



Petra Diamonds – Finsch Diamond Mine

Realising the potential of the South African mining industry

Roger Baxter, Africa Down Under, August 2018



MINERALS COUNCIL
SOUTH AFRICA

SOUTH AFRICA'S
MINING POTENTIAL IS
HUGE



ECONOMIC AND TRANSFORMATIONAL POTENTIAL OF MINING IS HUGE

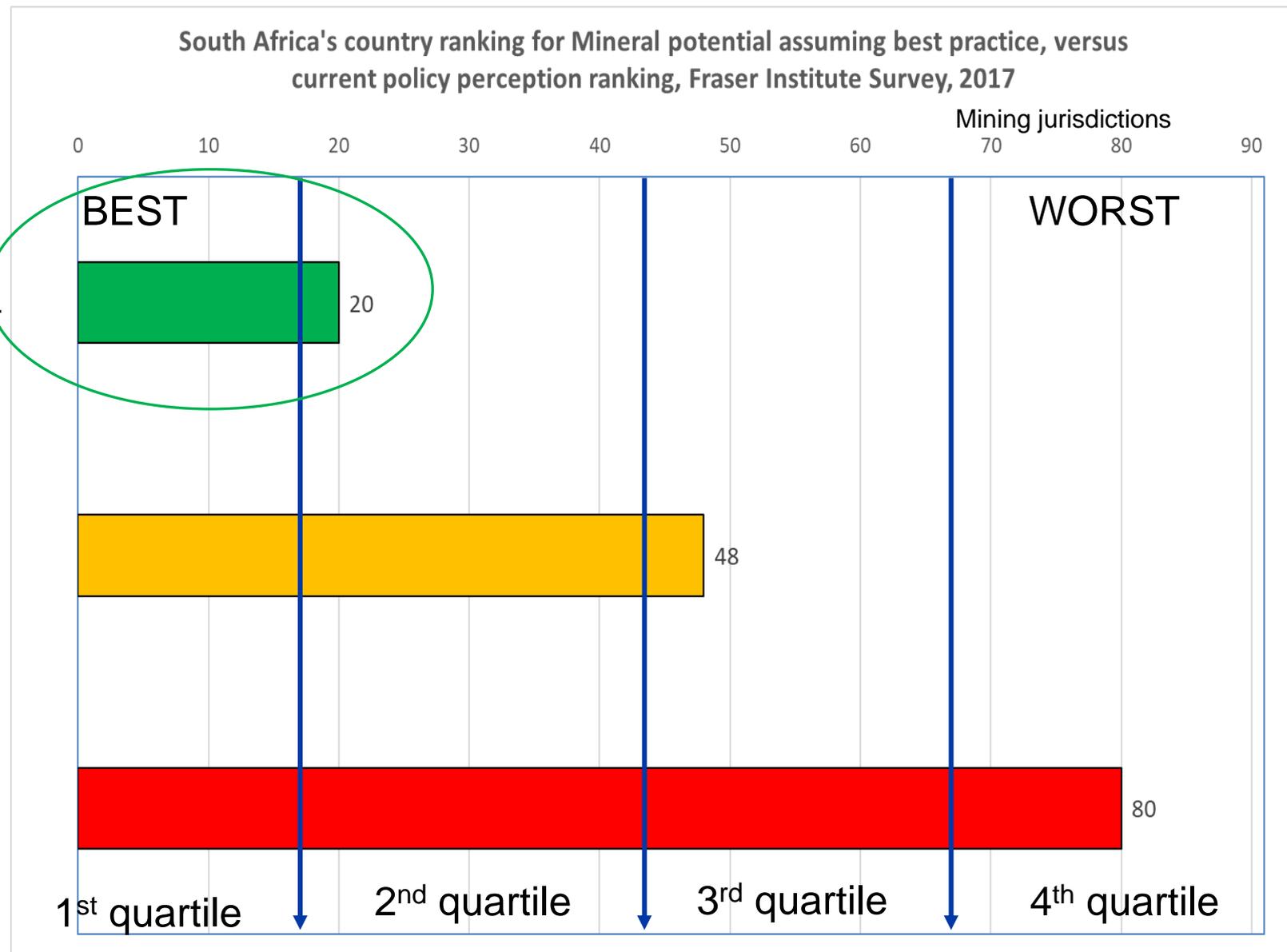
South Africa's "**MINERAL POTENTIAL – ASSUMING BEST PRACTICE**" is ranked by the Fraser Institute as **20 out of 91** mining jurisdictions (top quartile).

