



Petra Diamonds – Finsch Diamond Mine

RSA Mining: Significant potential, Some progress, Some green shoots.

Roger Baxter, CEO | 14 August 2019



MINERALS COUNCIL
SOUTH AFRICA

Economic and transformational potential of mining is BIG

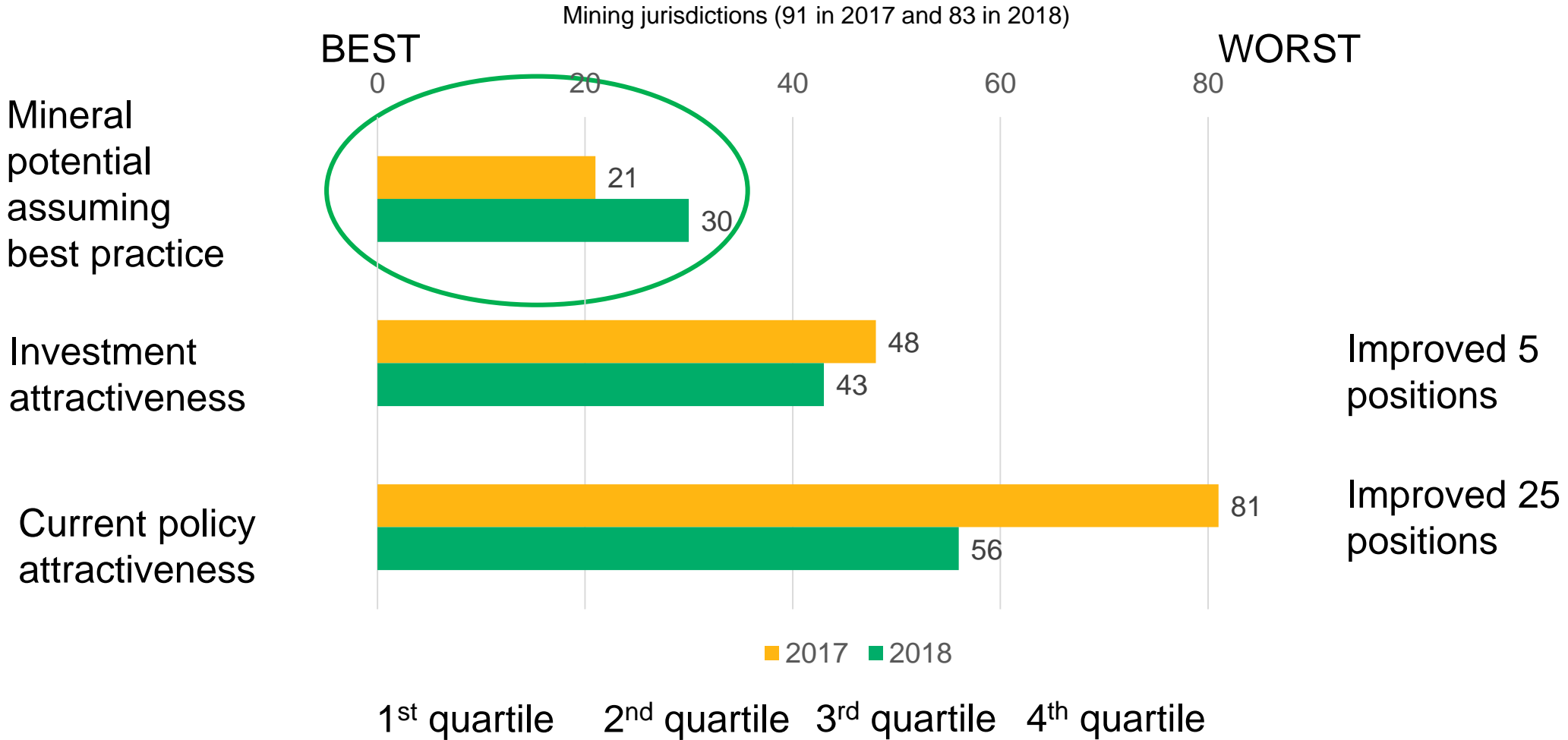
South Africa's "MINERAL POTENTIAL – ASSUMING BEST PRACTICE" is ranked by the Fraser Institute as:

