



CHAMBER OF MINES
of South Africa

PRESENTATION TO THE PORTFOLIO COMMITTEE ON MINERAL RESOURCES:

Promoting the South African mining industry

7 December 2016



Chamber of Mines - Who we are



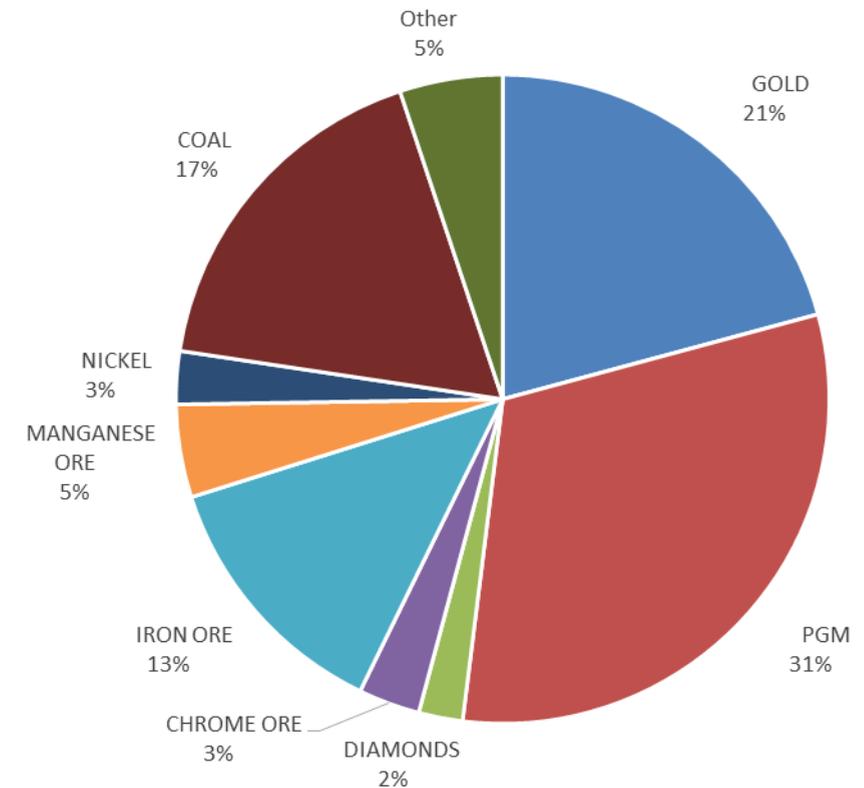
- Voluntary employer organisation that supports and promotes the SA mining industry - provides strategic support and advisory input
 - Advocacy and lobbying - no executive authority over its member companies
 - Members comprise:
 - 38 major mining companies
 - 32 junior mining companies
 - 4 associations - Aggregates, Sands Producers Association of Southern Africa (ASPASA), South African Diamond Producers Organisation (SADPO), Association of Shaft Sinkers and SA Mining Contractors, Clay Brick Association of South Africa (CASA)
 - Chamber member companies:
 - represent more than 90% of SA's mineral production by value
 - contribute around R11.3 billion in taxes pa
 - employ around 400,000 people directly
 - All Chamber member are required to sign and adhere to a Membership Compact
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Mining matters in SA

- Overall mining industry was loss-making in 2015
- Still made a substantial economic contribution
- In 2015, mining represented:
 - 25% of merchandise exports (40% if beneficiated minerals included)
 - around 15% to FDI
 - 17% of private investment
 - 7.7% of GDP (17% if multipliers included)
 - 10% of JSE market value
 - 460,000 jobs (1,4 million if multipliers included)

Mining is a fundamental pillar of SA ,
and has contributed greatly to the
country's socio-economic development