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

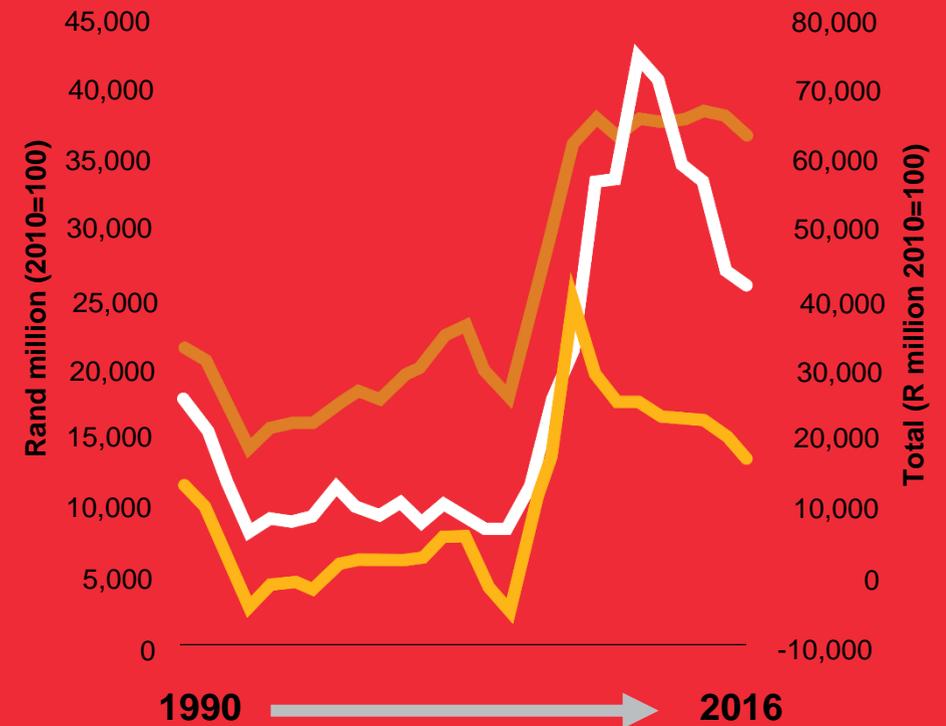




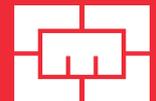
SA has been going through **A TOUGH PATCH**