30 out of 83 mining jurisdictions (top half)

South African 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

RSA's mineral potential is high, investment attractiveness and policy scorecard not in sync (but improving)



Mining: A sector emerging from serious headwinds

1. Policy and regulatory uncertainty

- Disastrous 2016 Zwane Charter
- Problematic 2012 MPRDA amendment bill
- Continued challenges on environmental and mining licensing
- New carbon tax with no regulations on offsets (budgets, offsets)

2. Infrastructure challenges

- Challenges on electricity supply and rising prices (523% increase in 10 years)
- Challenges on availability of rail, and rapidly escalating rail costs

3. Community and employment relations instability

- Community protests and disruption to mining
- Strike activity

4. Crime and illegal mining's impact on the sector

- Huge economic cost to mines and country

Economic and transformational cost of getting it wrong for South Africa is huge

Imagine taking a R5 bn gold expansion project to the “Investment Committee of the Board”

The Chairman of the Investment Committee asks Mr Baxter some questions:

Mr Baxter, what is your view of the electricity price and supply by 2029, given that electricity costs are now 25% of cash costs (vs 11% in 2009) and given the 523% increase in the past decade?

Mr Baxter, is the project guaranteed continuing consequences of previous BEE deals when the company must renew the mining right in 2025 – or will the company have to top up?

Mr Baxter, what will the carbon tax liability of the project be in 2029, given the total lack of visibility on any regulations or tax-free portions for the R170/ton CO₂ tax that will apply in 2023?

WHAT WOULD YOUR ANSWERS BE?

