



# JUNIOR MINING INDABA 2022

## MINERALS COUNCIL SOUTH AFRICA: REVIVING EXPLORATION

Roger Baxter, CEO, Minerals Council South Africa  
1 June 2022, Johannesburg Country Club



# Who we are and what we do



We are a mining industry employers' organisation that supports and promotes the South African mining industry.



We serve our members and promote their interests by providing strategic support and advisory input. We facilitate interaction among members to examine policy issues and other matters of mutual concern to crystallise and define desirable industry standpoints.



We act as a principal advocate to government, to state-owned enterprises, communicating major policies endorsed by our members. We represent the industry internationally.



We participate with other business organisations in South Africa to engage and lobby the government to implement a sustainable, inclusive growth environment





## 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



# Junior Mining and Exploration in the Minerals Council

- Of total membership of 78 members in the Minerals Council, **37** are Junior mining companies
- Junior miners comprise of smaller producers in most commodities, as well as exploration/development companies.
- In addition, three association members are part of the Junior mining project and represent more than 150 smaller producers/entities

## **The Junior and Emerging Miners Desk provides the following services to its members:**

- Keeps them abreast of new policy developments
- Lobbies the DMRE and other stakeholders on their behalf
- Conducts strategic research into the sector
- Provides one on one advice via specialists in the Minerals Council
- Runs webinars on strategic issues for a broader public group
- Engages the media
- Provides mentorship and other capacity building services
- Provides secretariat and other services to the **Junior and Emerging Miners Leadership Forum**, which comprises of the CEO's of Junior members.
- **The Chair of the Leadership Forum is a board member**

# What is required to stimulate exploration in South Africa?

- A deep understanding of the critical drivers of Greenfields exploration by junior resource companies and the majors
- A coherent globally competitive, predictable and stable exploration strategy and plan that promotes investment in exploration
- A transparent, efficient, modern mining cadastral system
- Urgent reduction in the backlog of applications in the DMRE
- A tax incentive system to attract investment into exploration
- A dedicated exploration and mine development fund for junior mining

# Exploration is critical for mining and the economy

- Any mining jurisdiction that does not engage in exploration runs the risk of becoming a sunset industry
- The reality is that the pipeline of new projects for mining in RSA are limited due to the decline in Greenfields exploration.
- For every R1 million spent on mining production, R1.3 million is added to South Africa's GDP, and the government gains another R330,000 in revenue
- The mining industry added 6,000 jobs in 2021, employing 459,000 people
- Contributed R481 billion to GDP (2020: R353.2 billion) and mining's contribution of 8.6% to GDP is its highest in at least a decade
- The value of mining production in 2021 was a record R1.2 trillion - a 31% improvement on the previous year, which was already a remarkable year
- We need to create a sunrise industry that provides jobs and national wealth

# Economic multiplier impact of exploration on the economy

We estimated that the potential economic activity to be created in South Africa due to the exploration budget of R1.8 billion is the following: \*

- Potentially adds R2 billion to GDP on average per year;
- Creates and/or sustain an estimated 5,500 direct and indirect jobs, on average, per year
- Adds a potential R532 million to total government revenue, through both the collection of direct and indirect taxes
- **If South Africa's exploration budget were to increase to 5% of the global exploration budget, or R8.8 billion, this will potentially generate the following economic activity:**
  - potentially adds R10 billion to GDP on average per year
  - creates and/or sustain an estimated 27,700 direct and indirect jobs, on average, per year
  - adds a potential R2.7 billion to total government revenue, through both the collection of direct and indirect taxes
- **This does not take into account the new mines that will be created over time**

# Why South Africa is not attracting investment in exploration

- Not focused on the critical investment drivers of Greenfields venture capital funded exploration
- The lack of a globally competitive, predictable and stable policy and regulatory framework that encourages investment in exploration (short licensing times, clear rules, protection of proprietary information, etc.)
- Lack of mining policy certainty and application of regulations and policy – disconnect between regional offices and head office
- Poor administration of mining and exploration rights with a dysfunctional and outdated SAMRAD system  
Backlog of thousands of unprocessed applications (in an outdated and uncompetitive system)
- Lack of transparency in the processing of applications by the regulator
- Long delays in the granting of exploration rights – in some cases up to 5 years which severely disadvantages Junior mining companies who need to raise capital for exploration
- Lack of tax incentives to fund exploration
- Other country level challenges (security, infrastructure, etc.).