South African mineral exports by commodity, 2015



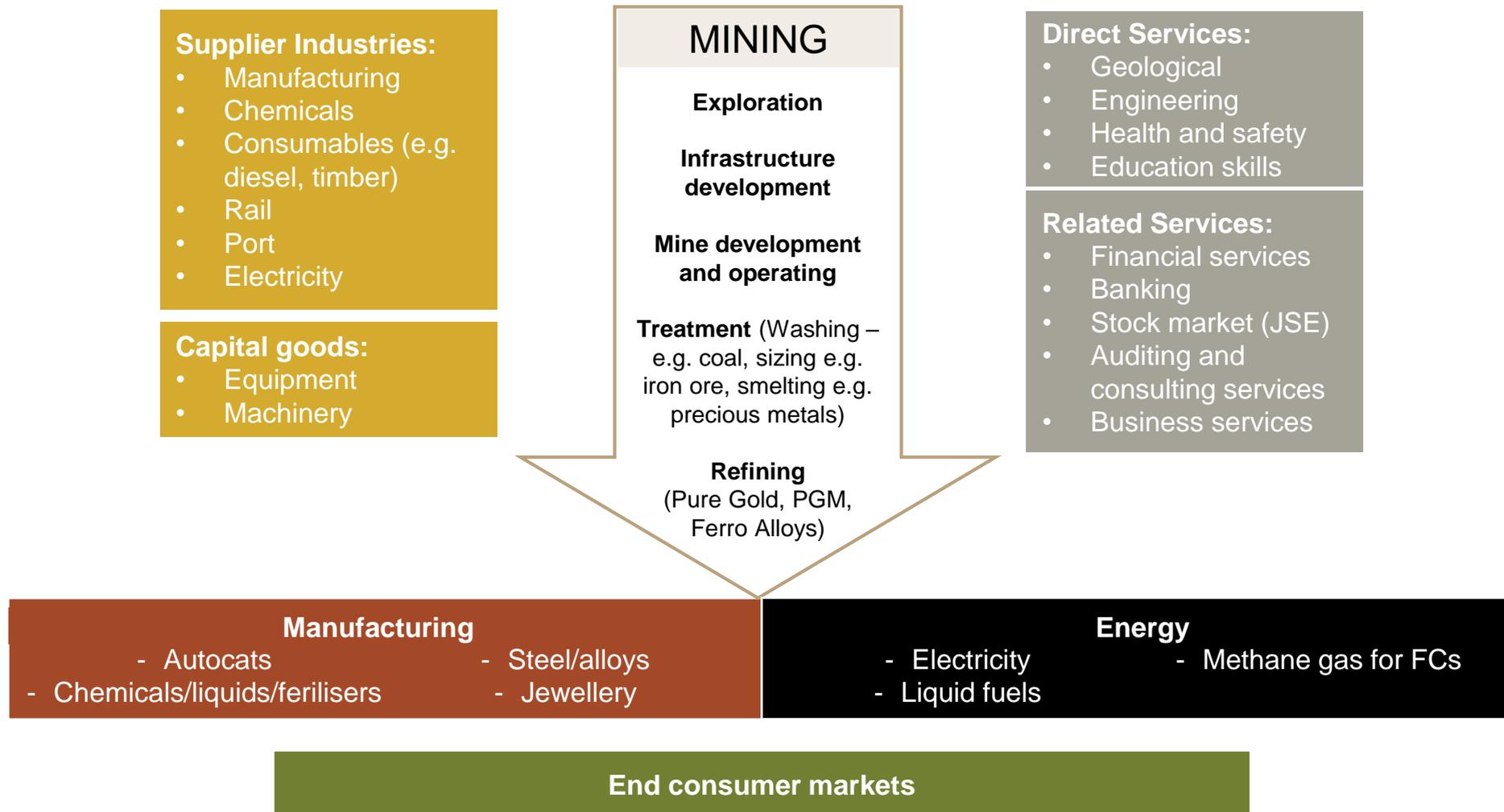
SA mining has significant potential



If growth constraint can be removed and the industry makes significant progress on 'modernisation' and 'innovation'

- If mining had grown at same pace as rest of economy between 1994 and 2013, country's growth rate would have been 4% (not 3.2%)
- **Non-gold mining sector** can grow at 3-5% pa, resulting in more balanced country growth rate (double size of non-gold mining by 2028)
- At a 5% growth rate, mining industry can double in size in 15 years
 - significantly increase exports and reduce savings-investment constraint
 - stabilise direct jobs and indirect jobs
 - significantly contribute to investment, transformation and development
- **Gold mining sector** can:
 - slow down the rate of decline and bring to account country's significant remaining gold reserves
 - help sustain and create significant economic linkages in rest of economy
- **Reality**
 - real mining GDP shrank by 2.7% between 1990 and 2015
 - while the financial services sector in the same period grew by 167%
 - SA has one of the world's greatest mineral resource endowments and yet the sector is shrinking
 - roles and responsibilities of the stakeholders to turn this around?