The economic contribution of mining has declined



Investment in mining has declined

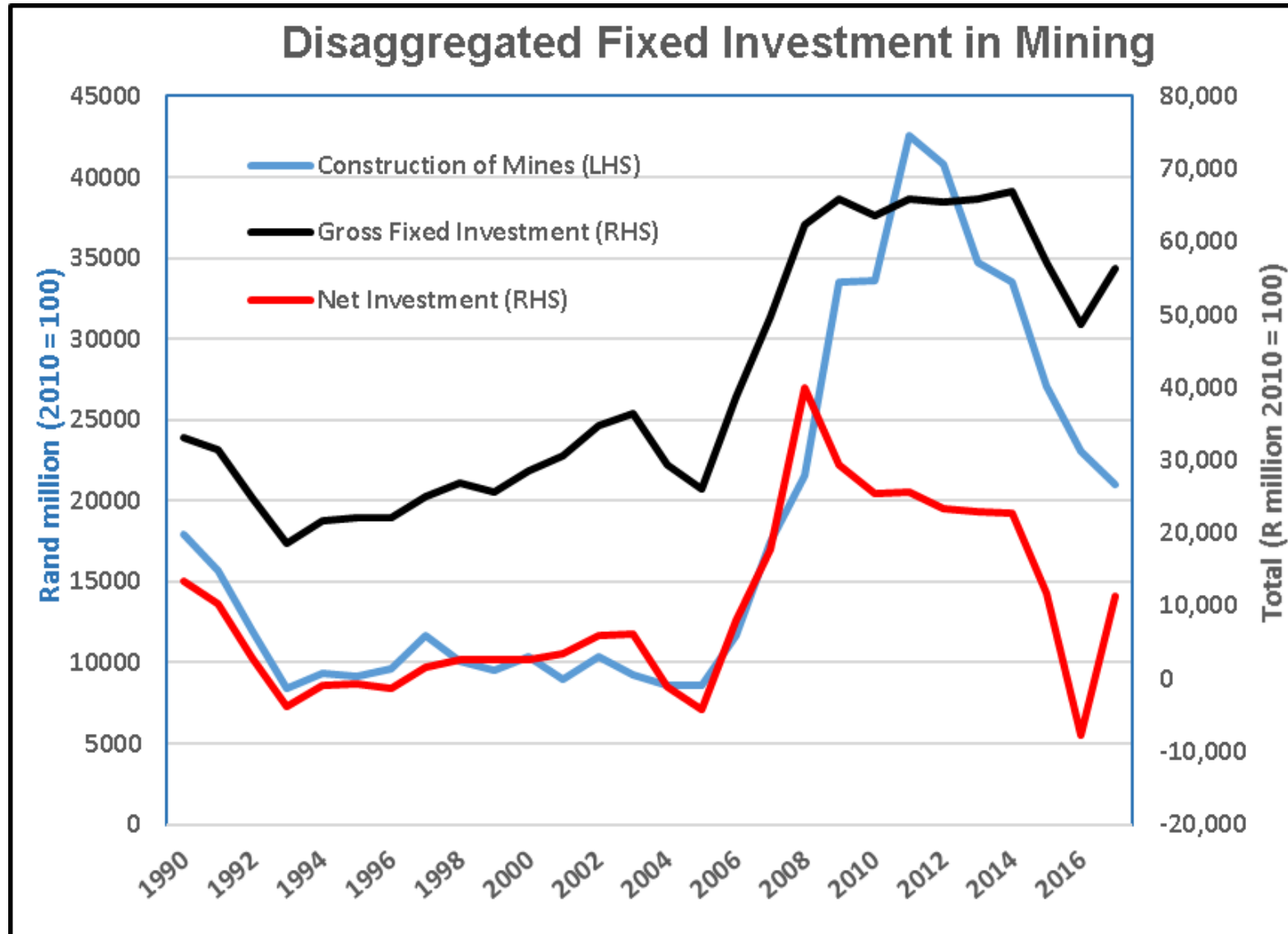
- Construction of new mines declined 51% since 2011 and is now at the 2008 level
- Net Fixed Investment in mining has declined by 72% since 2008
- Investment does not flow into long-term mining projects in an uncompetitive policy, regulatory and operating environment



