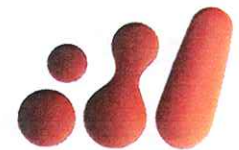




# **BHP Billiton Energy Coal SA** **MPRDA Amendment Bill Submission**

**Dr Xolani Mkhwanazi**  
Chairman, BHP Billiton Energy Coal South Africa  
**Manie Dreyer**  
President, BHP Billiton Energy Coal South Africa



**bhpbilliton**  
resourcing the future

# BECSA Comments on MPRDA Amendment Bill

## Summary



BHP Billiton Energy Coal SA (BECSA) acknowledges the constructive engagements that the Chamber and DMR has had in recent days to address concerns with the Amendment Bill

The Amendment Bill contains several shortcomings which have been dealt with in detail in the written submission by the Chamber of Mines

An area of particular concern to BHP Billiton relates to Beneficiation and Exports (Sect 26) insofar as it allows for the application of development pricing and export controls of “strategic minerals”. Our concerns with the proposed amendments are:

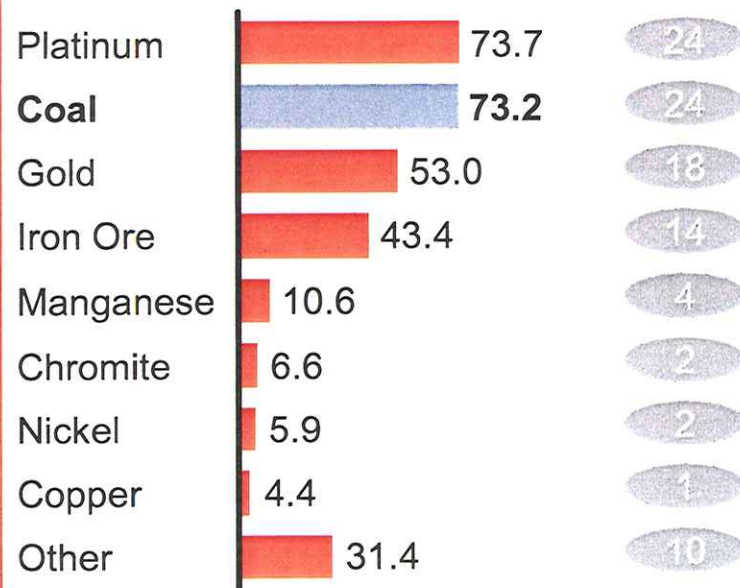
- The proposals confer unfettered discretions which are a disincentive to mineral investment;
- The proposals have a measure of retrospectivity as far as existing long-term supply contracts are concerned;
- The proposals may possibly be in contravention of South Africa’s international trade obligations;
- The provision that requires consents on exports provides no guidelines as to what such conditions should be.

# Industry Dynamics

The coal industry is a significant contributor to the SA Economy

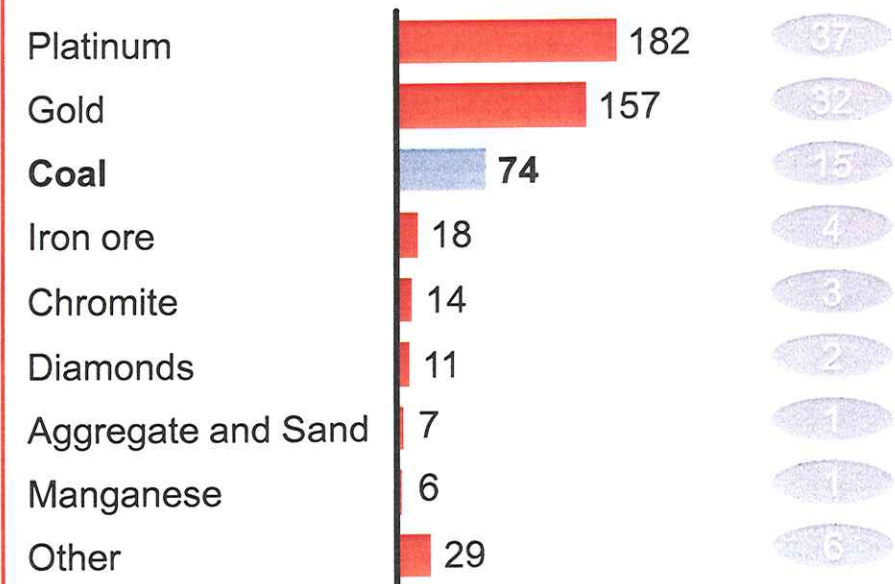
## Revenue contribution within mining sector<sup>1</sup>

