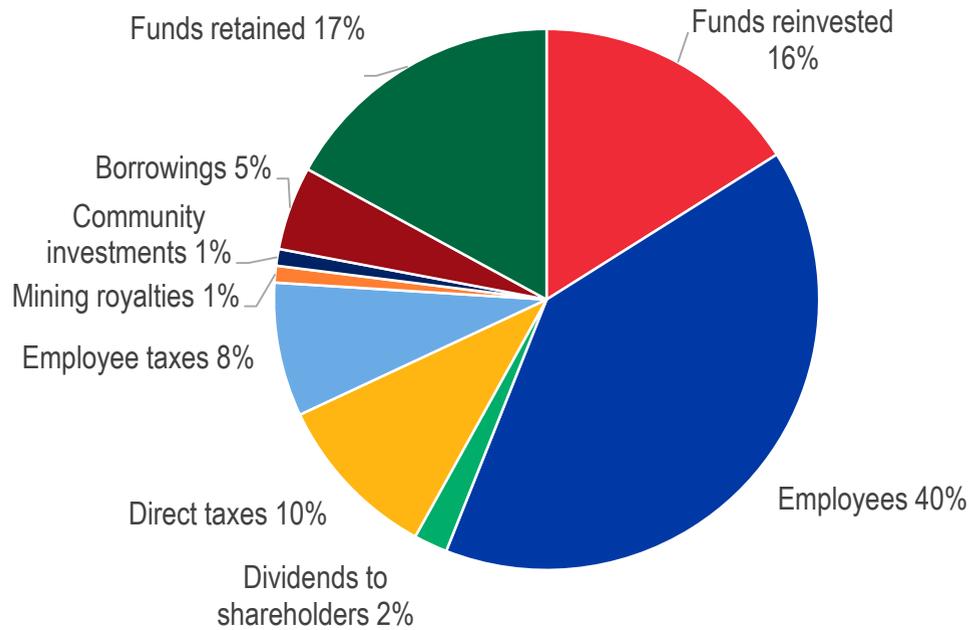
Mining sector contribution to economy



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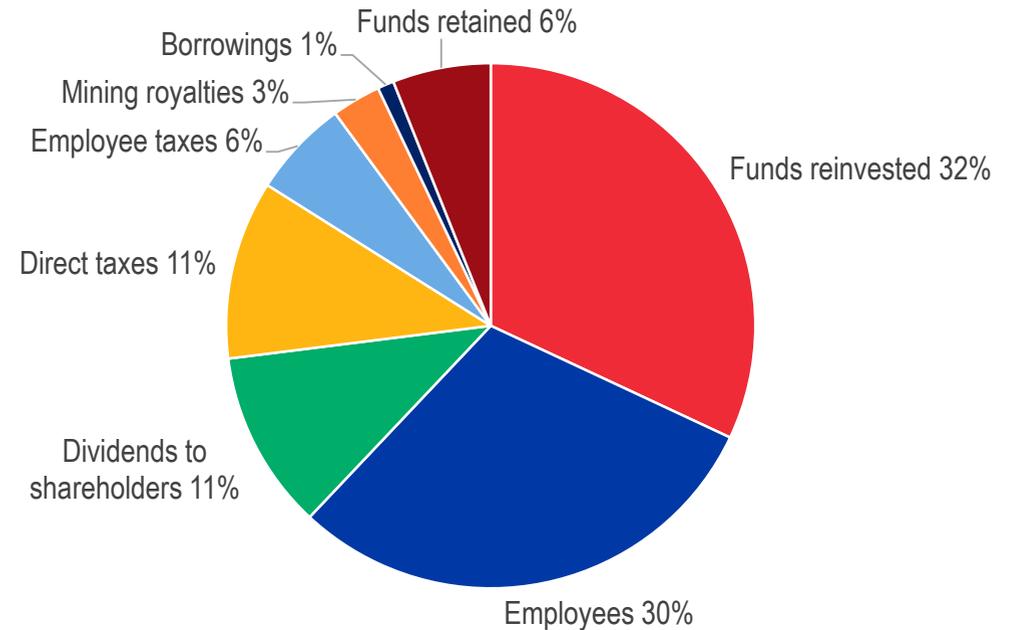
Key risks and challenges facing the South African mining sector; PWC mine

