A NEW STRATEGY FOR THE PLATINUM SECTOR

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PGM SECTOR REMAINS ONE OF THE LARGEST COMPONENTS OF THE MINING INDUSTRY TODAY

IN 2018, THE PGM SECTOR:

- **Largest mining employer**
- **Produced around 270 tonnes of PGMs**
- **Contributed R0.9 billion in royalties**
- **Significant export revenue earner**
- **Earned around R96 billion in revenue**
- **Paid employees R48 billion in earnings**
- **Significant development, investment and transformation footprint**
- **Exported around 89% of metals produced**
- **PGM sales amounted to around R105 billion (R94 billion exported)**
- **Employed around 168,000 people directly**
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SOUTH AFRICAN ECONOMY HAS BENEFITED SIGNIFICANTLY FROM PGM MINING

THE PGM INDUSTRY:

1980

PRODUCED 221 MOZ OF PGMS VALUED AT R1.2 TRILLION (US$170 BILLION)

2015

Profits distributed to multiple stakeholders, principally across the South African economy
In 2006 the SA PGM mining industry:
• employed over 200,000 people
• produced 9.9 Moz of PGMs valued at R65 billion (US$9.6 billion)
• margins were typically above 30%
• capital expenditure was nearly R20 billion (US$3 billion)
VIABILITY OF PGM INDUSTRY IS UNDER SERIOUS THREAT
AN INDUSTRY FACING SERIOUS HEADWINDS

Most significant financial indicators (return on assets, return on investment, gearing etc.) have deteriorated significantly

• By 2018 the SA PGM industry:

  - employed around 168,000 people
  - produced 270 tonnes of PGMs valued at R105 billion (US$7 billion)
  - margins on average were negative and the industry made an aggregate loss
  - capital expenditure below R10 billion (US$0.7 billion)
INDUSTRY CHALLENGES

• Challenges in the platinum market resulted in sustained decline in the $ price
• Structural changes in global supply and demand fundamentals include:

**DOMESTIC LABOUR STRIFE**

**FLAT NEW-MINE SUPPLY AND WEAKER DEMAND (DIESELGATE)**

**INCREASED GROWTH IN RECYCLING**

**DECLINING PRODUCTIVITY**

**RAPIDLY ESCALATING COSTS (LABOUR, ELECTRICITY AND SUPPLIES)**
At the end of 2018, more than 65% of PGM operations, representing 52% of PGM production were marginal or loss-making at prevailing prices.

Approximately 89,964 jobs are currently at risk at these marginal operations.

On an aggregated basis, total industry production costs measured in tonnes milled will increase by 29.6% between 1 April 2019 and 1 April 2021.

By the end of 2021, Eskom tariff increases will result in 75% of PGM operations being marginal or loss-making, representing 67.2% of production and threatening 111,766 jobs.
PLATINUM PRICE MOVEMENTS (2007 – 2018)

Source: World Bank, Stats SA, SA Reserve Bank, Minerals Council South Africa
PLATINUM PRODUCTION (2010 – 2018)

Source: World Bank, Stats SA, SA Reserve Bank, Minerals Council South Africa
PLATINUM PRICE AND COST CHANGES (2013 – 2018)

Source: World Bank, Stats SA, SA Reserve Bank, Minerals Council South Africa
Viability of SA platinum industry under threat
  - **Bold action required to ensure industry achieves its full potential**

Economic, taxation, investment, employment and transformational impact of realising potential would be game-changing for South Africa

National Platinum Strategy for South Africa is aimed at:
  - addressing the current crisis
  - preventing further erosion of the economic capacity of the industry
  - ensuring that the world’s largest PGM resource realises its full value

**1 MILLION ADDITIONAL JOBS**

**R8.2 TRILLION CONTRIBUTION TO SA’S ECONOMY BY 2050**
ESSENCE OF THE STRATEGY AND ACTIONS REQUIRED

THE STRATEGY WOULD:

Identify key “Leadership Champions” among stakeholders to populate the public-private steering committee to drive the vision, process and implementation of the strategy.

Develop strong and focused partnerships between key stakeholders and role players, including all relevant government departments.

Identify the opportunities for short-term interventions aligned with long-term strategic goals, including market development in all platinum and PGM demand segments and a specific focus on fuel cell electric vehicle market share growth.
ESSENCE OF THE STRATEGY AND ACTIONS REQUIRED

ACTIONS REQUIRED INCLUDE:

Agreement on the critical need to promote platinum and to increase demand on a global scale

Establishment of a leadership public-private steering committee, urgent announcement of a National Platinum Strategy and actions that will be taken to support it and implement it to secure an economy changing future

Five key areas that the National Platinum Strategy should focus on

Milestone Plan to ensure the effective implementation of the National Platinum Strategy
Five key focus areas

- A 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)

- Immediate measures to assist the platinum mining industry to improve its viability and preserve employment

- A commitment from government to match funding by the PGM industry on market development in jewellery, investment and fuel cells

- A national platinum fuel cell strategy (to boost the hydrogen economy)

- A national strategy to drive investment demand for platinum
TWO POSSIBLE SCENARIOS
Two possible scenarios

The “Bumble Along” scenario:

• Global PGM demand remains flat/declines as a result of limited market development and loss of market share
• Rapidly escalating costs, falling productivity and limited cooperation between stakeholders, as primary supply fails to grow in line with flat demand
• Limited use of new technology
• Production remains flat
• Investment declines
• Lower grades and increased mining depth
• Strong correlation between people employed and tonnes milled – employment numbers remain flat or decline
• By 2050:
  • no annual growth in PGM supply
  • value of PGMs produced (in 2015 average price terms) is US$168 billion
  • total direct employment declines to around 132,000 from around 188,000
Two possible scenarios

The “High Road” scenario:

- Strong leadership, bold action and coordinated cooperation between all South African stakeholders results in 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, jewellery sector and investment demand grow
- PGM production grows at a similar pace to match growth in demand
- Gradual modernisation of mining methods leads to employment growth of 2% per annum
- Rising productivity enables 2.54% growth in South African mine production
- By 2050:
  - PGM supply grows by 2.5% annually
  - Value of PGMs produced (in 2015 average price terms) is US$273 billion
  - Total direct employment increases to around 376,000 from around 168,000
ACHIEVING THE POTENTIAL OF THE PGM INDUSTRY
If PGM industry is enabled to achieve its full potential the economic and social benefits for the country would be material.
ACHIEVING THE POTENTIAL OF THE PGM INDUSTRY

By 2050:

• PGM production and GDP would more than double (up 141%)
• Total direct and indirect employment would rise to one million people
• Salaries and wages paid to employees would increase
• Supplier industries would more than double sales to PGM sector
• Growth would attract new investment in PGM and associated industries
• Economic transformation would receive a major boost from growth in the sector, helping overcome legacies and driving positive societal change (through ownership, skills development, procurement, etc.)
• Export earnings from PGMs would rise substantially, creating significant export earnings for the country
• Tax revenue would increase which could in turn support the national budget priorities
Thank you