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

Disaggregated Fixed Investment in mining



- Construction of mines
- Gross fixed investment
- Net investment

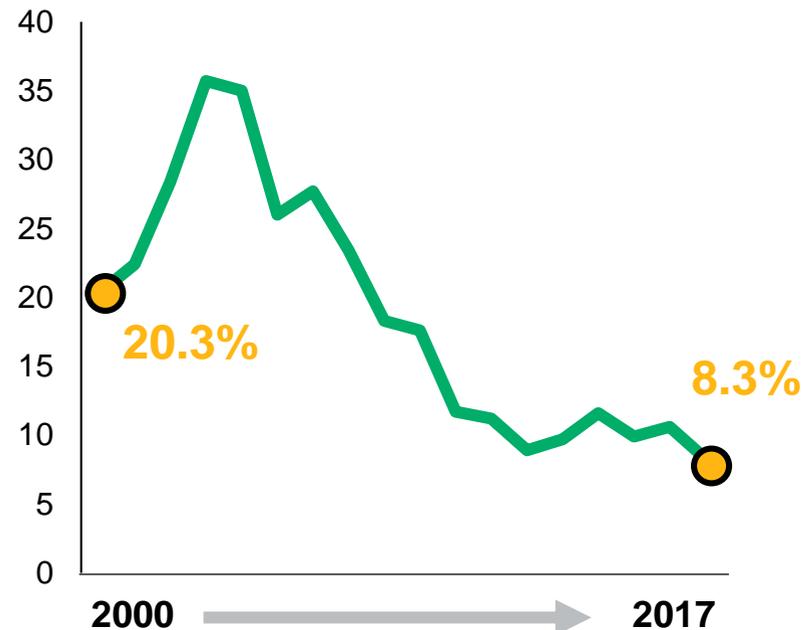


AND THE PIPELINE HAS BEEN WEAK

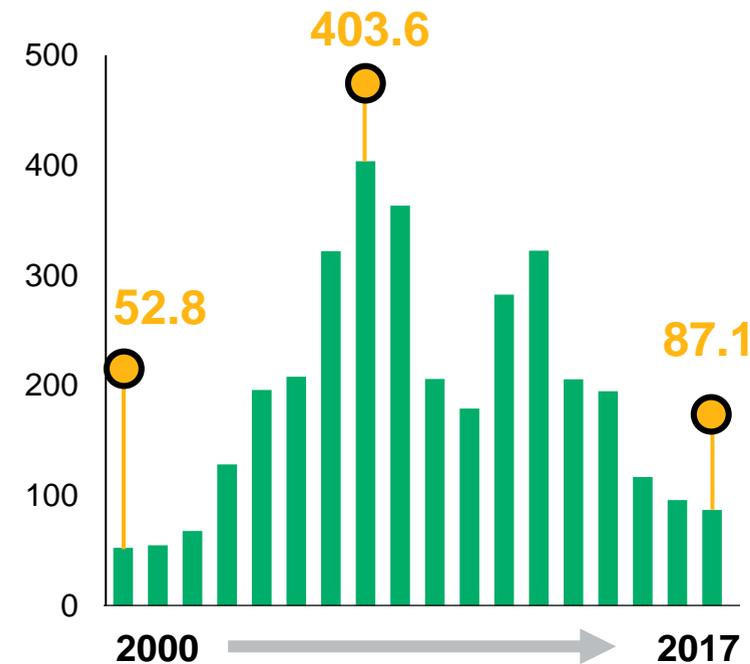
In 2017, South Africa accounted for 1% of total global exploration expenditure (14% for Canada, 14% for Australia and 13% for the rest of Africa. And, only 10% of this was on Greenfields exploration)

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

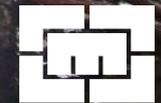
South Africa's share of African exploration budgets 2000-2017 (%)



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

KEY FINDINGS: CAPITAL INVESTMENT



The current mining capex (next 4 years) is R145 billion.

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.

KEY FINDINGS: NEW INVESTMENT



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.

KEY FINDINGS: THE ECONOMIC AND TRANSFORMATION IMPACTS

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.