SA mining sector, value distributed 2017



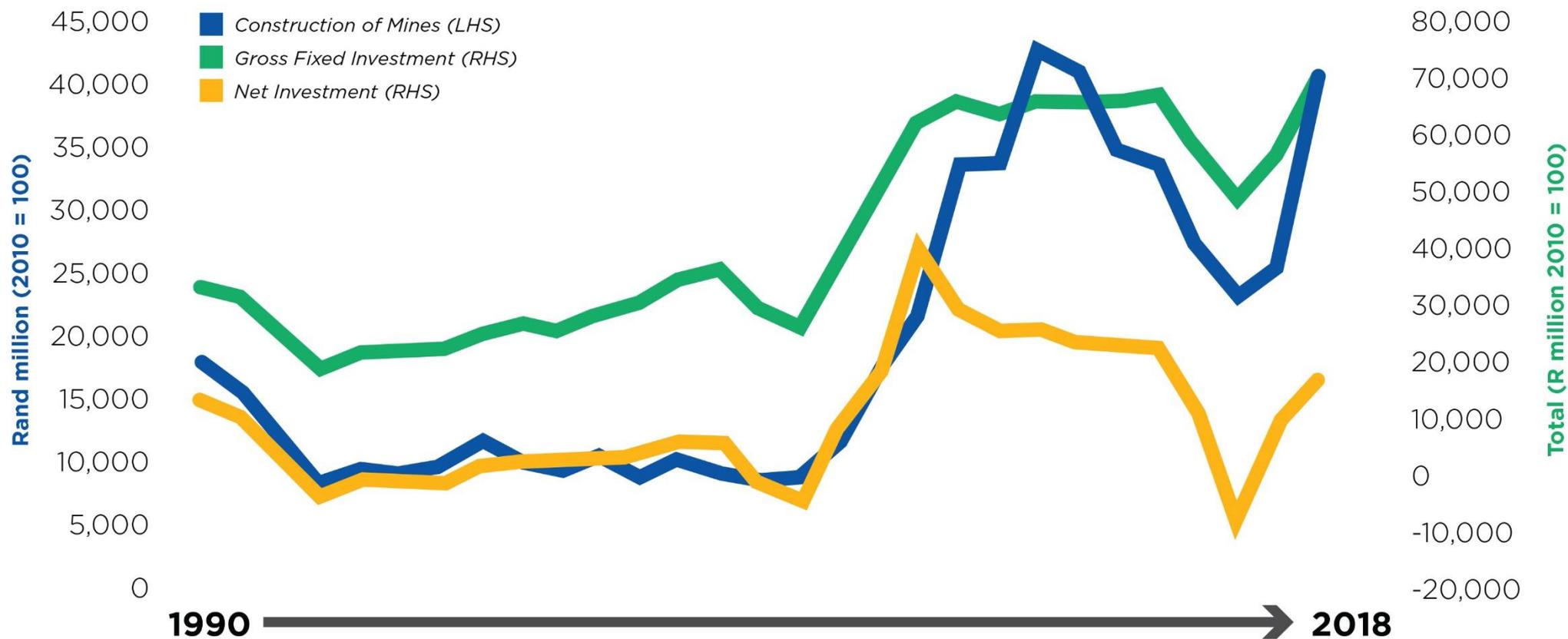
Employees 40%
Government 19%
Shareholders 2%

