Realising the potential of the South African mining industry

Roger Baxter, Africa Down Under, August 2018
SOUTH AFRICA’S MINING 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

![Graph showing South Africa's country ranking for Mineral potential assuming best practice, versus current policy perception ranking, Fraser Institute Survey, 2017. The graph indicates that South Africa is ranked in the 4th quartile, best in Mineral potential assuming best practice (20), and worst in Current policy attractiveness (80).]
SA has been going through
A TOUGH PATCH

From 2013 to 2017, real net capital formation in mining declined by 50%
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
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**

<table>
<thead>
<tr>
<th>KEY FINDINGS: CAPITAL INVESTMENT</th>
<th>KEY FINDINGS: NEW INVESTMENT</th>
<th>KEY FINDINGS: THE ECONOMIC AND TRANSFORMATION IMPACTS</th>
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<td>The current mining capex (next 4 years) is R145 billion.</td>
<td>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.</td>
<td>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.</td>
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<td>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.</td>
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## POTENTIAL OUTCOMES

Potential investment and employment per commodity

<table>
<thead>
<tr>
<th>Sector</th>
<th>Potential Investment</th>
<th>Potential jobs</th>
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<tbody>
<tr>
<td>Coal</td>
<td>R51,400,000,000</td>
<td>14,540</td>
</tr>
<tr>
<td>Diamond</td>
<td>R40,000,000</td>
<td>25</td>
</tr>
<tr>
<td>Energy</td>
<td>R30,000,000,000</td>
<td>1,100</td>
</tr>
<tr>
<td>Gold</td>
<td>R37,476,000,000</td>
<td>29,450</td>
</tr>
<tr>
<td>Uranium</td>
<td>R31,100,000,000</td>
<td>2,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>R122,016,000,000</strong></td>
<td><strong>47,615</strong></td>
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POTENTIAL OUTCOMES

Potential

R122 billion investment
and employment split

- Coal: 42%
- Diamond: 0%
- Energy: 25%
- Gold: 31%
- Uranium: 2%

- Coal: 31%
- Diamond: 0%
- Energy: 2%
- Gold: 62%
- Uranium: 5%
HOW CAN WE EFFECT A TURN-AROUND?
TOP ISSUES UNDERMINING THE COMPETITIVENESS OF RSA’S MINING SECTOR

- Lack of trust
- Policy uncertainty
- Regulatory certainty
- Corruption
  - Costs beating inflation
  - Infrastructural constraints
  - Restraints on exploration
ENABLING THE MINING INDUSTRY TO REALISE ITS POTENTIAL
STRATEGY TO ENABLE SOUTH AFRICAN MINING TO REALISE ITS POTENTIAL

- 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”
CONDITIONS ARE CHANGING

IN 2018, ARE THERE GROUNDS FOR HOPE?
In the past 6-months the 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:

- The positive Cabinet reshuffle in February, including the appointment of Minister Mantashe and the return of stalwarts Pravin Gordhan and Nhlanhla Nene to Cabinet in key economic/finance portfolios.

- The plan to host an Investment Summit in November and the plan to attract $100 billion in FDI in 5-years. A new Economics Advisor Ms Makhaya appointed along with new investment envoys, including Trevor Manuel.

- The establishment of two separate judicial inquiries into “state capture” and the “SA Revenue Service” (with the former SARS Head suspended).

- The removal of Mr Abrahams as the Director of Public Prosecutions by the Constitutional Court and the imminent appointment of his replacement.

- The immediate implementation of governance and stabilisation reforms at key State Owned Enterprises. New Boards have been appointed at Eskom, SAA, Transnet, Prasa, Denel, SABC, SABS, etc.
GREEN SHOOTS IN MINING TOO

The appointment of the respected Mr Gwede Mantashe as the new Mines Minister and his implementation of the following key changes/reforms:

- The opening up of significant dialogue between the Minister, the DMR and the Minerals Council, organised labour and communities.
- The Minister established 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 a new Mining Charter, including agreement on recognising previous empowerment transactions (though some tough issues remain to be resolved).
- The Minister has withdrawn MPRDA Amendment Bill.
- The Minister has 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 the Minerals Council commodity leadership forums.
- The DMR is tackling license backlogs, is investigating corruption and improving systems to improve performance.
- Overall there is much better engagement between the DMR and the industry.
BUT SOME THORNS AMONG THE GREEN SHOOTS

• Some commodities are in difficulty and need restructuring.
• The 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 last week seeks to clarify the issue.
• And yes, a satisfactory Charter outcome is critical. We are assured by the Minister’s statement that the DMR wants to develop a Charter which all stakeholders can support.
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