ZAR billion, 2010



## Direct employment by commodity

'000s, 2010



### The coal industry contributes

1.2% of total GDP (ZAR 31.9 B)

~24% of mining sales

~73,800 jobs (15% of direct employment)

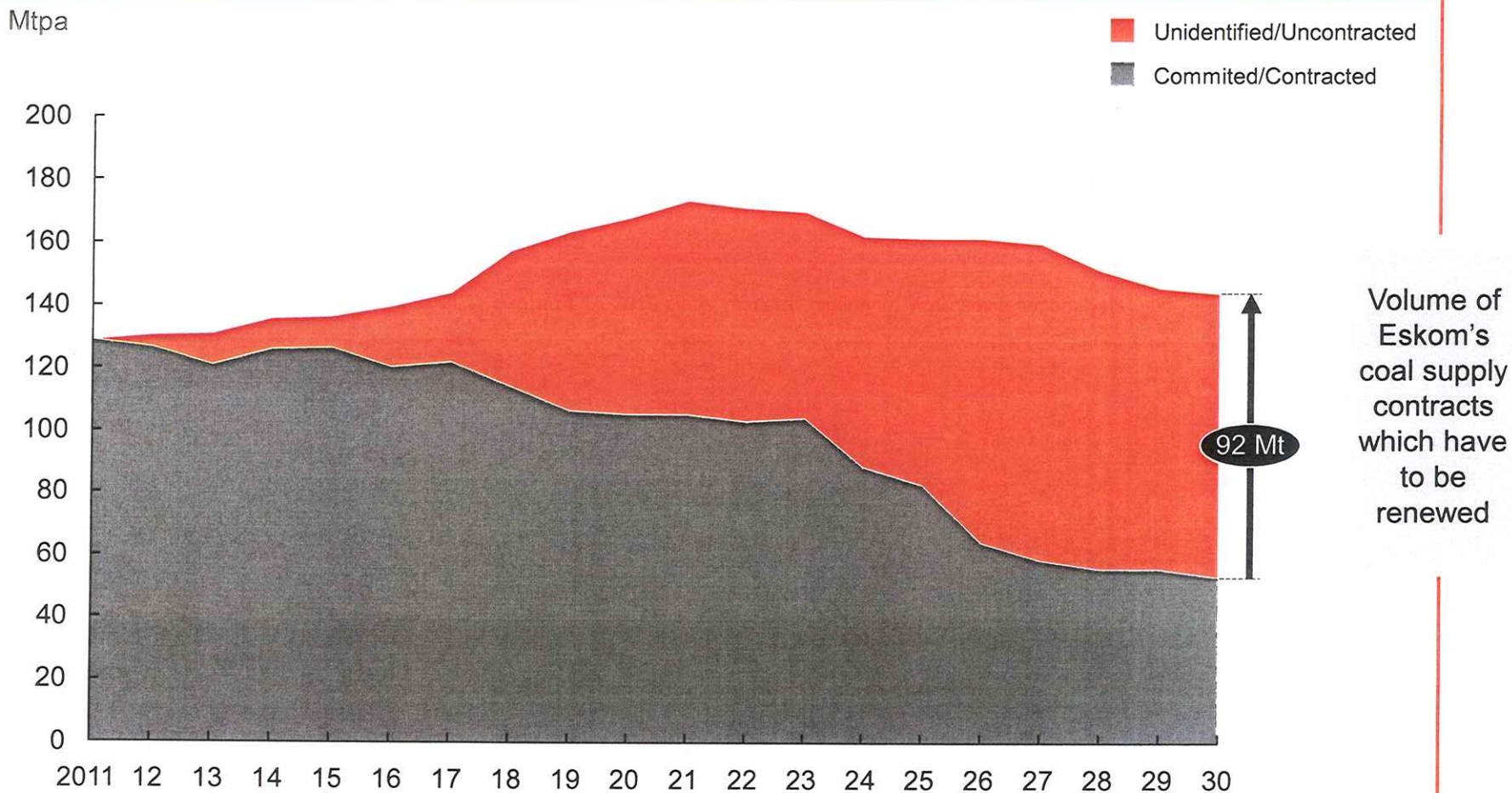
<sup>1</sup> Represents nominal figures of commodity/basic material sales contribution as reported by Chamber of Mines, for primary production