SA mining sector, value distributed 2011



Employees 30%
Government 20%
Shareholders 11%

Disaggregated fixed investment in mining

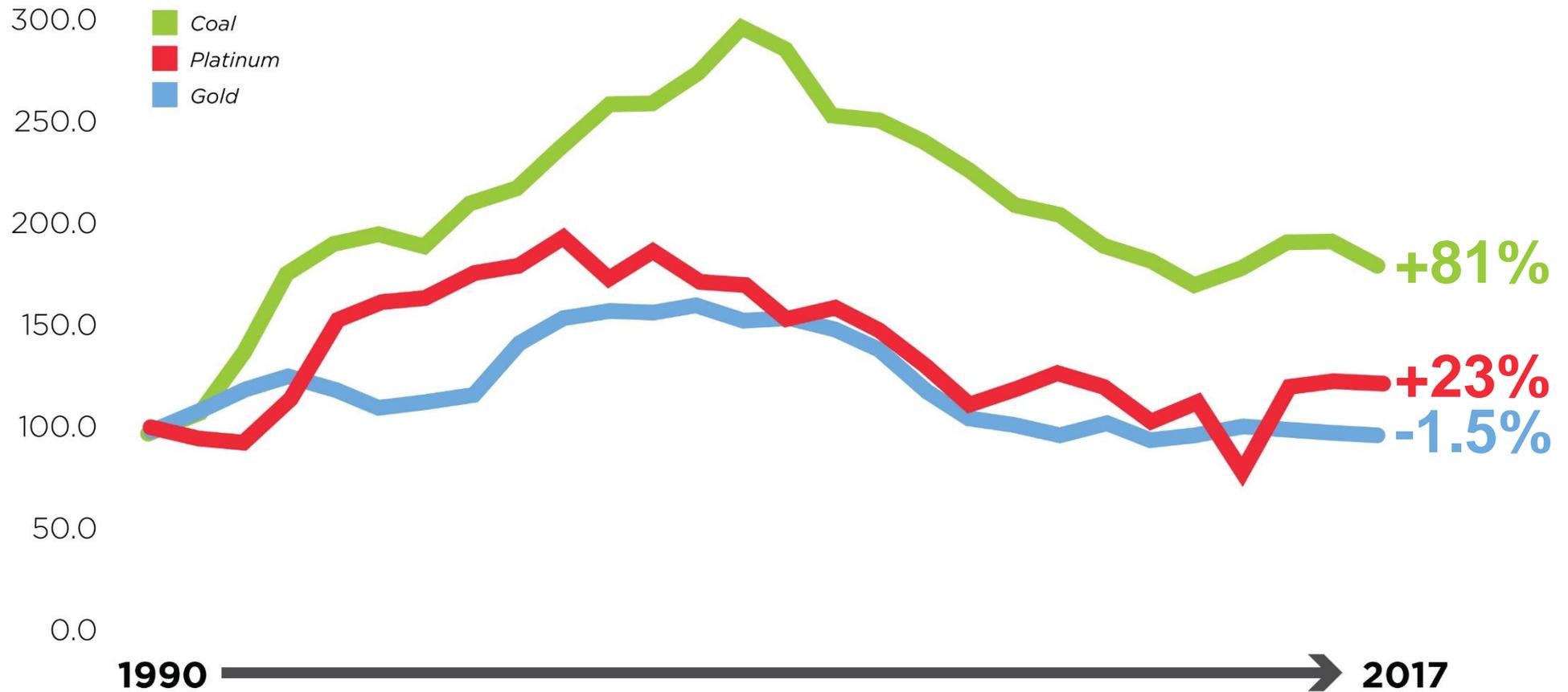


Estimates based on three quarters of 2018 data

Source: SARB, Statistics SA, Minerals Council South Africa South Africa

Productivity has fallen

Output per worker base indexed to 1990



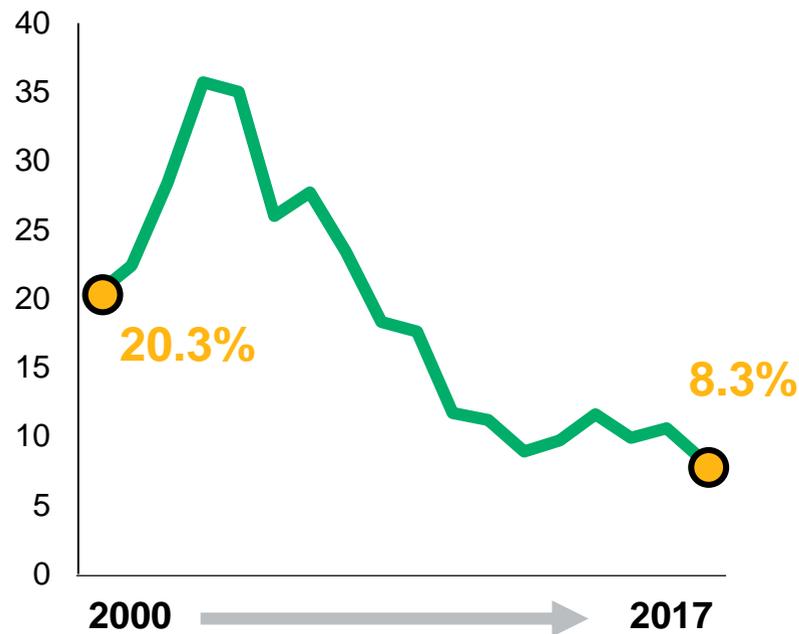