The mining industry's linkages to the economy are significant



More than half of NDP priorities can be tackled by mining

1. Economy and employment
2. Economy infrastructure – The foundation of social and economic development
3. Environmental sustainability – An equitable transition to a low-carbon economy
4. An integrated and inclusive rural economy
5. Positioning South Africa in the world
6. Transforming human settlements
7. Improving education, training and innovation
8. Promoting health

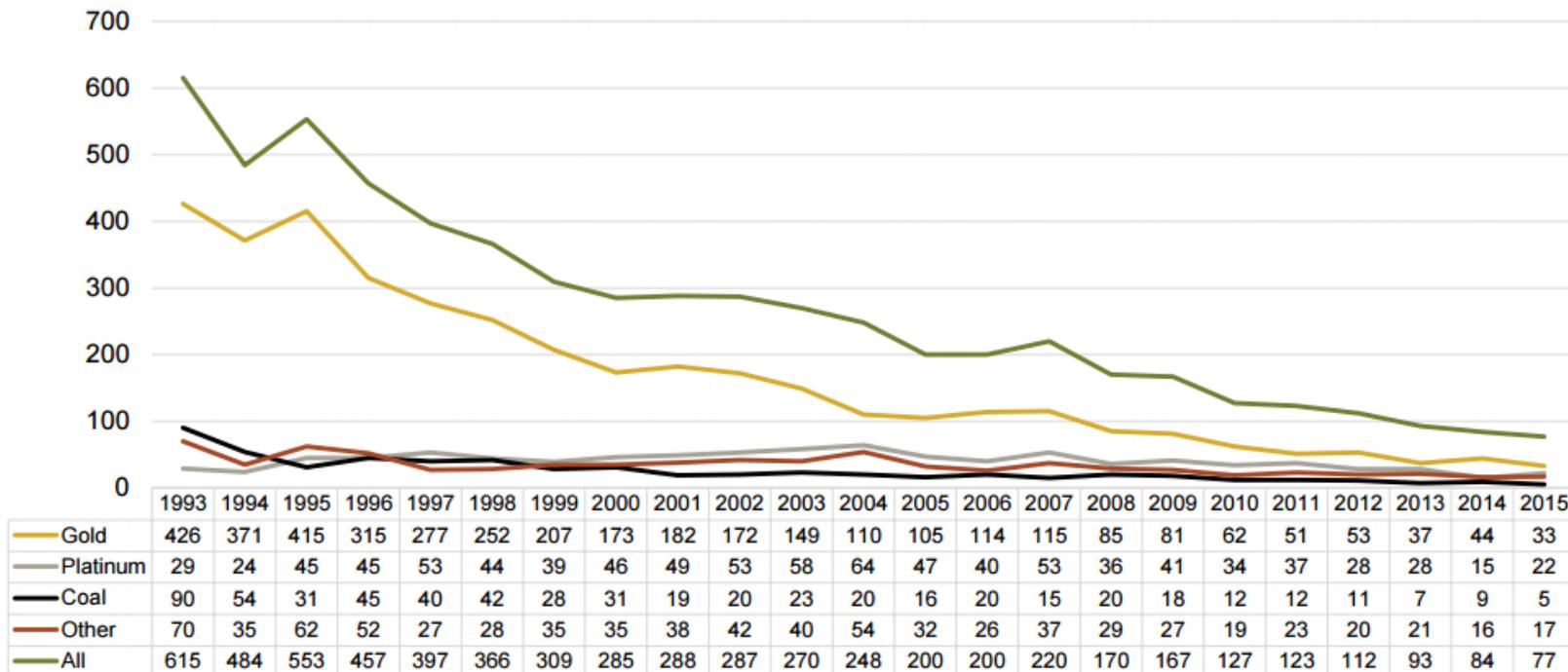


Progress made on the safety and health front



- Over the past two decades safety and occupational health has improved in the mining sector, with an 87% reduction in the number of fatalities between 1993 and 2015
- Industry reduced fatalities for 8 consecutive years since 2007
- Injury milestone:
 - up to December 2016, 20% reduction in serious injuries per year

Number of fatalities by industry (1993-2015)



But



Challenging times

- Apart from depressed commodity prices, industry is facing other challenges
 - unsustainable cost increases
 - infrastructure challenges, and unreasonable price hikes
 - workplace challenges (including increasing depth and decreasing grades)
 - increasing expectations and demands from stakeholders
- Domestic cost pressures have risen too quickly for mining inputs
 - electricity prices trebled in 7 years
 - wages up >10% pa over past 5 years
 - stores and materials up >10% pa; steel up 12% pa over past 5 years
 - increasing expectations and demands from stakeholders
- Productivity has fallen for a decade, largely because of declining grades, aging mines, production disruptions
 - platinum output per employee down 49%
 - real labour costs/kg up 309%
 - inability to increase shifts per annum

