



Petra Diamonds – Finsch Diamond Mine

# What is the Minerals Council - what does it stand for?

Tebello Chabana, Africa Mining Network, August 2018



**MINERALS COUNCIL**  
SOUTH AFRICA

Introducing

# THE MINERALS COUNCIL SOUTH AFRICA

# Introduction to the Minerals Council South Africa

## Vision

- To reposition the South African mining sector as South Africa's foremost industrial sector. To create, in partnerships with key stakeholders, a conducive policy, legislative and operating environment that facilitates doubling real investment in mining by 2030

## Purpose

- Voluntary mining employer's lobbying and advocacy organisation that supports and promotes the SA mining industry – through providing strategic support and advisory input
- Facilitate interaction among mining employers and other stakeholders to examine policy issues and other matters of mutual concern to crystallise and define desirable industry positions
- Act as principal advocate for mining in South Africa to government, communicating major policies endorsed by our members
- Promote collaboration on various initiatives between members

# Introduction to the Minerals Council South Africa

## Members

- 38 major mining companies and 32 junior mining companies
- 4 associations - making up over 300 companies (ASPASA, SADPO, Association of Shaft Sinkers and SA Mining Contractors, CASA)
- Minerals Council member companies represent more than 90% of SA's mineral production by value

## Membership Compact

- Advocacy and lobbying - no executive authority over its member companies
- Members are required to sign and adhere to a Membership Compact, a mandatory code of ethical business conduct to which members of the Minerals Council subscribe. Members are obliged to conduct their business according to these agreed values which dictate the minimum standards of conduct required of them

# Mining in South Africa today 2017

	R
<b>Foreign exchange earnings</b>	R328,1 bn
<b>Corporate taxation</b>	R19.3 bn
<b>Minerals Royalties</b>	R7,5 bn
<b>Fixed investment</b>	R81 bn
<b>Skills development (Mining Sector Commitment)</b>	R6,2 bn
<b>Skills Development (Skills Levy)</b>	R 1,2 bn
<b>Skills development (Charter)</b>	R6.6 bn
<b>No of direct employees</b>	465 000
<b>Employee wages</b>	R126 bn
<b>PAYE collected on behalf of employees</b>	R10 bn
<b>Procurement expenditure</b>	R430 bn
<b>Procurement with SOEs (Eskom)</b>	R16 bn (16% of Eskom's Sales)
<b>BEE procurement</b>	+R100 bn
<b>Returns to shareholders</b>	R13 bn
<b>Dividends to PIC</b>	R390 million

# Economic & Transformation Potential of Mining

South Africa's “**mineral potential – assuming best practice**” is ranked by the Fraser Institute as **20 out of 91** mining jurisdictions (top quartile).