And the pipeline **HAS BEEN WEAK**

In 2017, South Africa accounted for 1% of total global exploration expenditure

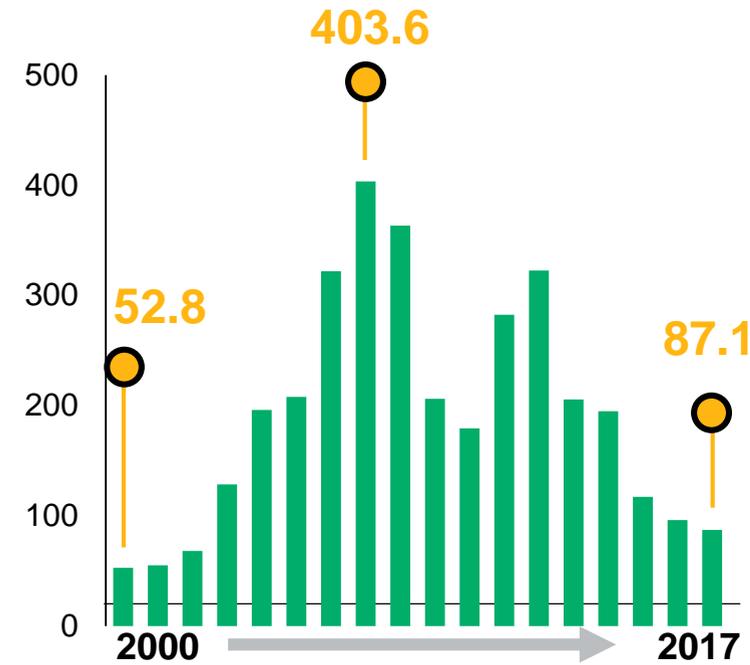
- 14% for Canada, 14% for Australia and 13% for the rest of Africa.
And, only 10% of this was on greenfields exploration

This means a weak greenfields exploration pipeline and a limited pipeline of new mining projects that may be developed