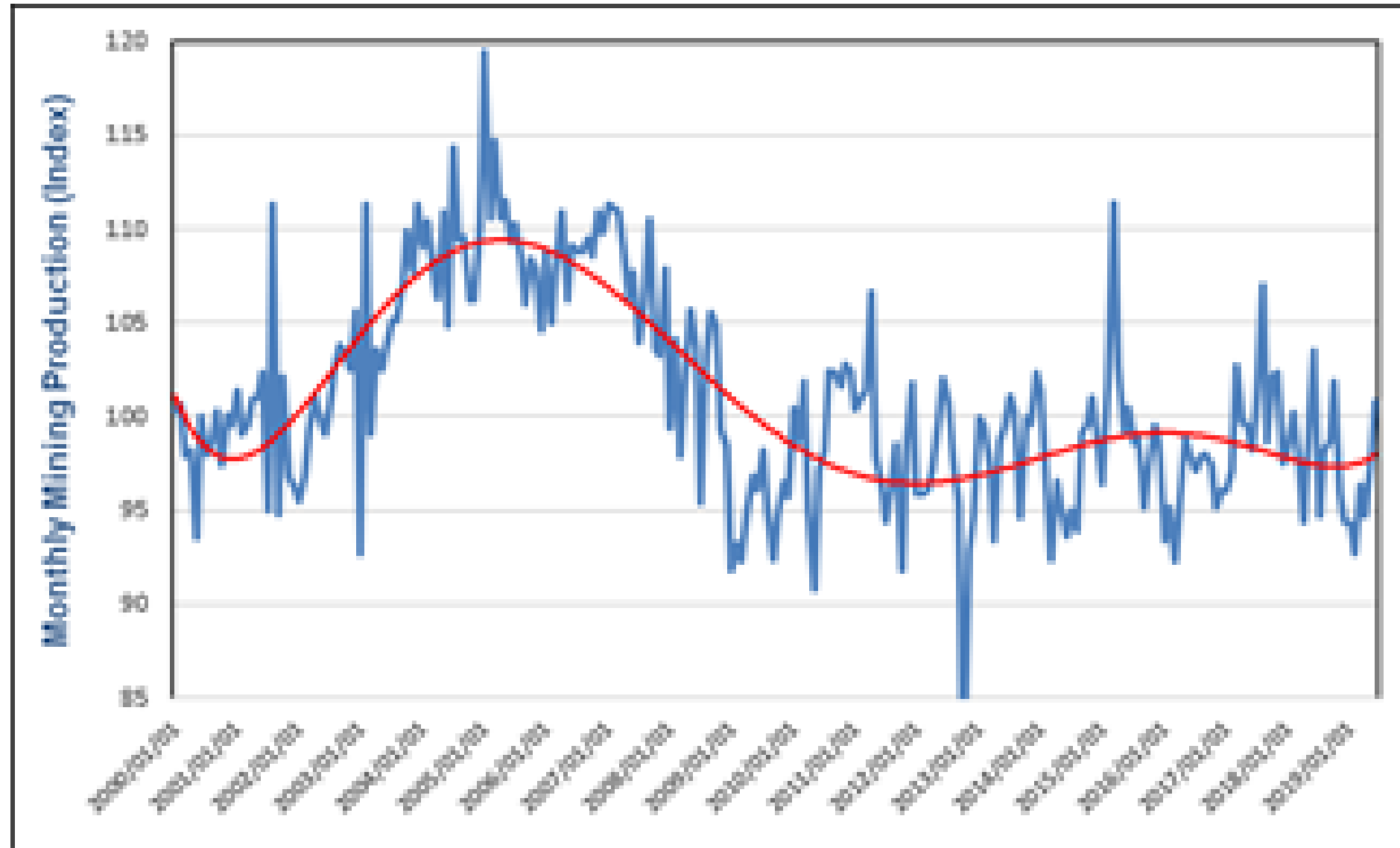
Economic contribution of mining has fallen

- Mining has fallen from 15% of GDP in 1990 to 7% today
- Real mining GDP is smaller in 2018 than it was in 1994
- Mining employment has declined by 70,000 people to 466,000 in the past 5 years.