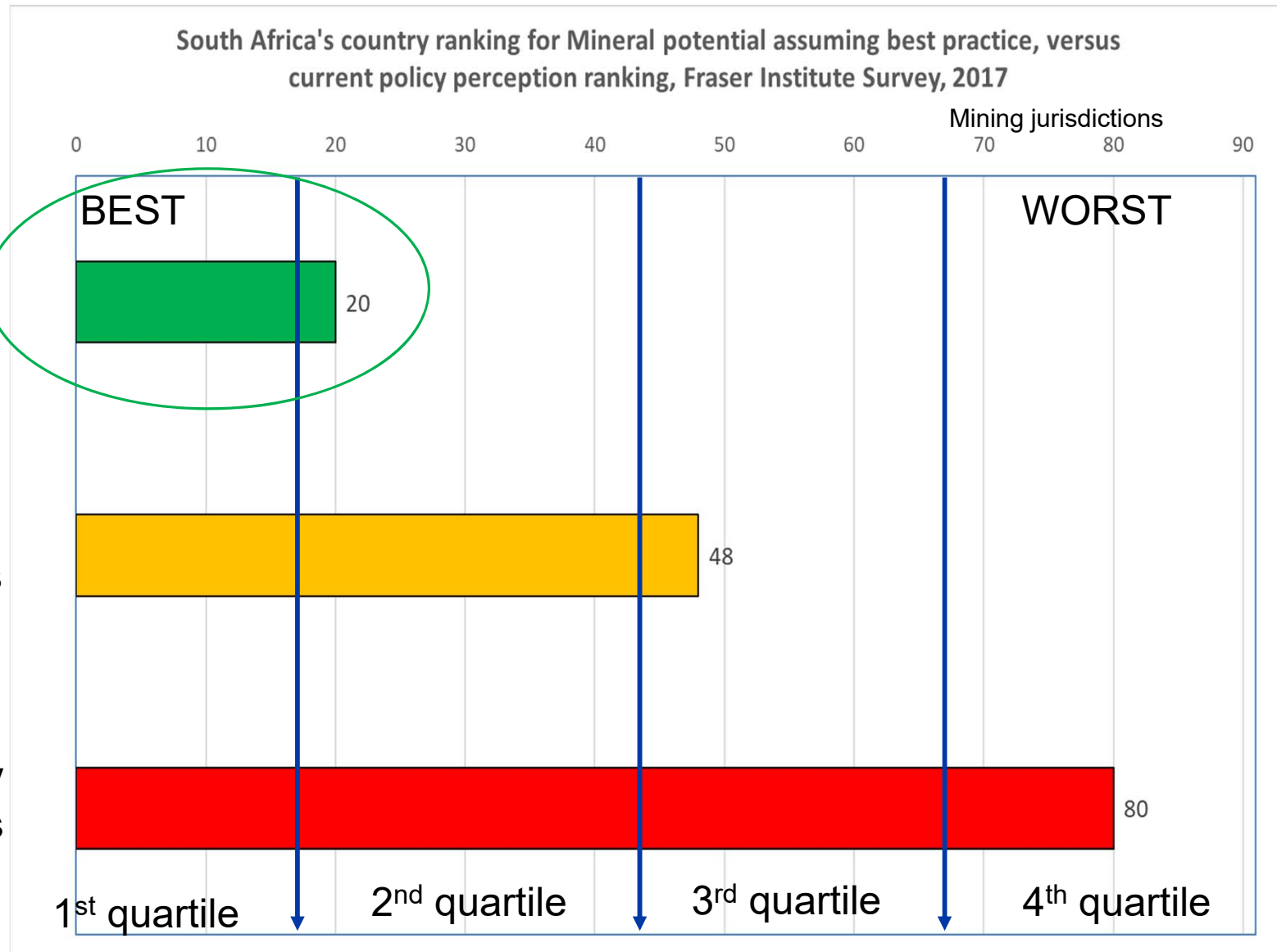
Even in the absence of a Greenfields exploration boom in South Africa, **mining investment could almost double in the next four years** if the country was to return to the top quartile of the most attractive mining investment destinations.