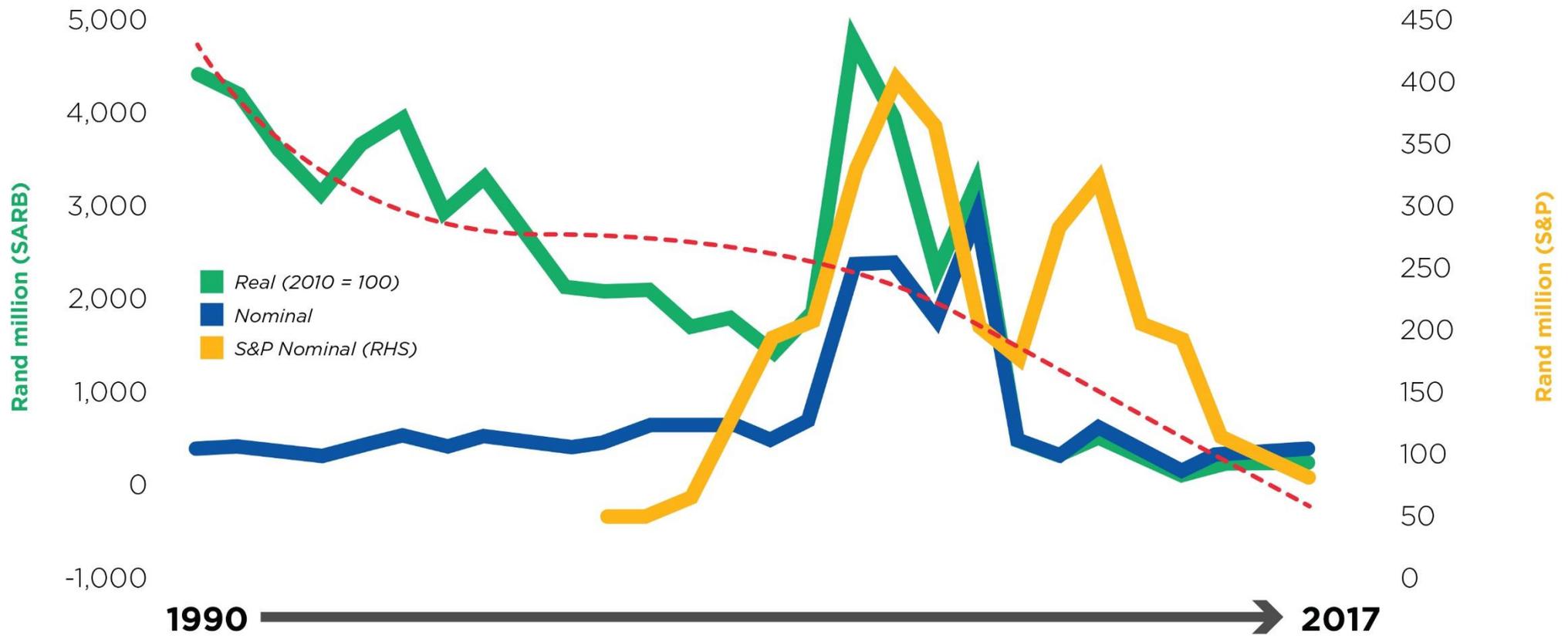
South Africa's share of African exploration budgets 2000-2017 (%)



South Africa's exploration budgets 2000-2017



And the pipeline **HAS BEEN WEAK**



Source: SARB, S&P



Harmony – Masimong

Harmony – Masimong

CAN WE **TURN** THIS AROUND?

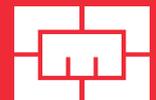


What if?

In late 2017, the Minerals Council conducted a survey among its members seeking to understand mining's potential given an improved regulatory environment.

We asked:

- What is the mining industry's investment and employment potential if we saw a return to best practices in policy, legislation and regulation formulation?
- What if the South African mining sector could get back into **the top 25% of investment attractiveness rankings?**



What if? Key findings

KEY FINDINGS: CAPITAL INVESTMENT 	KEY FINDINGS: NEW INVESTMENT 	KEY FINDINGS: THE ECONOMIC AND TRANSFORMATION IMPACTS
<p>The current mining capex (next 4 years) is R145 billion.</p> <p>Potential new capital expenditure in a more certain and conducive environment could amount to an additional outlay of more than R122 billion or 84% higher than the current R145 billion.</p>	<p>The key findings include that most companies have held back investment due to policy and regulatory uncertainty and in certain minerals due to adverse economic conditions.</p>	<p>The impact of positioning RSA in top 25% of investment destinations would increase investment by 84%, create another 200,000 jobs (direct and indirect), and have profound positive impacts on the supply chain, export earnings, taxes to the fiscus and the transformation of the mining sector.</p>



Petra Diamonds – Finsch Diamond Mine

HOW CAN WE EFFECT A **TURN-AROUND?**





Impala Platinum

Enabling the mining industry to **REALISE ITS POTENTIAL**



Strategy to enable South African mining to **REALISE ITS POTENTIAL**



HAVING A SHARED
VISION OF THE
FUTURE OF THE
RSA MINING
INDUSTRY



ETHICAL
LEADERSHIP AND
GOOD
GOVERNANCE



POLICY AND
REGULATORY
CERTAINTY AND
COMPETITIVENESS



AVAILABLE, EFFICIENT,
COST COMPETITIVE
AND RELIABLE
INFRASTRUCTURE



IMPROVING
PRODUCTIVITY
AND
COMPETITIVENESS



CREATING A
'GREENFIELDS
EXPLORATION
BOOM'





DRDGOLD- EBDA

Conditions are changing IN 2019, ARE THERE GROUNDS FOR HOPE?



