




“Mining, a Key Contributor to Realising the Vision of the NDP”

Presentation to the Parliamentary Portfolio Committee on Mineral Resources, 20 August 2014

By the Chamber of Mines of South Africa

 **CHAMBER OF MINES OF SOUTH AFRICA**
Putting South Africa First

Presentation outline



- Introductory comments**
- This is the Chamber of Mines**
- Mining, the “Flywheel” of our economy**
- Employment relations**
- Safety, Health and Environment**
- Conclusion**

 **CHAMBER OF MINES OF SOUTH AFRICA**
Putting South Africa First

Chamber Team

Introductory comments

Mr Bheki Sibiyi, CEO

This is the Chamber of Mines

Mr Vusi Mabena, Senior Executive

Mining, the "Flywheel" of our economy

Mr Roger Baxter, COO

Employment relations

Dr Elize Strydom, Senior Executive

Safety, Health and Environment

Mr Niks Lesufi, Senior Executive

Conclusion

Mr Bheki Sibiyi, CEO



This is the Mining Industry



"Long Cold winters and Short beautiful summers"





Perceptions and realities about RSA mining	
PERCEPTION	REALITY
Is a "Dirt Digger"	
Is uncaring about the lives of workers and does not pay well	
Does not care about the environment, communities –Poverty at the doorstep of prosperous mines	
Super profitable, and profits and benefits exported to a small bunch of Capitalists	
Resistant to Transformation	
Does not matter to SA- Ingi Saldago-Business Report-"Eskom was right to switch off the Mines"	



Perceptions and realities about RSA mining	
PERCEPTION	REALITY
Is a "Dirt Digger"	Another R300 billion and 200 000 jobs created in downstream industries
Is uncaring about the lives of workers and does not pay well	70% reduction in fatality rate, average wages per employee up 12% p.a.
Does not care about the environment, communities –Poverty at the doorstep of prosperous mines	Spent R2 billion on communities, R4 billion on skills and R20 billion in corporate taxes in 2012.
Super profitable, and profits and benefits exported to a small bunch of Capitalists	SA mining not super profitable, Shareholders balanced 50% local, 50% offshore, R12 billion in dividends
Resistant to Transformation	>R150 billion in BEE deals concluded, good progress on all pillars of Charter
Does not matter to SA- Ingi Saldago-Business Report-"Eskom was right to switch off the Mines"	18% of GDP, 50% of exports, 1.3 million jobs, 94% of electricity, 17.2% of corporate tax

Mining has significant potential to contribute to the NDP

If growth constraints can be removed the non-gold mining sector can:

- Grow at 3% to 5% p.a., resulting in a much more balanced country growth rate (double size of non-gold mining by 2028).
- If mining had grown at same pace as rest of economy between 1994 and 2012, it would have increased the country's growth rate to 4% from 3.2%, a significant difference.
- Grow local procurement and provide the minerals for growing local downstream beneficiation.
- Contribute to direct and indirect job creation.
- Significantly contribute to investment and development.

Potential of the bulk commodities...

Mineral/commodity	Opportunities	Key Enablers	Risks
1.Coal	<ul style="list-style-type: none"> Need 100MT extra coal <10 years (> R80bn- R100bn in investment) Export market (India/China) Domestic market – Eskom/synfuels SA has significant coal reserves Mature Witbank fields Relatively undeveloped Waterberg coalfield 	<ul style="list-style-type: none"> Investment (capital) Profitable coal projects Synergy of domestic sales & exports Stable, predictable & competitive investment environment for mining. (Smart tape) Cost effective, efficient , reliable & available logistics 	<ul style="list-style-type: none"> Demand (global/local) Uncertainty on policy Uncertainty on domestic pricing /export restrictions Infrastructure. Cost inflation. Poor execution Lack of cooperation between key stakeholders
1.1 Coal potential: Grow production to >350 MT by 2020 (2012: 258 MT), exports to >100MT (2012: 78 MT), Local sales 250 MT, (2012: 185 MT), and grow employment to >100 000 (2012: 80 000)			
2.Iron Ore	<ul style="list-style-type: none"> Global demand (China) RSA produces niche product 	<ul style="list-style-type: none"> Same as above, but logistics is key 	<ul style="list-style-type: none"> Same as 1 above.
2.1 Iron ore potential: grow production to >100 MT by 2020 (2012: 67 MT) increase exports to 90MT (2012: 59 MT) and grow employment to 30 000 people (2012: 18 000)			
3.Manganese	<ul style="list-style-type: none"> Global demand and supply 	<ul style="list-style-type: none"> Same as above but logistics is key 	<ul style="list-style-type: none"> Same as 1 above.
3.1 Manganese potential: grow production to > 21 MT by 2020 (2012: 8.8 MT) and grow employment to 10000 people (2012: 5800)			

