

## 2018 JOBURG INDABA

Keynote address: Roger Baxter, CEO of the Minerals Council South  
Africa

### A “HARSH” ENVIRONMENT IN SA OR A NEW DAWN?

*What a difference a year made, three hundred and sixty-five days, brought the sun and the flowers, where there used to be rain* – I am borrowing (and modifying) a little from Dinah Washington’s classic ballad.

Honourable Minister Mantashe, fellow delegates, it is indeed an honour for me to be delivering a keynote address at the Joburg Indaba 2018.

Bernard has, once again, posed a difficult question as the subject of this address: *Are we dealing with a harsh environment in South Africa, or is this a new dawn? I believe that in order to get the right answer, you have to ask the right question.*

I would venture to say this is not an either/or answer: Yes, we are dealing with a harsh environment in the South African mining industry, possibly one of the harshest that we have experienced in many decades. But, yes, we are seeing a new dawn.

The events of the past year have been, in many ways, astounding.

It was at this conference a year ago, that the Minerals Council took a principled stand to boycott the address by the then Minister of Mineral Resources, Mr Zwane. We were of the view that Mr Zwane and his office were corrupt, and that



we could not, as an industry, engage with him as he pushed towards the blatant destruction of an industry on which so many depend.

It was not an easy decision to take. We knew – as we had seen countless times before – that there would be both overt and covert retaliation against the Minerals Council, its office bearers and members. In fact, if I recall correctly, even the esteemed Mr Swanepoel was harsh in his criticism of the Minerals Council on this very platform, questioning why we would not engage with that Minister.

In that same month last year, at the ADU conference in Perth, after the then Minister had made false statements on the 2017 Charter, the Minerals Council was compelled to state that the mining industry had lost confidence in Minister Zwane to lead the DMR.

The revelations since then have more than vindicated our position. We spoke truth to power and stood against unethical leadership.

What a difference a year makes. It was only in February, with President Ramaphosa's election, that storm clouds started to dissipate, and that South Africans could again start to look forward to the future that they had been promised. As part of that process, we were fortunate, as an industry, to welcome the appointment of Minister Mantashe. He is the first Minister in the democratic era to have worked in the mining industry. And, in the few short months since his appointment he has brought about rapid change in the department and the industry, and at the same time moved to instil a degree of certainty, greater engagement and openness.



What a difference a year makes. At the ADU in Perth this year the South African team stated the facts. The industry and government provided a balanced picture, including highlighting concerns and solutions. The Minister and his full team attended the Minerals Council CEOs presentation. What a difference a year makes.

So, you may refer to this change as a new dawn or, as we do, as the green shoots in mining.

I am not going to go into a detailed discussion on the contents of the Mining Charter that was published just last week, other than to indicate that we believe this Mining Charter is a substantial improvement on the version developed under Minister Zwane and has improved on the draft that was published by the DMR in June this year. As the Minerals Council we broadly support this new Charter which is the product of substantive engagement. However, we do have some specific concerns that we believe require further discussion and engagement with the Minister.

What is also important is that the coming 60 days are going to be critical in developing the implementation guidelines, both in defining and clarifying what is meant in certain areas of the Charter, but also in the practical implementation. We need to be practical and realistic in the guidelines and to continually promote competitiveness, smart tape and transformation.

I have no doubt there will be much debate on the subject of the Mining Charter over the next two days. I would like to add this: Minister Mantashe has opened up significant dialogue between the DMR, the Minerals Council, organised



labour and communities. And to his credit, he has personally led many, if not most, of these engagements.

In his establishment of the two task teams with key stakeholders – one to negotiate a new Mining Charter, and one to develop a competitive strategy for mining - he has recognised that competitiveness must be at the heart of all that we do, if we are to achieve growth and transformation. I will deal more with the issue of competitiveness later.

The Minister has also asked Parliament to scrap the Bill drafted to amend the MPRDA. On balance, the Minister's approach appears to be sensible given the underlying reasons for the current delays in finalising the Bill. It is a pity that the intensive and useful engagements involving the Minerals Council and others that took place over a number of years with successive Ministers towards achieving consensus on a range of issues covered in the Bill have come to nought.

The number of constitutional concerns, both substantive and procedural, which remained unresolved would have been subject to legal challenges by various parties and would have meant continuing uncertainty for the industry as these wound their way through the courts. In the absence of resolving those concerns, withdrawal of the Bill seems to be a more appropriate option. We would certainly hope that new amendments planned will take proper account of the areas of consensus reached during the exhaustive discussions previously held.

Another step taken by the Minister in his brief tenure has been the decisive action take to investigate and eliminate corruption, to the point of closing offices



where this has been necessary. The DMR has also taken steps to tackle license backlogs and is investigating and improving systems of performance.

And, the Minister has started discussions with the industry on growth and competitiveness constraints leading up to the investment summit in November, including a commitment to discussions with the Minerals Council commodity leadership forums. This is particularly important as some commodity sectors are effectively in ICU and will not recover without intensive care.