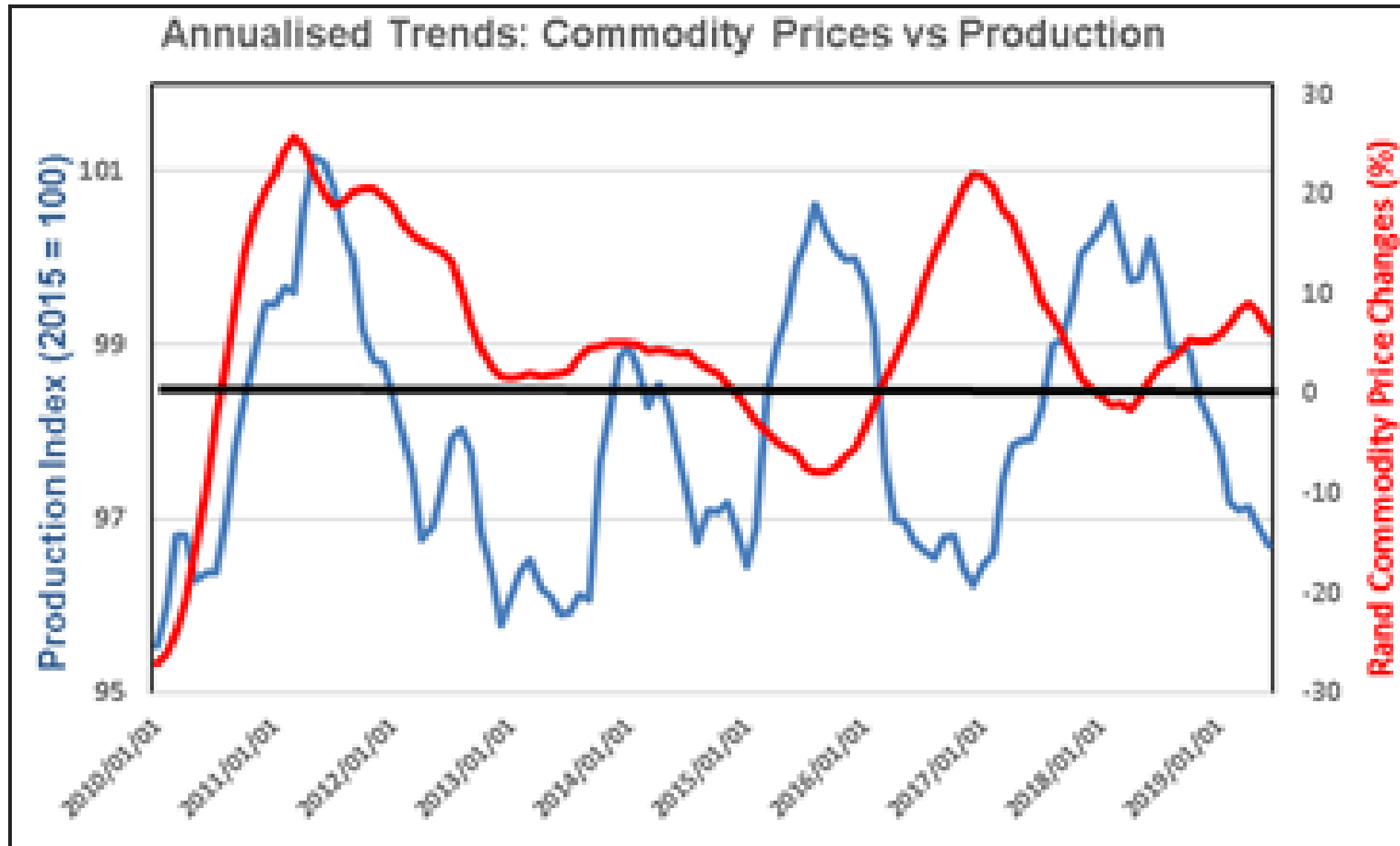
Mining investment has only just stabilised