# Industry Dynamics

With existing mines being depleted, approximately 75Mtpa additional volume required; investment of > ZAR 90 billion by 2022



Projected Eskom coal demand<sup>1</sup>



Volume of Eskom's coal supply contracts which have to be renewed

92 Mt

<sup>1</sup> Assumes coal exports remain at current levels

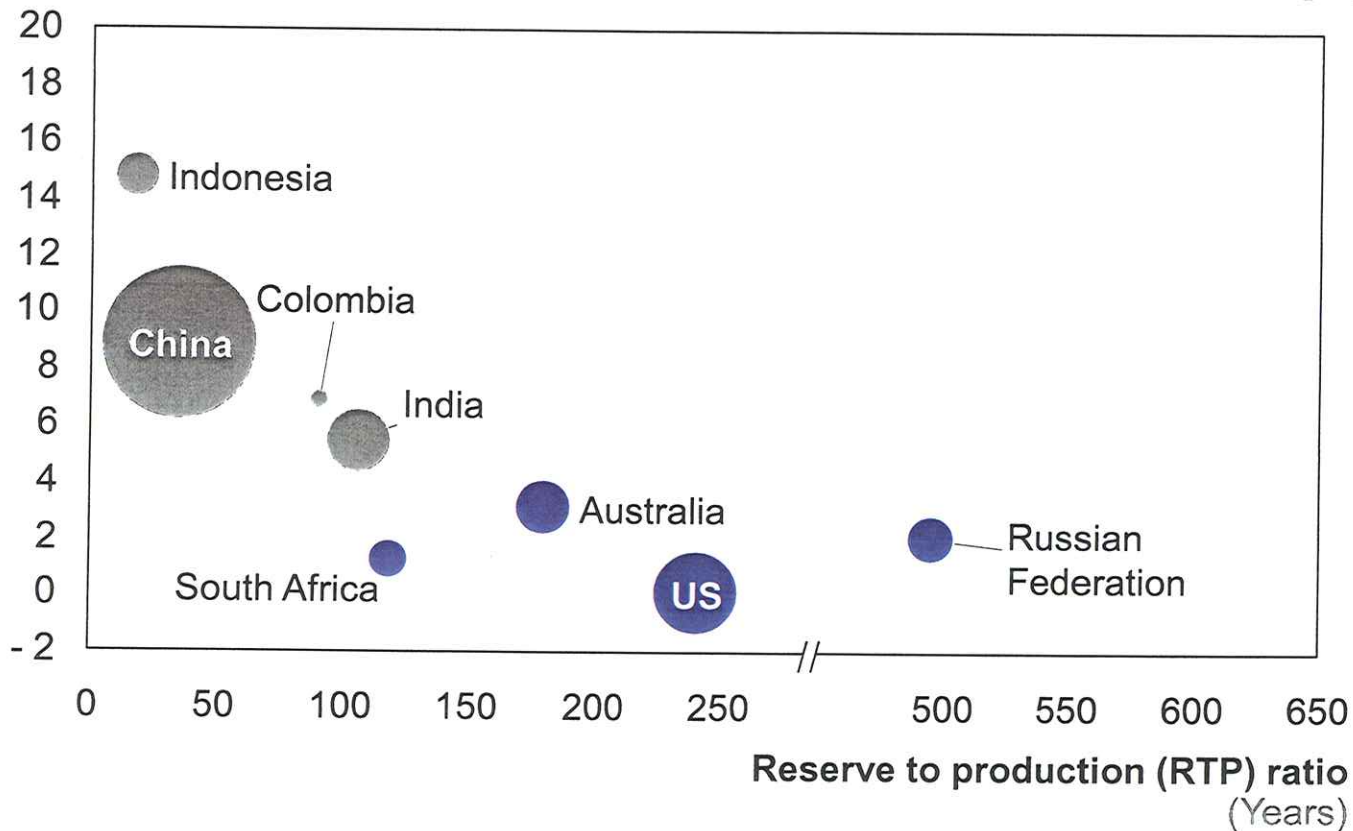
# Country Comparison

SA has sufficient coal resources to sustain and grow the current production profiles if the necessary investment is attracted