MINERALS COUNCIL
SOUTH AFRICA

GREEN SHOOTS at the country level

In the past year, President Ramaphosa administration has embarked on a number of reforms and changes to address state capture, root out corruption and to get the economy back on track:

- Positive Cabinet reshuffle in February 2018, including appointment of Minister Mantashe and return of stalwarts like Pravin Gordhan to Cabinet in key economic/finance portfolios
- Successful Investment Summit in November 2018 and plan to attract \$100 billion in FDI in 5 years. New Economics Advisor Ms Makhaya appointed along with new investment envoys, including Trevor Manuel
- Establishment of two separate judicial inquiries into 'state capture' and SA Revenue Service (with former SARS Head removed)
- Removal of Mr Abrahams as Director of Public Prosecutions by Constitutional Court and the appointment of his replacement
- Immediate implementation of governance and stabilisation reforms at key State Owned Enterprises. New Boards appointed at Eskom, SAA, Transnet, Prasa, Denel, SABC, SABS...



GREEN SHOOTS in mining too

Appointment of respected Mr Gwede Mantashe as new Mineral Resources Minister and his implementation of key changes/reforms:

- Opening up of significant dialogue between Minister, DMR and Minerals Council, organised labour and communities
- Establishment of two task teams with key stakeholders, one to help negotiate a new Mining Charter and one to develop a competitiveness strategy for mining
- Detailed talks on new Mining Charter, including recognising previous empowerment transactions (though some tough issues remain to be resolved)
- Withdrawal of MPRDA Amendment Bill
- Started the discussions with industry on growth and competitiveness constraints in the lead up to the Investment Summit in November, including discussions with each of Minerals Council commodity leadership forums
- DMR is tackling license backlogs, investigating corruption and improving systems to improve performance

Overall there is much better engagement between the DMR and the industry



But some **BIG THORNS** among the green shoots

- Some commodities are in difficulty and need restructuring
- Anxiety about talks on land expropriation without compensation. South Africa is a Constitutional Democracy built on the rule of law. The President's article in the FT seeks to clarify the issue
- And yes, a satisfactory Charter outcome is critical. While we now have a better Charter, there are material issues that have not been resolved
 - The non-recognition of continuing consequences for renewals is a material issue that will dampen investment

Steps to **RESTORE MINING** back to top quartile of the most competitive mining jurisdictions

Developing a social pact for competitiveness, growth and transformation between key stakeholders (Leadership Social Pact signed on 29 January 2019)

Re-establishing trust with global mining and investment community

Significant crack down on corruption and unethical leadership:

- DMR: five regional offices investigated, two closed. Good progress made

Significant improvement in licensing system and turn around times required

- Minerals Council submitted 20 page summary of outstanding licenses. DMR has made good progress resolving the back-log



Steps to **RESTORE MINING** back to top quartile of the most competitive mining jurisdictions

Creating a stable, predictable and competitive policy, regulatory and operating environment that encourages long term investment in mining

- Better Charter finalised by DMR in Sept 2018
- Key **unresolved issue** is DMR's non-recognition of continuing consequences for renewals - major issue that will inhibit investment
- Withdrawal of MPRDA AB is positive, but new amendments required to fix s11s, regulation of dumps, turn-around times...
- Environmental laws and regulation a major problem and require resolution
- Carbon tax should be delayed by five years
- VAT refunds, diesel rebate system and changes to tax system need resolution

Infrastructure constraints and uncompetitive costs need to be resolved:

- **no way** that mining can absorb a 70% increase in electricity prices 2019-2021
- significant work to restructure ESI needed, incl separating transmission into single state controlled company (to allow wheeling on the network), competition on generation and re-adoption of REDS model. (As per 1998 Energy Policy White Paper)
- Significant changes required to rail model, including private concessioning. Introduction of greater competition into railway network will increase competition, improve efficiencies and promote investment and growth