The long-term trend in mining production is at the 2000 level



And despite rising prices, production is battling to respond

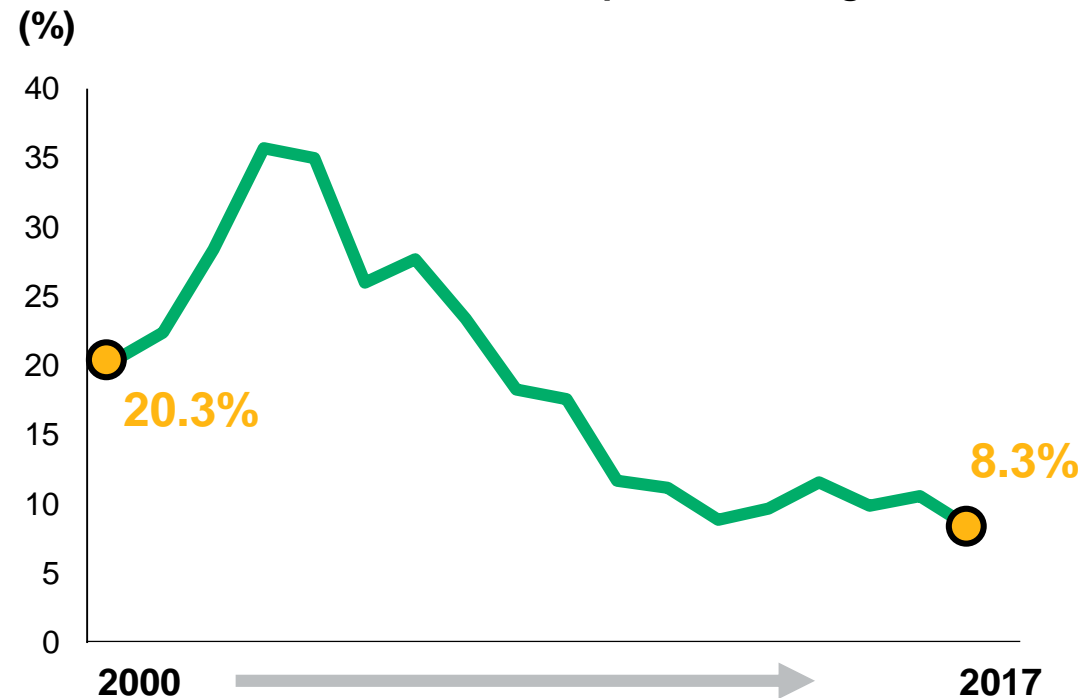


The exploration and project pipeline has been weak (only 1% of global total)

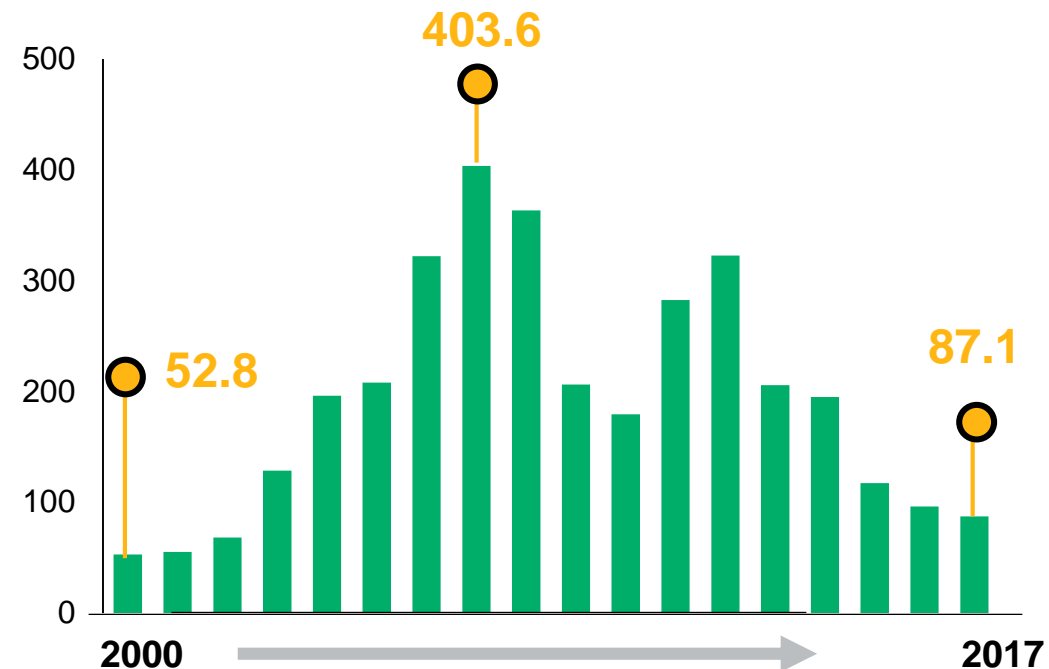
In 2017, South Africa accounted for a dismal 1% of total global exploration expenditure (14% for Canada, 14% for Australia and 13% for the rest of Africa. And, only 10% of this in South Africa was on Greenfields exploration).