# What has this meant for exploration in South Africa

- South Africa's share of global exploration dollars has dropped to below 1% from peak of 5% in 2003
- South Africa's share of global exploration spend has remained stubbornly below 1% for a decade
- Between 2000 and 2018, Canada attracted \$2 billion annually with Australia not far behind attracting \$1.8 billion. South Africa during the same period, managed to attract \$198 million on average per annum
- South Africa is not adding new sources mineral production or securing future production

# The DMRE Exploration Strategy

- The **Exploration Strategy** was released by the DMRE on April 2022
- The strategy is out of synchronisation with the Exploration Implementation Plan and does not find resonance with the Minerals Council's views
- The Exploration Strategy is a broad overview of the need for exploration revival in South Africa
- The Strategy includes financial support by the State for exploration companies that are 51% HDSA owned
- The target of attracting 5% of global exploration expenditure by 2025 is, in our view, unrealistic
- The Minerals Council will take up Minister Mantashe's invite to discuss the Strategy

# The Draft Exploration Implementation Plan

- **The Exploration Implementation Plan** was released in April 2022
- It is the result of outcome of intensive negotiations by the Exploration Task Team that was set up in November 2022 comprising of the DMRE, The Council for Geosciences, and the Minerals Council
- The gazetted version has some key departures from the workable document agreed by those parties
- **Key points in the Exploration Implementation Plan**
  - It acknowledges:
    - that the process of approving prospecting and mining applications by the DMRE is lengthy and that the SAMRAD system is dysfunctional
    - the need for a modern mining cadastral system, and that the mining industry may provide financial and technical support for such a system
    - the need for tax incentives and will give consideration to the Flow Through Share system widely used in Canada
    - the need to remove exploration rights that are redundant so as not to sterilise potential minerals

# Concerns on the draft Exploration Implementation Plan

- A major concern with the Plan is the level of Ministerial discretion
- The principle of “first come first served” in the granting of prospecting rights – provided the applicant meets the qualifying criteria- appears to have been replaced with a system of meritocracy (but based on Ministerial discretion)
- This means that rights will be granted on the basis of a subjective criteria by the DMRE as apposed to a legal requirement
- This introduces uncertainty and will have a negative impact on investment into exploration
- The tenure of prospecting rights must account for the 15-20 years it takes to explore minerals rights and develop them to investment-decision level

# Publication of the Geoscience Act Regulations 2022 for Implementation

The new regulations for the Geosciences Act were promulgated on 30 March 2022.

The Minerals Council has raised concerns about these regulations particularly with respect to:

- While the Minerals Council welcomes any document which will promote investment in prospecting as well as the promotion of access to information, Chapter 3, which relates to the dissemination of, and access to, geoscience data, which would include sensitive and confidential information
- It does not adequately protect the proprietary information, nor does it provide for a clear and effective mechanism to obtain information
- Junior mining and exploration companies spend a considerable part of their budget in the initial phases to gather data. If they are required to hand over such information at an early stage of a project it may prejudice the company and its shareholders
- This may potentially curtail new investment into exploration
- We will engage the DMRE and Council for Geoscience about these concerns

# A Globally Competitive Exploration policy, strategy, plan

- A stable, predictable and globally competitive exploration framework, that recognizes and addresses the specific risks/costs facing venture capital funded junior resource companies
- Provision of adequate free “pre-competitive” geological information at reasonable resolutions (need to map the country at a higher resolution at a faster pace)
- A fully functioning and transparent mineral cadastral system
- Clear rules and requirements (spelt out in the legislation and regulation), with limited imposts and red-tape imposed on venture capital funded junior resource companies (SMART tape)
- Short licensing times (SMART tape) and efficient administration of the licensing system
- An adequate duration of the prospecting right (at least 5-3-3) and promotion of security of tenure
- Protection of proprietary information for the junior resource companies (so that they can on-sell a right when they make a discovery)
- A clear set of fiscal incentives that reduce the cost of raising venture capital finance (such as flow through shares equivalent)