## Production growth and resource potential

Production growth  
%, 2000-2010

○ Size: 2010 production  
● Mature coal industry  
● Emerging coal industry



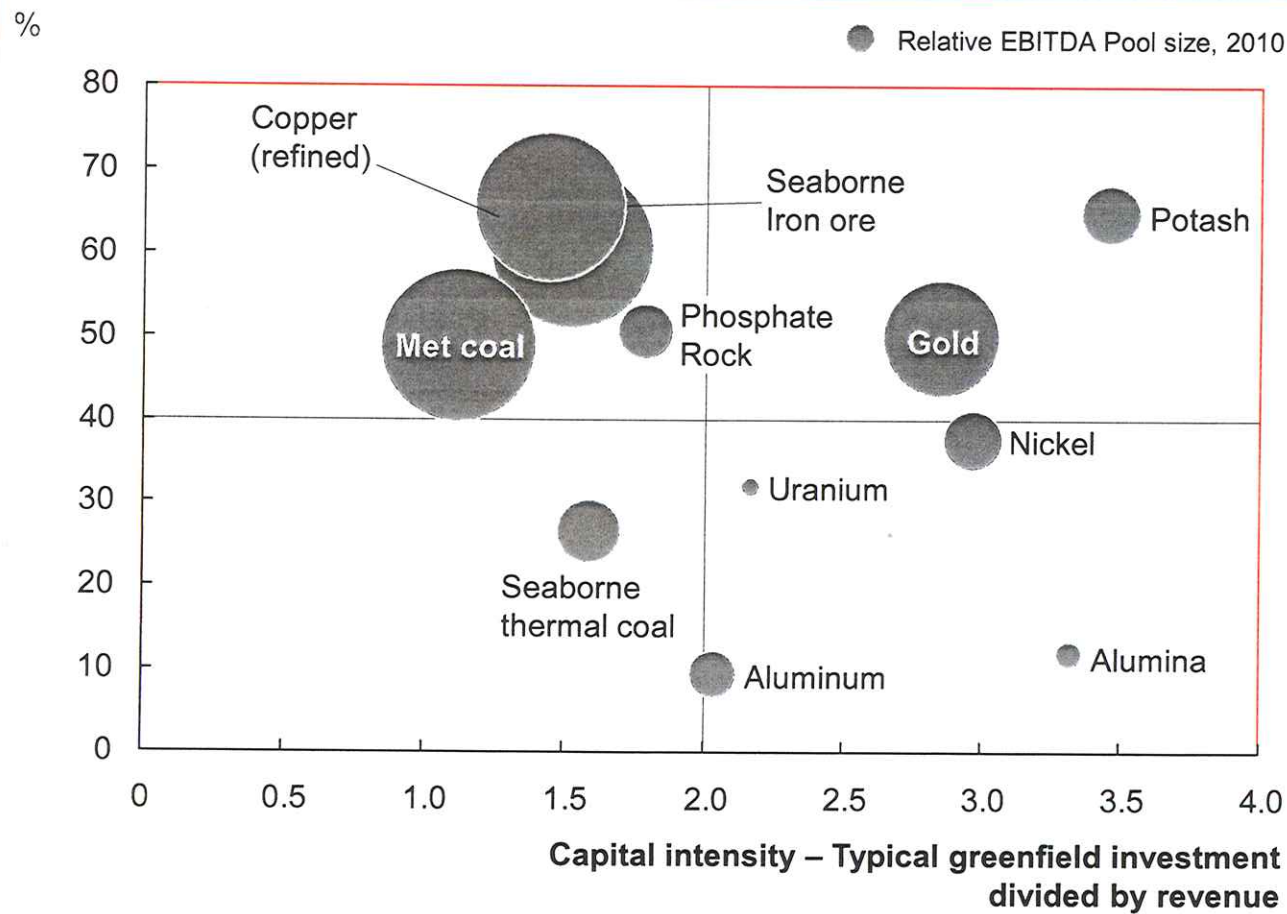
Emerging coal producing countries (especially China) have shown significant growth in the past 10 years despite depleting reserves