These 3 bulks could add 37 000 jobs and R72 billion extra in sales

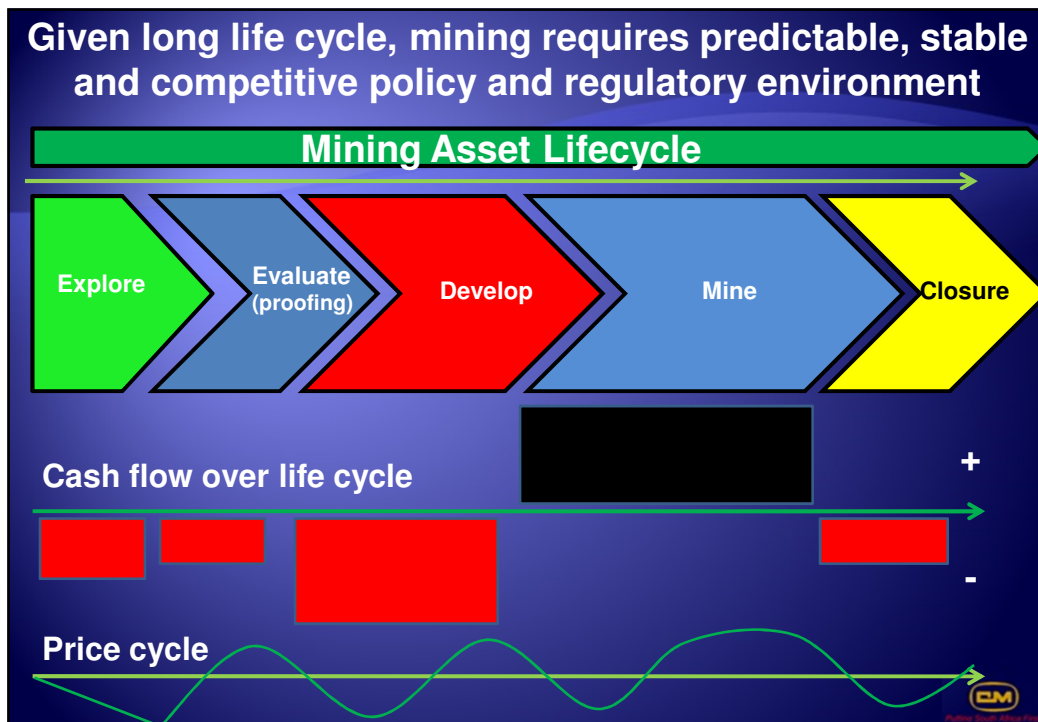


The Key Characteristics of Mining

- It is a high risk industry, with long lead times from exploration through to mine development and ultimately through to closure.
- It is very capital intensive and a large portion of the capital is spent in the development of the mine.
- It is exposed to cyclical commodity markets.
- It is generally a “price-taker” and cannot pass on cost increases to the final consumer.
- It is geographically captured.
- It can be both capital and labour intensive.
- It is often the foundation industry that spurs the industrialisation of a country.

In order to encourage investment into mining, policies need to recognise the unique characteristics of mining and help reduce the risks of investment in long term projects.





What Mining needs to realise its growth potential

Mining needs:

- A government-industry-labour **partnership** approach to recognising the benefits of mining, lowering the negative impacts, & joint problem solving.
 - Traditional competitive advantage environment (stable democracy, rule of law, skilled workforce, sound macroeconomic policies, etc.).
 - A stable, competitive and predictable mineral and taxation policy and legislative environment.
 - A legislative and regulatory environment that is characterised by **smart-tape** and not **red-tape**.
 - A social license to operate (community, safety, environment).
 - Capable government and private sector.
 - Access to competitively priced, efficient, reliable and available infrastructure.
 - Access to local and global markets.
 - Rising productivity and globally comparable cost competitiveness.
 - Innovation, R&D and technology development and adoption.
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Voice of Mining: Advocacy role of Chamber

- The Chamber is effectively an Employers Organisation that represents the interest of its mining company members
- Lobby on the collective interests of its members
- Vital role: influence debate on policy challenges in South Africa
- Does proper research on key issues and gets all positions mandated by its Council
- The Chamber has 72 members and represent about 90% of the value of mining production in South Africa

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World-class mining companies (Members of the CoM)

Financial corporations

Anglo American Corp
African Rainbow Minerals
BHP Billiton
Mvelaphanda Resources
Rio Tinto (Richards Bay Minerals)

Coal mining

Anglo Coal Division
BHP Billiton Energy Coal
Coal of Africa
Continental Coal
Exxaro
Jindal Mining
Kangra Group
Kuyasa Mining
Optimum Coal
Sasol Mining
Siyanda
Total Coal
Tweewaters Fuel
Umcebo Mining
Glencore Coal