**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.



# South Africa Not Yet Realising Its Mining Potential



Mineral potential assuming best practice

Investment attractiveness

Current policy attractiveness

1<sup>st</sup> quartile

2<sup>nd</sup> quartile

3<sup>rd</sup> quartile

4<sup>th</sup> quartile



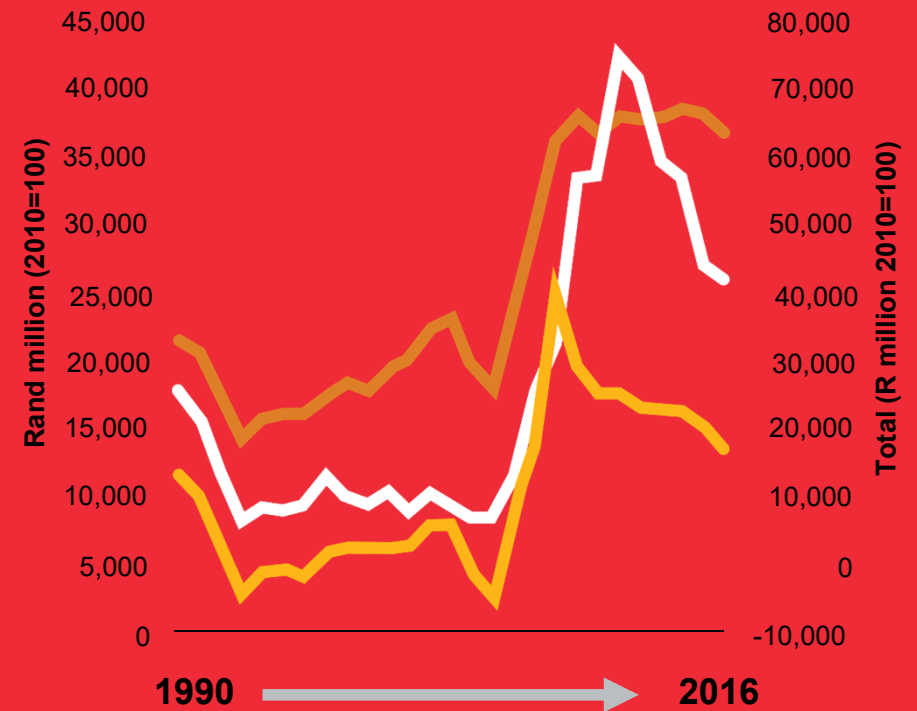


SA has been going through  
**A TOUGH PATCH**

Net investment has declined by  
**57% since 2008**

Growth in net investment has been  
on a downward trajectory for two  
decades

### Disaggregated Fixed Investment in mining

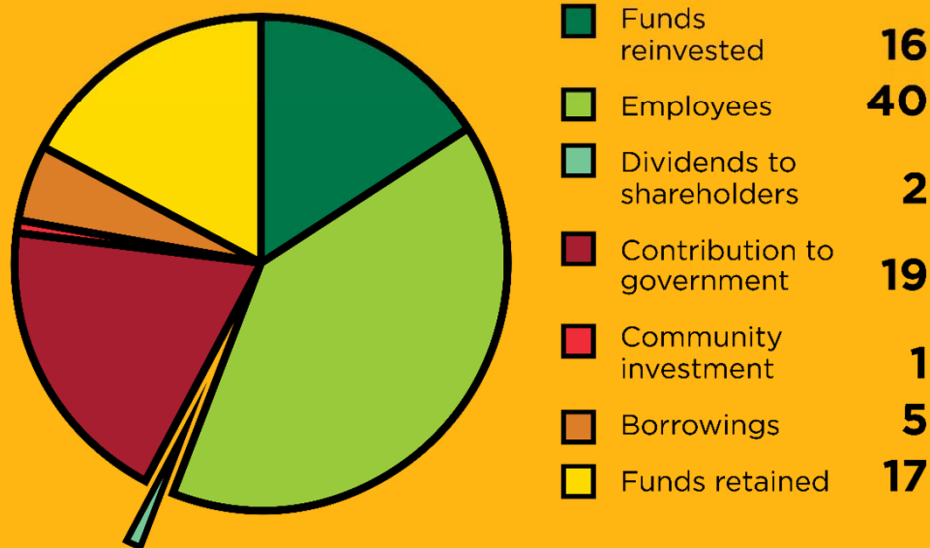


- Construction of mines
- Gross fixed investment
- Net investment





# South African mining industry value distributed 2017 (%)



In 2017, shareholders only received **2% OF VALUE** created by mining projects.

**40%** of value created to labour for their direct efforts, **19%** to government.



Shareholders not only get the smallest share but stand last in the queue to get any share – despite their capital enabling the project to happen in the first place.