Mining industry made aggregate
net loss of R37 billion in 2015

Leaders' Declaration to save jobs and ameliorate job losses impact



- Declaration signed 31 August 2015 to address challenges and find short, medium and long term solutions
- Focus on preventing industry from restructuring, other measures such as improving productivity, lowering cost pressures, developing markets or tax reductions have not been explored

DECLARATION

Delaying implementation of retrenchments	✓
Enhancing productivity and managing cost pressures	X
Accelerated concurrent rehabilitation activities to create alternative jobs for mineworkers	X
Facilitate sale of distressed and other mining assets	X
Other alternatives to avoid job losses	✓
Support for mineworkers in the event that job losses cannot be avoided	✓
Utilisation of the Multi-national companies' procurement levy to also support employment opportunities for retrenched mineworkers	X
Streamlining the processes for downscaling, updating the database and exploring fiscal instruments	X
Investment promotion and market development	X
Communication and implementation plan	✓

Promoting South Africa



Chamber of Mines and member companies actively promoting SA as mining investment destination:

- At mining and investor conferences around the world – JSE SA Tomorrow conference in New York, PDAC, Mines and Money, Africa Dow Under, JOGMEC
 - At mining and investor conferences in SA – Joburg Indaba, Mining Indaba, and other events
 - Strategic relationship with Mining Indaba event company to:
 - support conference through sponsorships
 - ensure participation of mining major, and therefore investors
 - facilitate participation of emerging miners
 - direct content of discussion and debate
 - Participation in proliferation of investor events surrounding Mining Indaba
 - Participation in the Alternative Mining Indaba
 - Editorial support for publications at and around Indaba
 - Leadership role in MIASA, and contribution to ministerial mining forum
 - Direct engagement with the investment community and ratings agencies
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Mining has a set of characteristics that include:

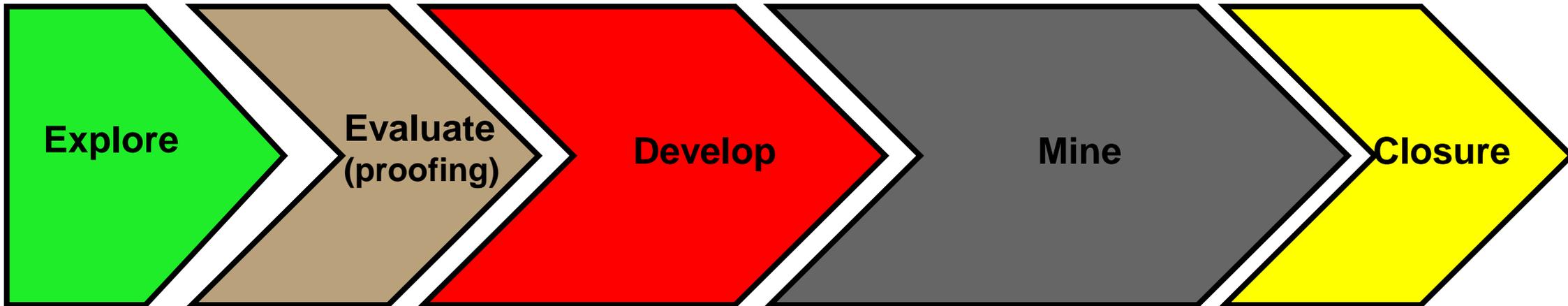


- It is a high risk industry, with long lead times from exploration through to mine development and ultimately through to closure
- It is very capital intensive and a large portion of the capital is spent in the development of the mine
- It is exposed to cyclical commodity markets
- It is generally a “price-taker” and cannot pass on cost increases to the final consumer
- It is geographically captured
- It requires access to cost competitive and efficient infrastructure

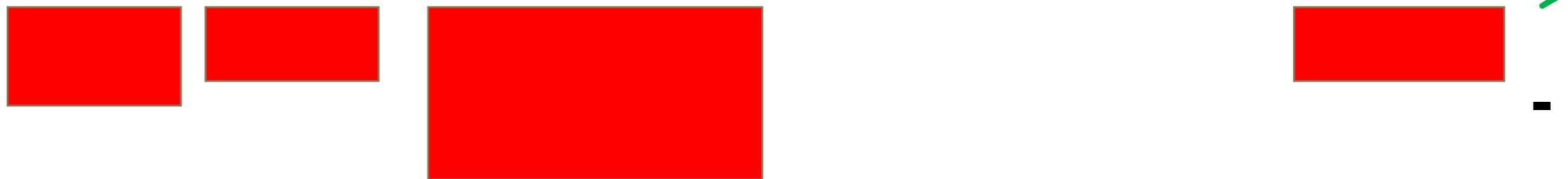
In order to encourage investment into mining, policies need to recognise the characteristics of mining and help reduce the risks of investment in long term projects

