

NATIONAL PLATINUM STRATEGY FOR SOUTH AFRICA

Fact sheet



MINERALS COUNCIL
SOUTH AFRICA



Impala Platinum

“The South African PGM mining industry is a leading producer of PGMs globally.”

AIMS OF SOUTH AFRICAN NATIONAL PLATINUM STRATEGY

The South African National Platinum Strategy, if adopted, could address the critical state of the platinum group metal (PGM) mining sector by preventing further erosion of the sector’s economic capacity and ensuring that the world’s largest PGM resource realises its full value through the creation of more than 1 million jobs and a contribution of R8.2 trillion to South Africa’s economy by 2050.

The economic, taxation, investment, employment and transformational impact of a realisation of the PGM sector’s potential would be materially game-changing for South Africa in that it supports the objectives and vision of the National Development Plan.

Urgent and bold action by the South African government is required to provide the PGM mining sector with support in tackling short-term challenges while, at the same time, investing in its future. Concerted and co-ordinated effort by the public and private sectors, supported by the framework of a national strategy, is essential to enhance the PGM sector’s outlook in the short term and to avoid squandering the long-term opportunity.

Take short-term action to secure the ongoing viability of the industry by leveraging opportunities to promote PGM use and stimulate demand

Implement collective action by all public and private stakeholders to capture long-term opportunities

Assure the global market of continuity and stability in PGM supply from South Africa

Maintain alignment with long-term objectives when short-term decisions are made

Publish short-term successes to enhance alignment of the public-private initiative

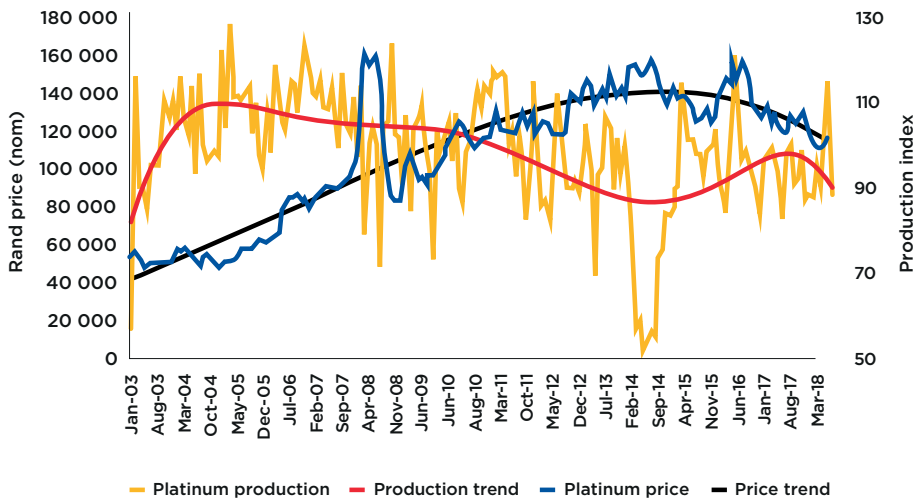
Use the strategy as a template for other national interventions



The South African PGM mining industry, which produces the full suite of PGMs, is a leading producer globally. It is the largest producer of platinum and rhodium and the second largest producer of palladium.

THE CRISIS

South African platinum production vs platinum price



“At current prices and costs, more than 60% of South Africa’s PGM mining industry is loss-making.”

The South African PGM mining industry is in crisis – a function of structural changes in global supply and demand fundamentals, including increased growth in recycling, flat new-mine supply and weaker demand.

In particular, Chinese jewellery demand has weakened in recent years as that country’s economy has slowed. The diesel emissions scandal has negatively impacted sales of diesel cars in Europe and consequently demand for platinum. Looking further ahead, the possibility that battery electric cars, which do not need PGMs, could capture significant market share from the internal combustion engine, may destroy existing demand.

At the same time, recoveries of PGMs through recycling continue to increase.

These structural changes have exerted continuous downward pressure on prices. While the fall in dollar platinum prices in particular was partially offset by a weakening in the rand against the dollar, escalating cost increases above inflation (especially those related to electricity and labour) have eroded producer margins with many mines operating at a loss. At current prices and costs, more than 60% of South Africa’s PGM mining industry is loss-making.

The industry has restructured over the past decade to address the

short-term consequences of declining viability. This restructuring, including asset consolidation, has closed some marginal shafts and reduced employment numbers. However, many of the actions taken to address short-term challenges have harmed the sector’s long-term ability to generate the highest value for South Africa. For example, reductions in capital spending on long-term shafts has harmed the development of replacement shafts required in the medium to long term.

In this environment, failure to invest appropriately in market development has potential to lead to lower PGM demand and a smaller South African PGM mining sector.



STRATEGIC OPTIONS

Given South Africa's significant PGM resource base, its well-established mining industry and private-sector expertise, it is useful to run three possible scenarios of the economic and transformational potential of the PGM sector for South Africa from 2016 to 2050.

“BUMBLE ALONG” SCENARIO

Global PGM demand remains flat or even declines as a result of limited market development and loss of market share in key sectors with electric cars and gasoline cars dominating the automotive sector at the expense of diesel cars and platinum fuel cell electric vehicles (FCEVs). Platinum continues to lose market share to palladium in gasoline cars. Jewellery demand and other industrial applications lose market share to other branded consumer products and other technologies. Rapidly escalating costs, falling productivity and limited co-operation between stakeholders results in South African mining production remaining flat. This together with declining investment in mining, lower grades and increased mining depth, and given the strong correlation between people employed and tons milled, employment numbers remain flat or even decline.