# Mining is a Long-Term Investment

Mining requires long term investment and significant capital



To build a new underground mine costs between

**R3 billion**

**and R10 billion**

before any ore is mined

## Mining is a long-term investment



Exploration:  
**Up to 10 years**



Feasibility studies and funding:  
**3-5 years**



Construction:  
**2-10 years**



Steady-state and break-even:  
**20-50 years**



Life of mine:  
**10-50 years**

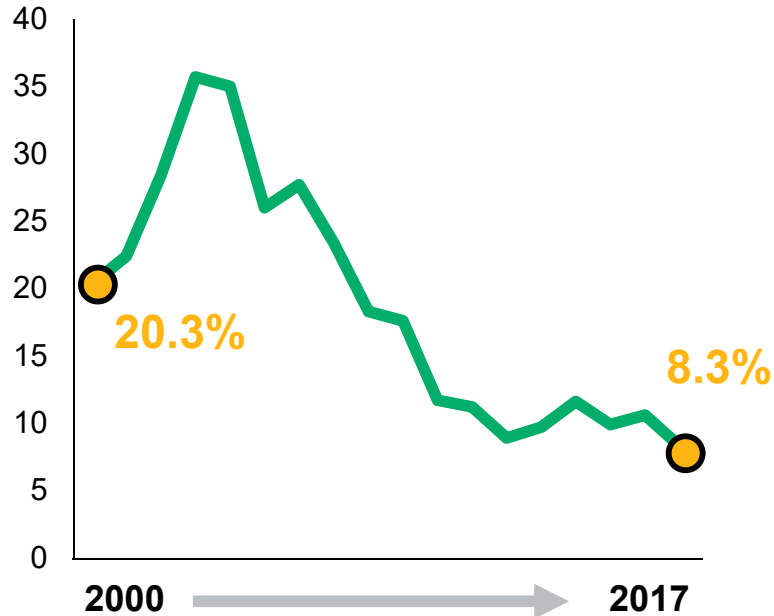


# The Growth Pipeline Has Been Weak

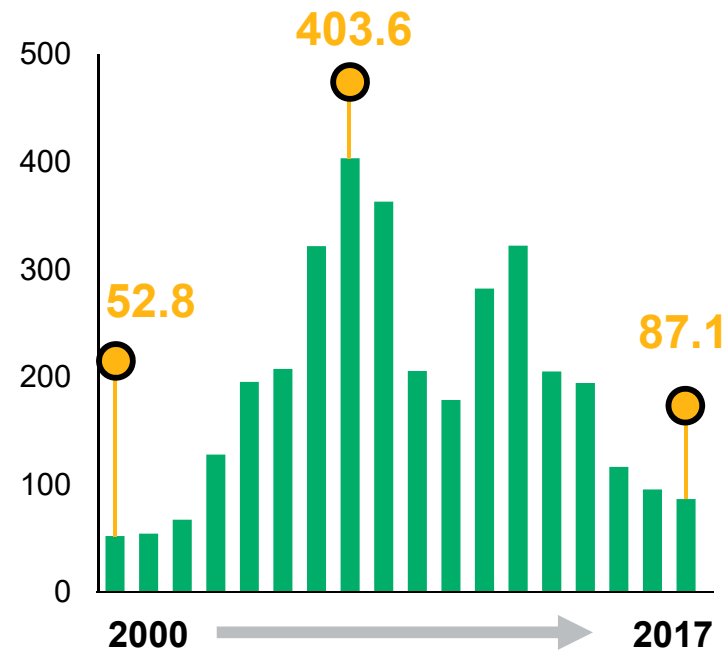
In 2017, South Africa accounted for 1% of total global exploration expenditure (14% for Canada, 14% for Australia and 13% for the rest of Africa. And, only 10% of this was on Greenfields exploration)