POTENTIAL OUTCOMES

Potential investment and employment per commodity

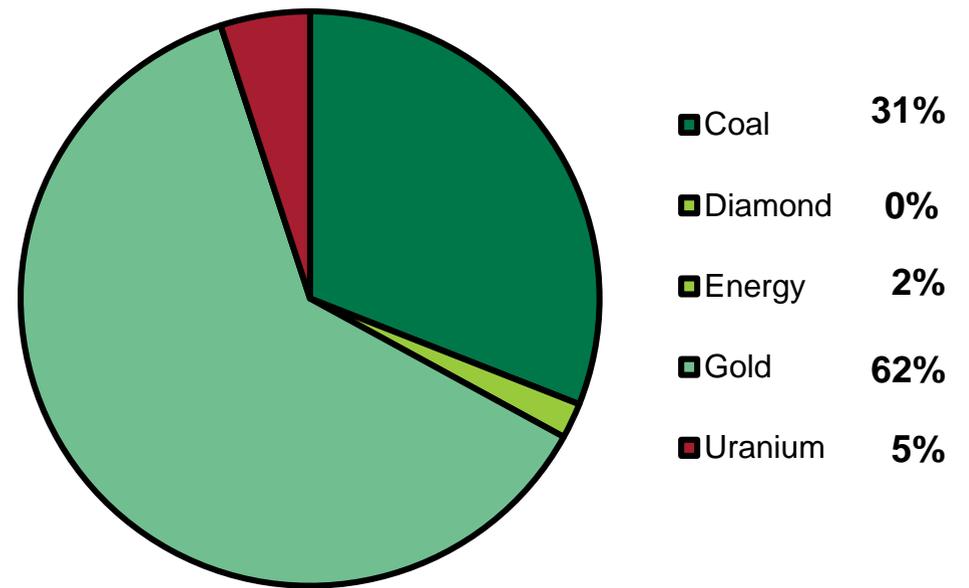
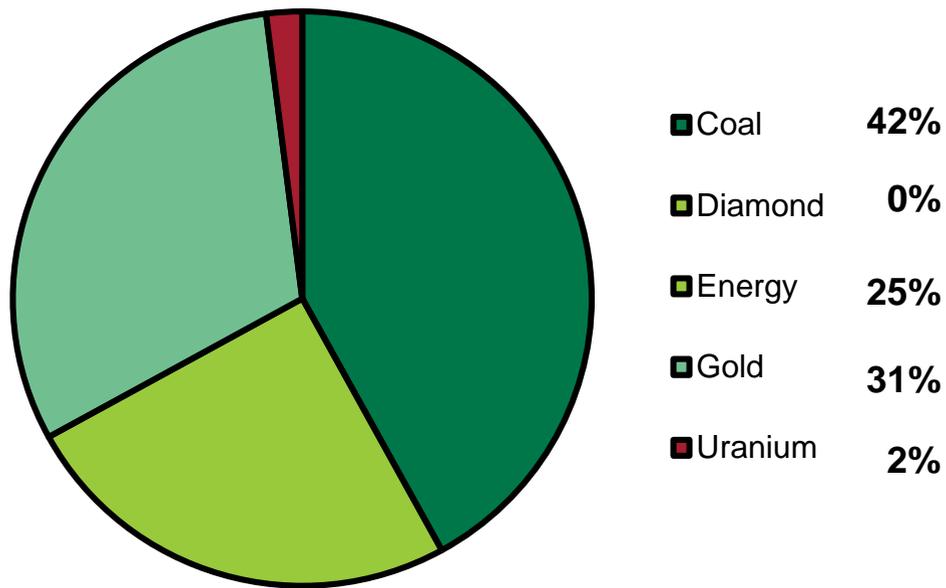
Potential Investment split		
Sector	Potential Investment	Potential jobs
Coal	R51,400,000,000	14,540
Diamond	R40,000,000	25
Energy	R30,000,000,000	1,100
Gold	R37,476,000,000	29,450
Uranium	R31,100,000,000	2,500
Total	R122,016,000,000	47,615