Given long life cycle, mining needs predictable, stable and competitive policy and regulatory environment

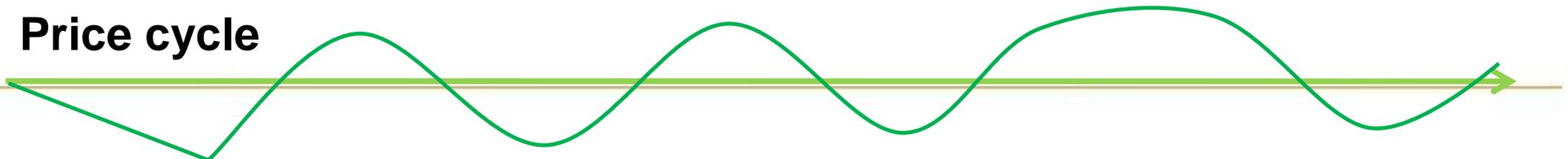
Mining Asset Lifecycle



Cash flow over life cycle



Price cycle



Creating a successful mining sector



More effective problem solving partnership between government, business and organised labour



Regulatory and legislative environment that is stable, predictable and competitive



Stable and constructive labour relations environment and more impactful social development



Access to available, efficient and cost effective infrastructure (electricity, rail)



Solutions to improve productivity (modernisation) and reduce cost pressures

Regulatory and legislative environment that is stable, predictable and competitive



MPRDA amendment bill

- Needs to be finalised by Parliament

Davis Tax Commission – response to interim report

- Retention of mining royalty model; rejection of the notion of a resource rents tax

Section 54 safety stoppages

- Speeding up development of implementation policy pertaining to Section 54 implementation

Environmental licensing

- New “One Environmental system” in place. Real progress made. Resolve challenges related to financial provision and treatment of mine residue as hazardous waste

Carbon tax

- Require significant offsets and rebates for carbon intensive trade exposed sectors

Mining Charter III

- It is critical for a revised Charter to emerge that is mutually acceptable to industry and government

Regulatory and legislative environment that is stable, predictable and competitive: MPRDA



- Rigorous engagement appreciated by the Chamber
- Bill being considered by the NCOP
- Continuing differences of opinion on constitutionality of some of the provisions contained in the Bill
- DMR obtained legal opinion confirming constitutionality of relevant draft provisions
 - other opinions differed
 - Chamber hopes that this will be dealt with thoroughly during finalisation process
- On overall content of the Bill, engagements with DMR focused on:
 - crafting legislation that would promote all aspects of the mining industry
 - bring as much certainty as practicable
 - ultimately bolster investor confidence
- Urgency to finalise Bill to enhance certainty and confidence iro industry's regulatory framework
 - Next key step is regulations to provide guidance to Ministerial discretion (e.g. on Section 11 approvals for a change in controlling interest should be done within 20 days)

Regulatory and legislative environment that is stable, predictable and competitive: One environmental system



NEMA FINANCIAL PROVISIONS

- Extensive engagement with DEA and DMR on technical and financial implications of proposed regulations

Issues of concern:

- **Double funding:**
 - Mining companies would continue to fund on-going rehabilitation activities through operating costs
 - At the same time, providing for on-going rehabilitation and environmental management costs in financial provision kitty
- **Application** of trust funds:
 - Permit holders after 20 November 2015 will no longer be allowed to use trust fund as vehicle for financial provision for:
 - annual rehabilitation
 - final rehabilitation
 - decommissioning
 - closure

Regulatory and legislative environment that is stable, predictable and competitive: Mining Charter



Mining industry re-affirms commitment

- Mining industry fully committed to transformation undertaken in a manner that:
 - sustains and supports the industry
 - does not undermine the laudable goals of the MPRDA