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



# 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

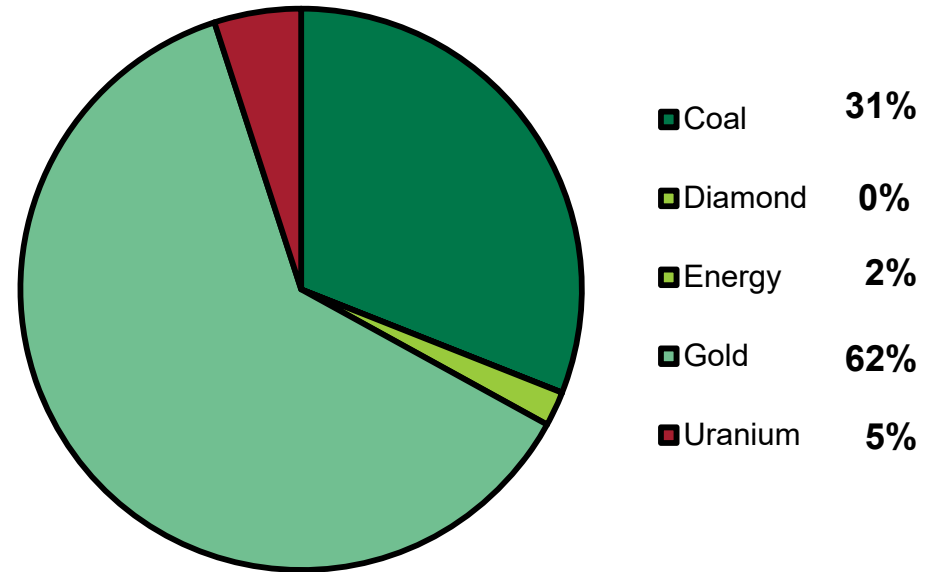
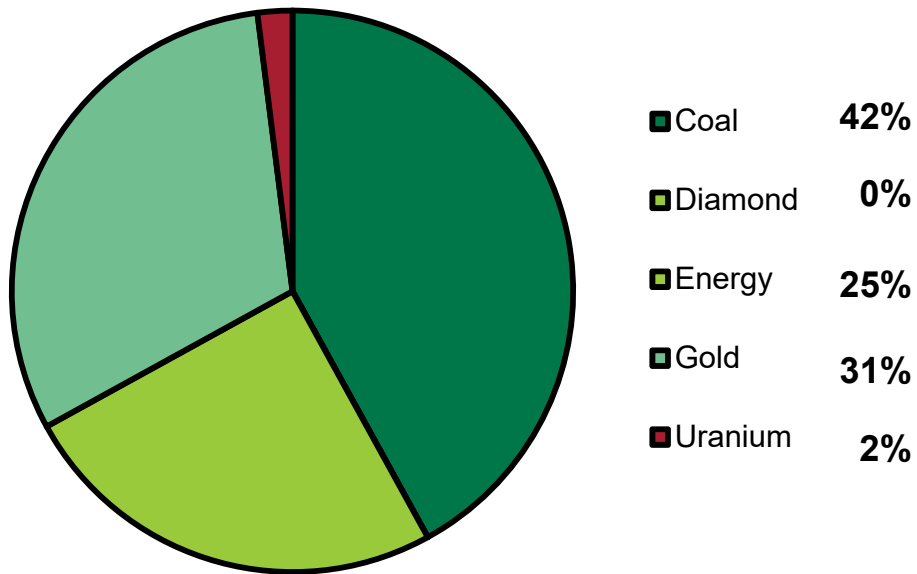
Potential Investment split		
Sector	Potential Investment	Potential jobs
Coal	R51,400,000,000	14,540
Diamond	R40,000,000	25
Energy	R30,000,000,000	1,100
Gold	R37,476,000,000	29,450
Uranium	R31,100,000,000	2,500
<b>Total</b>	<b>R122,016,000,000</b>	<b>47,615</b>