# A Transparent Mining Cadastre System

- Reliable, accurate, timely information that is readily and freely accessible (providing free pre-competitive geological information is a fundamental pre-requisite for attracting venture capital funded exploration companies)
- Must include details of current ownership status (land and marine) tenure (start and end), precise location (including GPS coordinates), dimensions and area.
- Promote full transparency on exploration and mining rights
- Internal controls to flag immediate clashing or overlapping rights detection
- System should allow users to apply online for applications and renewals as well as relinquishments (and payments)
- Upload reports required for legal purposes (preferable)
- Have an online up-to-date current web map of county's ground holdings, which allows for queries and downloads

# A Transparent Mining Cadastre System continued

- **Simplicity/usability:**

- web-based is non-negotiable (with ability to interface or produce outputs for loading in ESRI software e.g. ArcGIS is critical)
- supported by rights being registered according to spatial X,Y coordinates and not farm boundaries
- be publicly accessible, 'view only' portal for that allows anyone to see and interrogate the existing rights holdings without logging in. Applications would require a log-in registration process
- the system must provide data and systems integration support – e.g. Access to Read only Map Services providing tabular/attribute as well as spatial information.

# The RFP released by the DMRE in July 2021

**The Minerals Council has several concerns with the RFP released in 2021 inviting applications to develop a mining cadastre for South Africa**

- The RFP called for a bottom-up, bespoke model to be developed from scratch
- Seldom has such an approach worked in other mining jurisdictions
- The RFP does not stipulate that bidders have prior experience in developing such as system
- The pre-qualification is a minimum of BEE level 4 bidders appears to exclude international competition
- There are proudly South Africa-based companies that have successfully developed cadastres in other mining destinations
- The best approach is to take a tried and tested off the shelf system and develop it for South African conditions
- In addition, the system should be compatible with other mining jurisdictions in Africa

# Countries in SADC that have fully functioning mining Cadastre systems in place

- Botswana,
- DRC,
- Malawi,
- Namibia,
- Tanzania,
- Zambia,
- Zimbabwe

<https://portals.landfolio.com/zambia/>

<https://portals.landfoil.com/malawi>

# Conclusion

According to the Fraser Institute report for 2021, South Africa's Investment Attractiveness Index, falling to 75 out of the 84 global jurisdictions surveyed. The Investment Attractiveness Index is weighted 40% by policy and 60% by mineral potential.

South Africa's ranking in the 2021 Investment Attractiveness Index is an indication urgent attention must be given to the areas preventing exploration investment.

## South Africa can address this by:

- Introducing a globally competitive, stable and predictable exploration policy, strategy and plan
- A modern, user-friendly mining cadastral system which is the “golden key” to unlocking exploration in South Africa
- Implement tax incentives such as the “flow through share” model used successfully in Canada for exploration
- Policy certainty particularly by removing Ministerial discretion in the granting of prospecting and mining rights
- South Africa has all the mineralogy used in the new Green Economy – we just need to boost exploration
- This competitive advantage needs to be capitalised on as many of these deposits are suitable for junior companies as explorers/developers as well as smaller producers
- Time is running out. Given the lead time to develop a mine from inception can take up to twenty years, **WE NEED TO SIGNIFICANTLY BOOST GREENFIELDS EXPLORATION NOW**

# Footnote\*

- The Minerals Council of South Africa in collaboration with the country's leading tax advisors has developed the proposal that seeks to reverse this downward trajectory with minimal or no negative impact on short term treasury revenues yet stimulates a new wave of investment in geological exploration and mine development with significant long term positive impacts on national GDP, jobs and public finance.
- Using data from a typical junior mining company, we calculated the economic contribution of the exploration stage of mineral development. The contribution is estimated through the impact on national GDP, jobs and public finance.