Through strong leadership partnerships and proper strategic plans, we can enable the South African mining sector to realise its true economic and transformational potential. The recognition that we need joint industry collaboration and action on growing platinum demand is a case in point. Hopefully the new Platinum Mandela Rand project will start a much deeper collaborative market development effort between government and industry.

Having dealt with some of the green shoots, this brings me to the top issues undermining the competitiveness of South Africa's mining sector. We at the Minerals Council have some thoughts on this, and have identified seven critical factors:

- We have spoken on many occasions on the need for regulatory certainty. And we do believe that – in mining – we are making progress with this. The caveats are, of course, that the amendments necessary to make the MPRDA workable need to be addressed; that ancillary regulations – such as the financial provisions under NEMA and associated environmental regulation – needs to be finalised; and there needs to be some degree of certainty that critical aspects of the Mining Charter simply won't be revised again within a

reasonable time frame. And, of course, the Charter needs to avoid provisions that unduly obstruct industry growth.

- At the same time as seeking regulatory certainty, there is a need for policy certainty from the state, especially amidst the electioneering that is likely to take place over the coming months. Make no mistake: investors will be attentively watching. I have just returned from Denver, at a gathering of some of the world's leading precious metals investors, and one of the first questions I was asked at every turn related to land expropriation without compensation. While the President has sought to add his reassurance that South Africa is a constitutional democracy built on the rule of law, we should not underestimate the impact of such debates on the perceptions of investors. Markets are built, and fail, on perceptions.
- Mining needs infrastructure, and in many areas, this is lacking. Mining companies – particularly juniors – cannot be expected to deliver the infrastructure in order to develop a mining project. The state has a role to play, and for which it collects taxes and royalties. The private sector cannot be expected to assume primary responsibility for that role.
- The President's recent announcements on the proposed investment stimulus package are very welcome in this regard. We do need government to play a key role in fixing local government in mining communities, and collectively we can then have much better community development impacts.
- The constraints on exploration in South Africa is something I have spoken about before and is an important area of focus for our Junior and Emerging

Miner's Desk. We are pleased that there appear to be concessions made in the application of the Mining Charter for junior miners and explorers, but it is going to take more than the removal of disincentives. What we need is an environment that actively encourages exploration and welcomes the risk-takers and mavericks that have the vision and courage to discover new deposits, big and small.

As a reminder, in 2017 South Africa accounted for only 1% of global exploration expenditure. At the same time, Canada attracted 14% of global exploration expenditure, and Australia 14%. And of this 1% expenditure in South Africa, only 10% was on greenfields exploration, which is the lifeblood and bedrock of any successful mining industry.

- The issue of corruption has also been dealt with, and is an area where I believe we are making progress. In weeding out corruption, we as an industry are emphatic that this relates to corruption in *both* the public and private sectors, and that perpetrators of unethical conduct must be brought to book.
- Cost inflation remains a critical feature undermining every business in South Africa but is perhaps even more pronounced in mining where – for the most part – the industry is a price-taker, or where demand is simply inelastic at certain price levels. The need for fiscal discipline by the state and cost control within SOEs is critical.

- Finally, an area less spoken about but most often felt is the chasm in trust between stakeholders in the sector. This is something that has been occupying our thoughts at the Minerals Council.

South Africa's mineral potential is ranked by the Fraser Institute as 20 out of 91 jurisdictions, when assuming best practice. Even in the absence of a greenfields exploration boom in South Africa, a study undertaken by the Minerals Council shows that mining investment could almost double in four years if South Africa was to return to the top quartile of the most attractive mining investment destinations.

And is such a doubling if investment possible? Absolutely yes. Between 2013 and 2017, real net capital formation in mining declined by 50%. The significant investments we are seeing in other mining jurisdictions around the world, should be an indication that we can claim our share.

And the consequences of a doubling of investment could be game-changing for the industry and the country including:

- Creating another 200,000 jobs in the economy, of which around 50,000 would be direct mining jobs.
- Materially increasing output, exports and procurement
- Increasing direct and indirect taxes and royalties to the fiscus.
- Funding substantial infrastructure development and social projects in mining-affected communities;
- And fundamental advancing the country's transformation agenda.

It remains a truism that if mining succeeds, the country succeeds.



So, what would our approach be to enable South Africa to realise its mining potential.

- First, we believe it is imperative that all stakeholders have a shared vision for the future of the South African mining industry.
- Second, this strategy would require policy and regulatory certainty, in an environment that encourages competitiveness.
- Third, we need ethical leadership and good governance.
- Fourth, we need available, efficient, cost competitive and reliable infrastructure.
- Fifth, we need to improve productivity and competitiveness.
- And finally, we need to encourage that greenfields exploration boom.

I hope that over the next while we can regain our optimism, find innovative solutions and commit to an industry that is safer, more productive and sustainable, for the betterment of the lives of all South Africans.