# Potential Outcomes

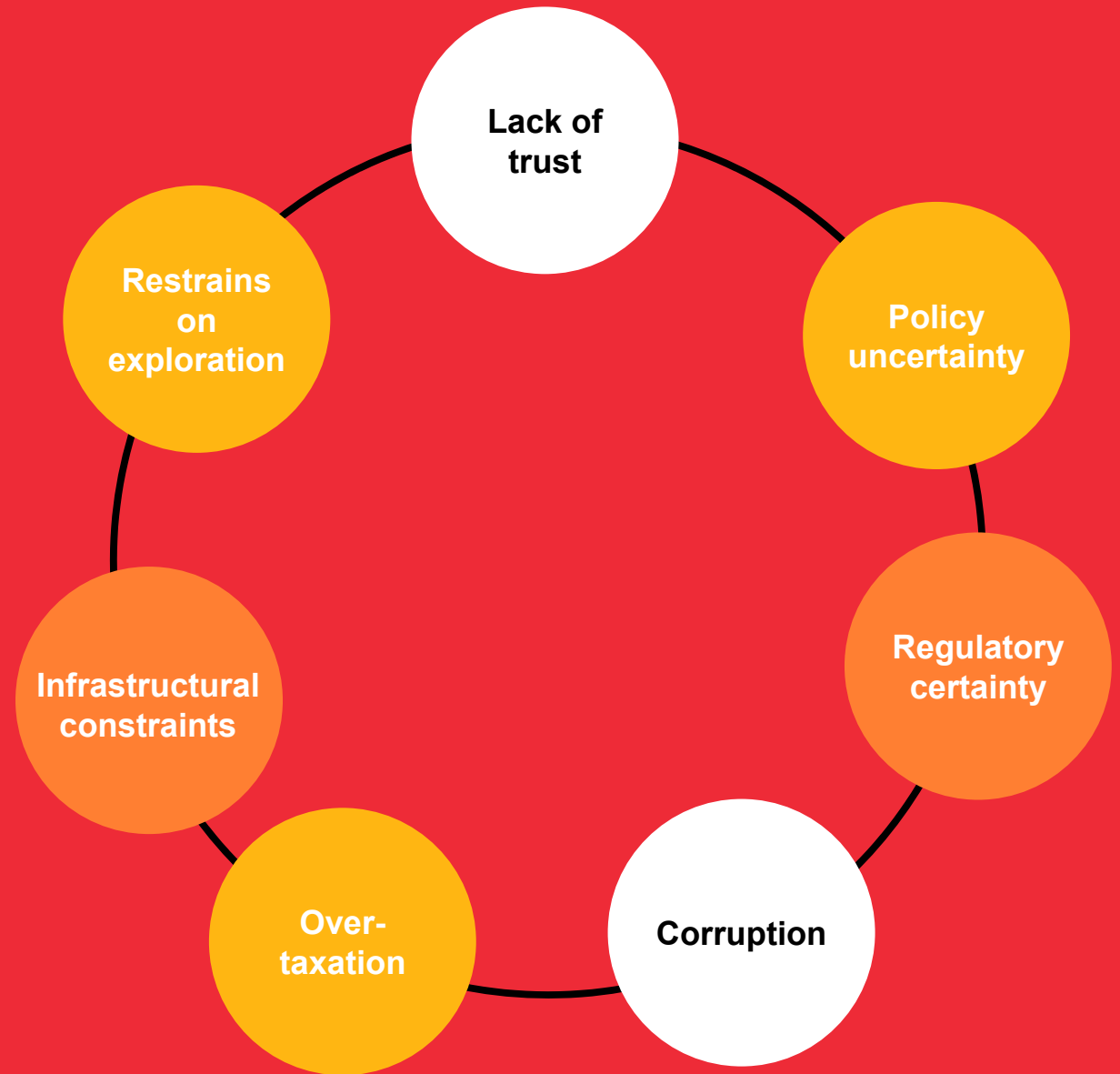
Potential

**R122 billion investment**

and employment split



# Top issues undermining the competitiveness of South Africa's mining and exploration sectors





# Strategy To Enable South African Mining To Realise Its Potential

**All South African stakeholders have to do something different to help the SA mining sector realise its true economic and transformational potential.**

The idea of developing a proper competitiveness and growth strategy is key to turning the sector around.



# Strategy To Enable South African Mining To Realise Its Full 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”



# 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.
  - 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 stabilization 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 is withdrawing 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.

# #MakingMiningMatter

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[www.mineralscouncil.org.za](http://www.mineralscouncil.org.za)