Chrome Mining

Samancor Chrome
Glencore Alloys

Diamond mining

De Beers Consolidated
Petra Diamonds
SA Diamond Producers Organisation (SADPO)
Trans Hex Group

Gold mining

AngloGold Ashanti
DRD Gold
Gold Fields
Harmony Gold Mining
Sibanye Gold
Rand Uranium

Iron Ore

Kumba Iron Ore

Platinum mining

Anglo American Platinum
Impala Platinum
Lonmin Platinum
Northam Platinum
Royal Bafokeng Platinum
Aquarius Platinum
ARM Platinum
Glencore Platinum

Other commodities

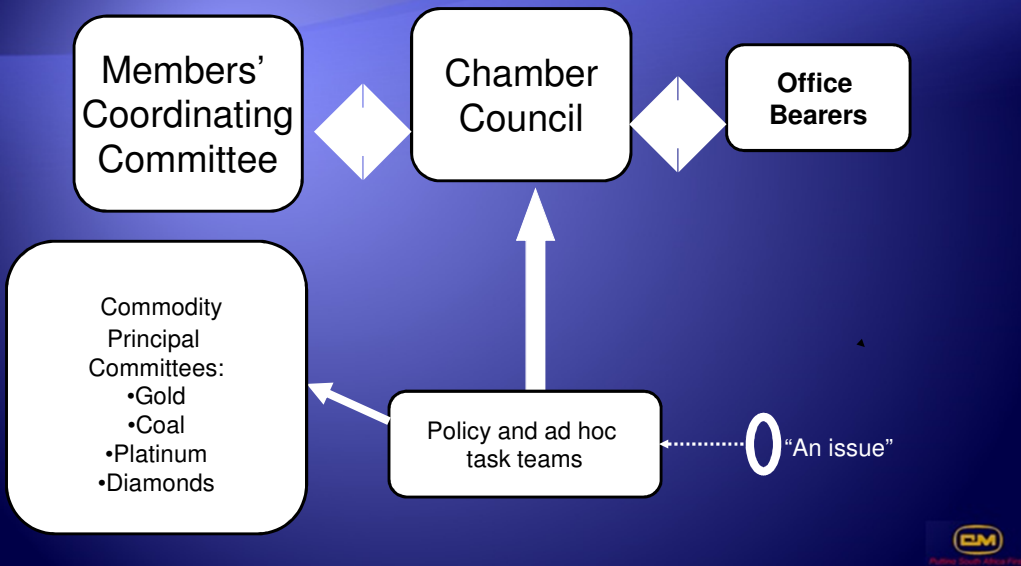
ASA Metals
ASPASA
Clay Brick Association
Corobrik
Deilmann Haniel (Redpath)
Delta Mining
G&W Base and Industrial Minerals
Imerys South Africa
Murray & Roberts Cementation
PPC
Randgold & Exploration
SA Mining Contractors' Assoc
Shaft Sinkers
Vametco Mineral Corporation