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

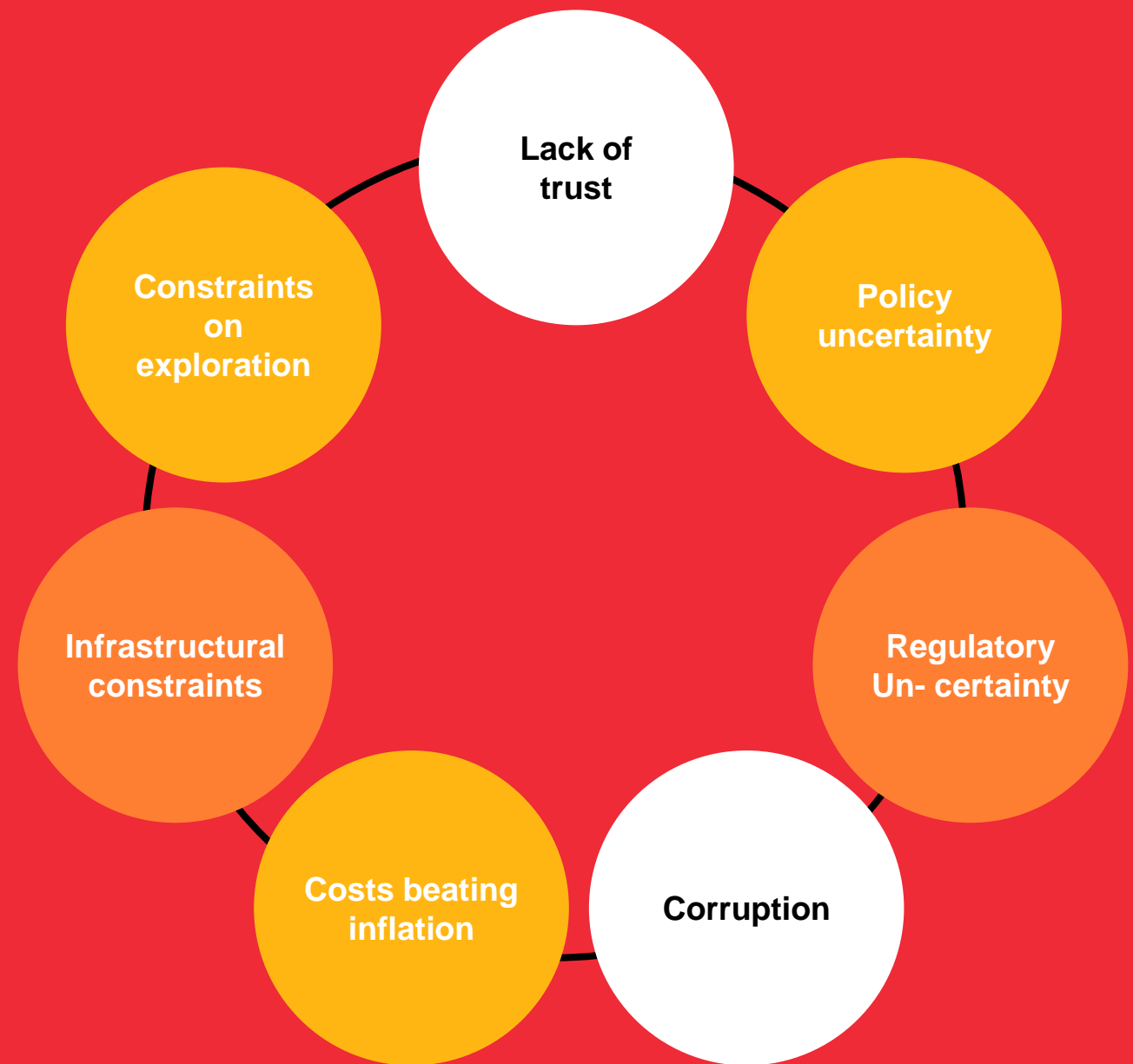
South Africa's share of African exploration budgets 2000-2017



South Africa's exploration budgets 2000-2017



TOP ISSUES UNDERMINING THE COMPETITIVENESS OF RSA'S MINING SECTOR





CONDITIONS ARE CHANGING
IN 2019, ARE THERE GROUNDS FOR HOPE?