SA, Australia and US have shown slower growth rates, however they have more effective RTP

# Industry Dynamics

Coal competes with other minerals for capital – SA will need to offer an attractive environment to induce investment

## Profitability<sup>1</sup> – typical EBITDA margin 2010



**Main insights**

Globally, thermal coal is comparable to other commodities on capex intensity

However it is not as profitable as other commodities such as copper, met coal, and iron ore

<sup>1</sup> Export price is assumed at 75 USD/t

# Unlocking South Africa's Growth Potential

Non-interventionist alternatives require a profitable industry, aligned key stakeholders and market related pricing



Success factors for countries with growing coal industries include:

- stable policy and regulatory framework,
- a commitment from regulatory bodies to enable timely new mine development;
- infrastructure development in line with domestic and export demand;
- domestic prices that provide attractive returns, and
- promotion of exports into large and growing markets

A transparent market pricing mechanism yields the best overall result for South Africa as it:

- Facilitates maximum growth of coal supply to meet both domestic and export demand;
- Grows the export earnings potential from coal;
- Optimises the growth in employment, which will add to skills development, and
- Contributes to GDP growth, whilst also benefitting the fiscus.

# Unlocking South Africa's Energy Growth Potential

Non-interventionist alternatives require a profitable industry, aligned key stakeholders and market related pricing



In conclusion:

- South Africa is blessed with an abundance of coal that is sufficient to meet not only local coal demand, but also demand for exports;
- Given the extent of the investment required, the requisite expansion in mining can only be achieved if an appropriate and competitive return is offered to investors to induce the required investment; no matter who develops this new supply capacity.
- This competitive return can only be realised if a transparent market price exists for domestic supply to Eskom – this market price will also ensure that the location of the resource is not a factor, and eliminates ‘volume risk’ i.e. ensuring that the required volumes of coal needed to match demand, is developed;
- The fact that South Africa has abundant coal resources means that the country and the economy will not be exposed to price risk in the event that coal prices are deregulated and allowed to trade at market prices



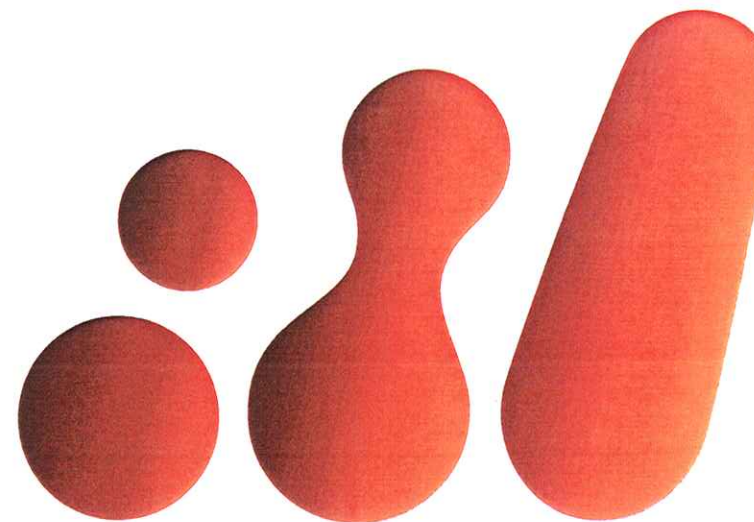
# Unlocking South Africa's Energy Growth Potential

## Suggested changes be considered to the Amendment Bill – Beneficiation and Exports (section 26)



BECSA suggests the following changes to the Amendment Bill be considered:

- Ministerial discretions be replaced with legislative provisions in the MPRDA itself as far as possible;
- insofar as Ministerial discretions are retained, such discretions be made subject to legislatively stipulated criteria;
- there is a requirement that developmental pricing conditions be at competitive, non-discriminatory, market prices;
- minerals suitable only for export be excluded;
- minerals already committed to supply contracts be excluded both from local beneficiation requirements and from export restrictions;
- the proposals be, insofar as legally possible, aligned with South Africa's international trade obligations, and insofar as they cannot be so aligned, be deleted;
- the proposed s107(1)(A) be deleted in favour of legislative provisions in the MPRDA itself



**bhpbilliton**