Steps to **RESTORE MINING** back to top quartile of the most competitive mining jurisdictions

Strategy to encourage exploration boom needs to be developed

- CGS looking at remapping RSA's high level geophysical data
- DMR has removed BEE ownership requirement on exploration

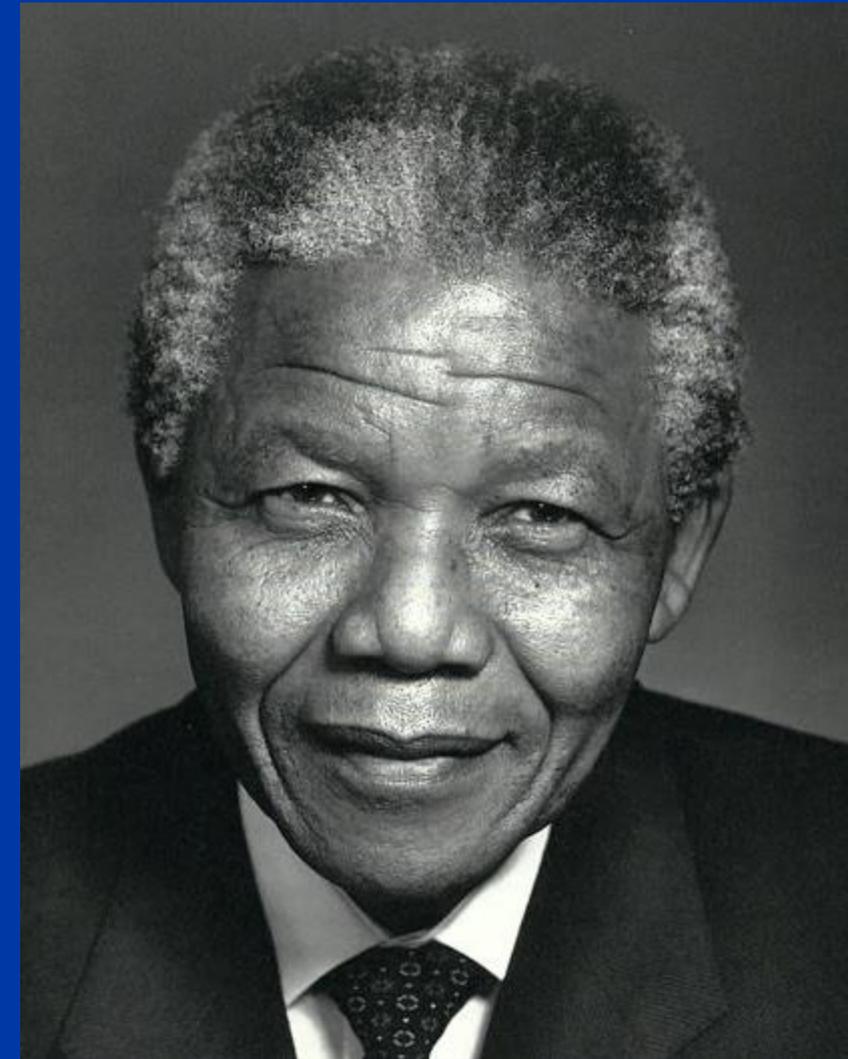
National strategies for each commodity required:

- several commodity CEO sessions with Minister Mantashe already
- in platinum, key outcome is creating greater demand (eg platinum adopted by BRICS as a reserve asset, Mandela Platinum Rand bullion coin project, driving hydrogen economy and raising domestic emission standards, co-funding platinum promotion activities (such as co-funding the PGIs platinum jewellery initiatives in China and the WPIC investment initiatives)
- in coal, require stability in Eskom/Government rules and greater export capacity on RBCT line

A VISION WITH ACTION CAN CHANGE THE WORLD

“
Action without vision is only passing time,
vision without action is merely day dreaming,
but vision with action can change the world.”

Nelson Mandela



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