Some green shoots in mining

Re-appointment of Minister Mantashe and implementation of following key changes/reforms

- Opening of significant robust dialogue between Minister, DMRE and Minerals Council, organised labour and communities
- Finalisation of a 'mostly workable' MCIII (with a few outstanding issues that need resolution)
- Withdrawal of controversial MPRDA Amendment Bill.
- Minister has had detailed discussions with CEOs of Minerals Council commodity leadership forums
- DMRE tackling license backlogs, investigating corruption and improving systems to improve performance.
- Discussions starting on developing a new strategy to promote a greenfields exploration boom in South Africa

Significant improvement in some mineral prices (gold >R750,000/ Greater reliability from Eskom (no load-shedding since February) Resolution of strike in gold



But there remain some potential thorns among the green shoots

- Maintaining South Africa's investment grade sovereign rating (all efforts must ensure fiscal consolidation)
- Trajectory of electricity prices and how Eskom will be restructured
 - Minerals Council is working closely with government and Eskom to assist (technical review team, coal supply)
- Resolution of outstanding issues on Mining Charter III
- Working with government and communities to ensure stable communities and less disruption to mining
- Promoting industrial relations stability and workable outcomes to negotiations

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"



Steps to restore mining back to top quartile of most competitive mining jurisdictions

- **Developing a social pact for competitiveness, growth and transformation between key stakeholders (leadership compact signed in February 2019)**
- **Re-establishing trust with global mining and investment community**
- **Significant crack-down on corruption and unethical leadership:**
 - DMR: 5 regional offices investigated, two closed. Good progress made.
- **Significant improvement in licensing system and turn-around times required**
 - Minerals Council submitted 20-page summary of outstanding licenses. DMR has made good progress resolving back-log

Steps to restore mining back to top quartile of most competitive mining jurisdictions

- **Creating a stable, predictable and competitive policy, regulatory and operating environment that encourages long-term investment in mining**
 - Better Charter finalised by DMR in September 2018
 - One key **unresolved issue** in Mining Charter is DMR's non-recognition of continuing consequences for renewals
 - Withdrawal of MPRDA AB is positive. But, a set of new amendments is required to fix s11's, regulation of dumps, turn-around times, etc.
 - Environmental laws and regulation are a major problem and require resolution
 - Carbon tax should be implemented as part of a package of measures (not by itself)
 - VAT refunds, diesel rebate system and changes to tax system need resolution

Steps to restore mining back to top quartile of most competitive mining jurisdictions

- **Infrastructure constraints and uncompetitive costs need to be resolved**
 - Mining requires much better visibility on future trajectory of electricity prices
 - Significant work to restructure ESI needed, including separating out transmission into a single state controlled company (to allow wheeling on the network), competition on generation and re-adoption of REDS model (as per 1998 Energy Policy White Paper)
 - Significant changes required to rail model, including private concessioning. Introduction of greater competition into railway network will increase competition, improve efficiencies and promote investment and growth
- **Strategy to encourage exploration boom needs to be developed**
 - CGS looking at remapping SA's high level geophysical data
 - DMR has removed BEE ownership requirement on exploration

Steps to restore mining back to top quartile of most competitive mining jurisdictions

- **National strategies for each commodity required**
 - Several commodity CEO sessions with Minister Mantashe have taken place
 - In platinum the key outcome is creating greater demand (such as platinum being adopted by BRICS as a reserve asset, the Platinum Rand bullion coin project, driving the hydrogen economy and raising domestic emission standards, co-funding platinum promotion activities (such as co-funding the PGIs platinum jewellery initiatives in China and the WPIC investment initiatives)
 - In coal, require stability in Eskom/Gov rules and greater export capacity on RBCT line.

**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



Thank you

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