POTENTIAL OUTCOMES

Potential

R122 billion investment

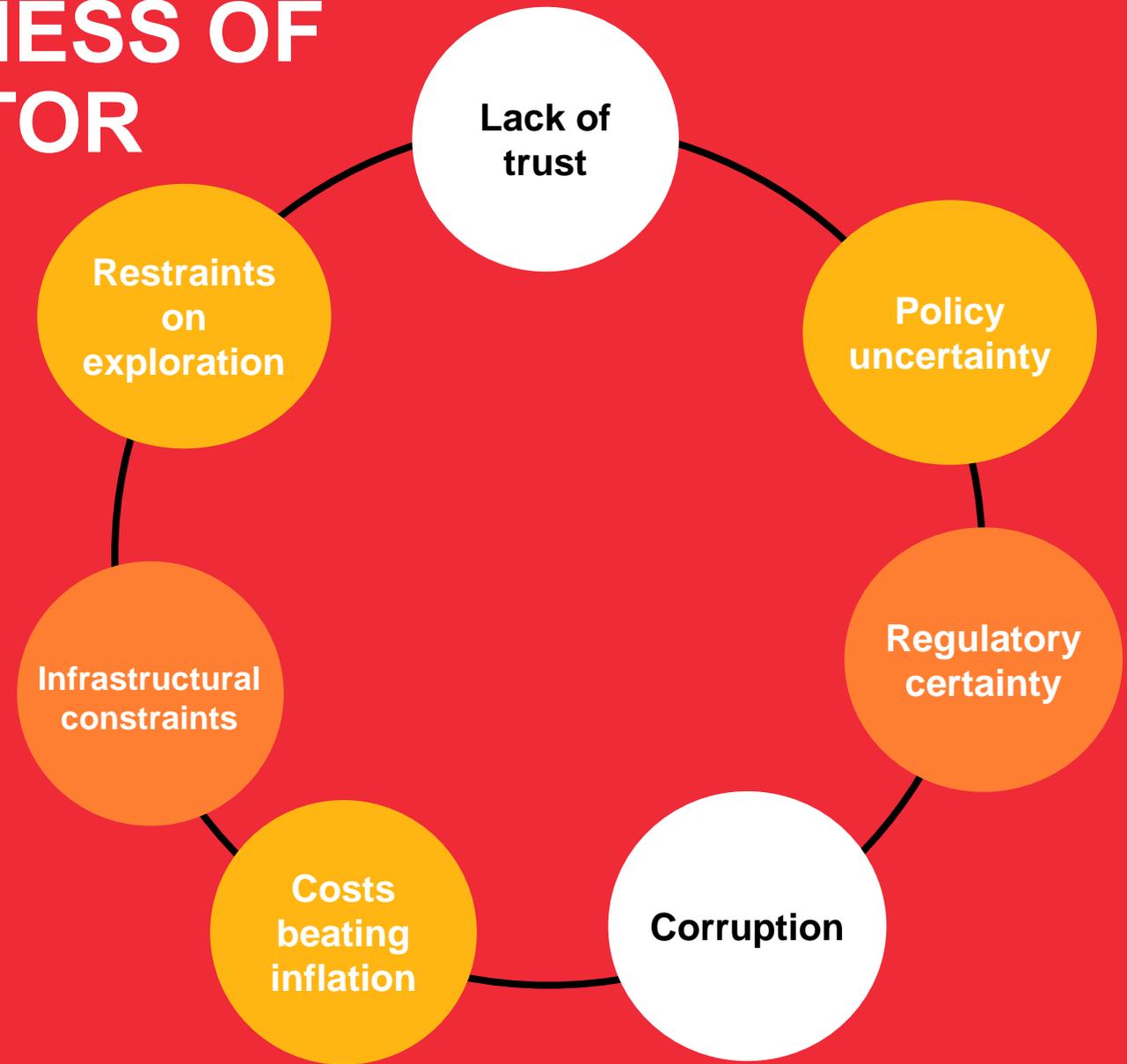
and employment split



HOW CAN WE EFFECT A TURN-AROUND?



TOP ISSUES UNDERMINING THE COMPETITIVENESS OF RSA'S MINING SECTOR



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"





**CONDITIONS ARE
CHANGING**

**IN 2018, ARE THERE
GROUNDS FOR HOPE?**

THE GREEN SHOOTS-AT THE COUNTRY LEVEL

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