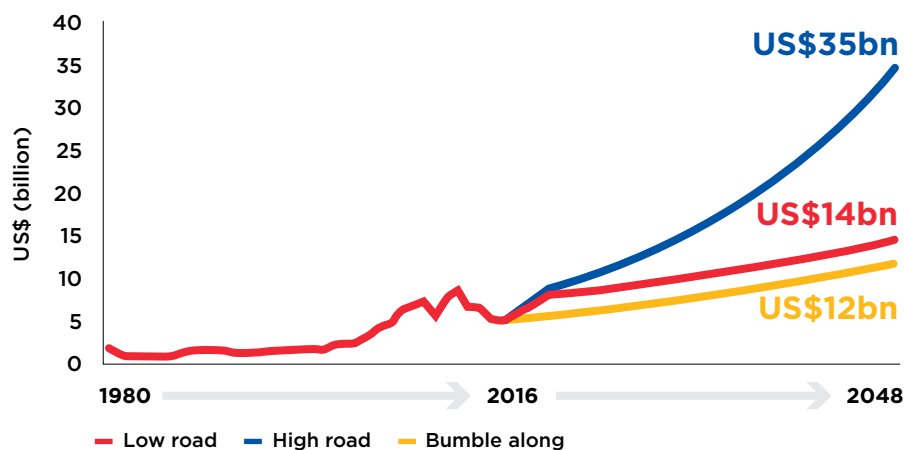
“LOW ROAD” SCENARIO

Short-term action is limited to South African Reserve Bank intervention only with a lack of stakeholder alignment limiting investment in market development. Prices appreciate, adding short-term value, but mining supply and global demand remain flat. The South African mining industry continues to struggle with declining productivity and rising costs. Limited or unco-ordinated co-operation between stakeholders, including government, sees declining employment, lower capital expenditure and further strain on the economy.

“HIGH ROAD” SCENARIO

In this scenario, strong leadership, bold action and co-ordinated co-operation between all South African stakeholders results in a recovery in short-term viability and increased collaborative investment in market development. Increased investment achieves growth in all demand segments and the FCEV strategy can be supported as a long-term strategic aim. FCEVs gain significant market share, the jewellery sector grows as does investment demand. South African PGM mine production increases to match the growth in demand. Given the gradual modernisation of mining methods, employment growth is 2% annually and increasing productivity enables growth of 2.54% in South African mine production.

US\$ value of South African platinum scenarios



The US dollar value of South Africa's actual platinum production for the 35-year period from 1980 to 2015, combined with the three scenarios for the 35 years from 2016 to 2050, are illustrated above (this shows the value only of platinum produced and excludes other PGMs).



Royal Bafokeng Platinum

STRATEGY IMPLEMENTATION

To achieve the vision and realise the full potential of South Africa's PGM mining sector, the following are necessary:

- A full-time industry champion to drive the strategy
- Small leadership teams co-ordinated by the industry champion to drive specific advocacy and market development processes (industry chief executive to be called on when needed)
- A comprehensive advocacy strategy
- A brand strategy for the PGM mining sector
- An annual review process

The results of the scenarios are significant. Achieving a “high road” scenario would enable the South African PGM mining sector to mine 260 million ounces of platinum between 2016 and 2050. Even with a slower increase in employment numbers due to modernisation, direct employment in the mining sector would rise to 376,135 employees by 2050, with another 639,430 indirect jobs created. This means that total employment by the PGM mining industry would be one million people by 2050.

THE SOLUTION

To demonstrate the importance of the South African National Platinum Strategy and to align all stakeholders, bold and clear actions will be required including:

- Agreement on the critical need to promote PGMs and to increase demand on a global scale
- Agreement by government, the PGM mining sector and other key stakeholders (labour and fabricators) on the critical need to develop and implement a proper strategy for South Africa
- Establishment of a leadership public-private steering committee, urgent announcement of the strategy and actions to be taken to support it and its implementation to secure an economy-changing future
- Identification of key areas of focus, including, among others:
 - Commitment by government to match funding by the PGM sector on market development in jewellery, investment and fuel cells
 - National platinum reserve asset strategy (South African Reserve Bank supporting the World Platinum Investment Council (WPIC) in its engagements with the International Monetary Fund and BRICS countries to ensure platinum is adopted as a reserve asset)
 - National strategy to drive investment demand for platinum
 - National platinum fuel cell strategy (to boost the hydrogen economy)
 - Immediate measures to assist the PGM mining sector to improve its viability and preserve employment
- Milestone plan to ensure effective implementation of the strategy

“Immediate measures to assist the PGM mining sector to improve its viability and preserve employment.”



ECONOMIC COST OF OPPORTUNITY LOST
- should the real potential of the South African PGM mining sector not be fully realised.

Failure to achieve the high road will cost the country 188,057 additional direct mining jobs by 2050, US\$23 billion in lost platinum production in 2050 alone, lost sales and exports, as well as the loss of other associated opportunities.

The potential exists with a competent mining sector and significant financial, technical, research and development leadership and other skills ready to seize this game-changing opportunity for the country.



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