All key targets met for 2010 Mining Charter

- Ownership:
 - Chamber members have achieved empowerment levels of 38% on average (compared to the 26% target set out by the Mining Charter)
 - the value of empowerment transactions since 2000 amounts to R205 billion in 2014 money terms
 - the value of meaningful economic value transfer since 2000 amounts to R159 billion
 - HDSA beneficiaries who have benefited both directly and indirectly, are composed of the following categories:
 - 63% BEE entrepreneurs (46 companies)
 - 22% communities (6.9 million individual HDSAs)
 - 15% employees (210,000 individual HDSAs)

Regulatory and legislative environment that is stable, predictable and competitive: Mining Charter



Chamber of the view that Charter needs to promote investment by providing a transformation tool that is:

- Steady, progressive and predictable
- Simultaneously ensuring that transformation journey does not lose its momentum

Concerns around process

- Limited engagement - preferred process where MIGDETT stakeholders had the opportunity to engage extensively in the development of a stakeholder-agreed Mining Charter (2002 and 2010)

Concerns around content

- Clear that DMR has not considered and/or included Chamber's key submissions, objections and recommendations
 - Cumulative effect of all DMR's proposals, combined with existing corporate taxes and royalties, skills development levies and more, would materially affect the viability of an industry already in crisis
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Regulatory and legislative environment that is stable, predictable and competitive: Mining Charter



Mining Transformation and Development Agency (MTDA)

- Parties have not discussed in any degree of detail
- Chamber concerned about purpose, cost and oversight

Contribution of proportion of revenues to MTDA

- The 1% of turnover community investment proposal by DMR is another 'royalty' tax-equivalent imposed on an already struggling industry (aggregate net loss of R37 billion in 2015)
- Most regressive form of taxation
 - for this reason Treasury elected for EBIT-based royalty
- Chamber proposal
 - 2% net profit after tax contribution to community expenditure
 - need for government to use existing royalties paid by companies to government to supplement community initiatives

Portion of industry's skills development to be paid to MTDA

- Much needed funding of skills programs and tertiary education currently undertaken diverted to agency of which the mandate is unknown (the Chamber made the 5% of payroll skills commitment in the 2010 Charter on the basis that the funds are under the control of the companies – the DMRs proposal is now a tax as it takes this funding to another agency)

Regulatory and legislative environment that is stable, predictable and competitive: Mining Charter



1% of turnover generated from local mining companies by multi-national companies supplying goods and services to go to MTDA

- Doubles 2010 Charter target
- Additional tax which multi-national companies will pass to local mining companies in the form of higher prices
- Will result in mining industry being less competitive than it already is (and is in essence another taxation proposal)

Employment equity targets

- DMR has substantially increased targets related to the appointment of HDSAs, changing the definition at the same time
- Targets may be desirable, but some are currently unachievable
- On the whole, industry achieved empowerment equity targets of 2010 Charter
- Not opposed to increasing targets, but targets have to be based on what is realistically achievable

Procurement targets

- New targets appear to ignore the non-availability of certain types of locally manufactured heavy equipment
- The Chamber is supportive of local content objectives provided they are based on proper research and realistic targets

Access to available, efficient and cost effective infrastructure



Electricity supply and costs – multiple initiatives

- Eskom has improved EAF and load shedding no longer necessary, looking for new customers and has resumed exporting to neighbouring countries (**constraint is no longer access to electricity**)
- Lid on big price increases necessary (**the constraint is now cost of electricity**)
- Concerns on electricity policy uncertainty (IRP2016 need further discussion)

Economic transport regulator

- Centralised ‘NERSA’ equivalent for transport, road, air and rail infrastructure
- Holistic cost impact assessment welcomed
- Pricing transparency and consistency key

Water and environment

- Water and Sanitation Economic Regulator-transparent and uniform pricing of water
- Concern re inclusion of legacies (AMD) in pricing strategy – is there a better solution
- Incentives for Water Conservation and Water Demand Management efforts by various users

Mining Indaba 2017 messaging: recap



- Mining is important to SA and has great potential to contribute to growth, transformation and the NDP objectives
 - Mining industry is facing significant challenges and is working to alleviate them – these problems aren't unique to South Africa
 - Partnership between key stakeholders is vital
 - Policy certainty is critical – it is an area that requires constant work and vigilance
 - Mining Charter
 - MPRDA
 - One Environment System
 - Access to available, efficient and cost effective infrastructure is critical to mining
 - Mining industry and its labour counterparts are working together to promote a stable labour relations environment (the recent progress in the NEDLAC discussion on minimum wages and the legislative measures to avoid long duration strikes is welcome)
 - Solutions to improve productivity (next generation mining) are being driven by key stakeholders in the sector to improve competitiveness and the viability of the sector
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