Some new members

Jindal
VMCIL
Riversdale
Vergenoeg Mining
Tshipi e Ntle
Giyani Gold



How the Chamber operates

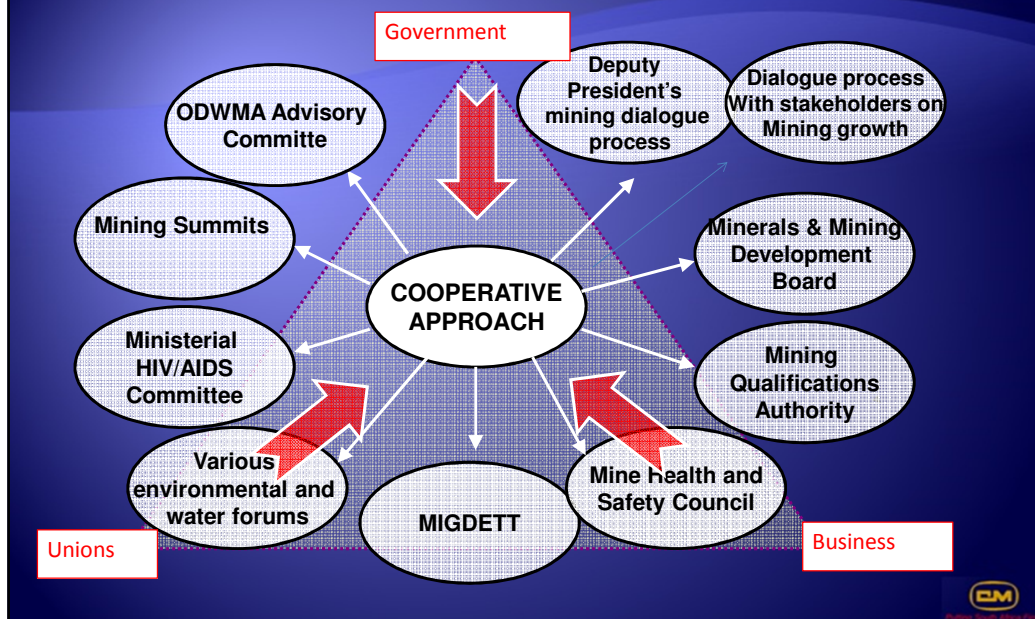


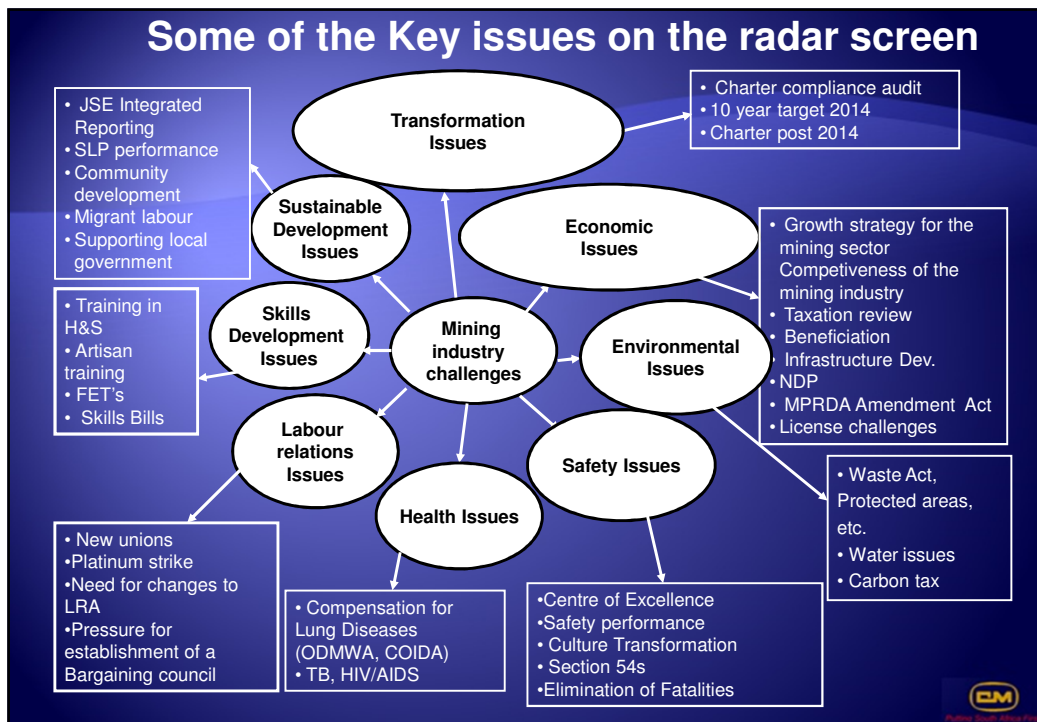
Broad Strategic Goals of the Chamber

- Resolving Key Priority issues for the industry
- Building relationships with Key Stakeholders
- Deal more effectively with legacies of the past
- Demonstrating good corporate citizenship and commitment to South Africa
- Develop a positive contribution model to the country
- Improving the effectiveness and efficiency of the Chamber



The philosophy of tripartism in the mining sector





MIGDETT (Mining Industry Growth, Development and Employment Task Team)

- Regularised leadership engagement between stakeholders
 - Chaired by Minister or DG: DMR
- **Task Teams and Issues:**
 - Transformation: Mining Charter
 - Human Resource Development
 - Infrastructure
 - Other issues such as Carbon Tax
 - Platinum Industry Challenges
 - Peace And Stability Accords
- Mining now one of 5 priority growth areas

Concluding thoughts on the Chamber

- **Voice of business component of the mining sector:**
 - Concerns and inputs of the mining industry coordinated, properly researched and conveyed to government and other stakeholders
 - Regular interaction with government and other key stakeholders
- **Developing trust based relationship with key stakeholders**
 - Key for developing a proper Growth Strategy for the industry
 - Key for solving infrastructure, labour and security challenges
- **Supporting improved industry performance**
 - Performance support, e.g. Learning Hub; Mining Charter implementation challenges
- **Playing a key role in national debates**
 - Engaging on national issues through our key role in Business Unity South Africa



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PWC Annual Mining Report Titles

- 2005 “Enter the Dragon”
- 2007 “Riding the wave”
- 2008 “as good as it gets”
- 2009 “When the going gets tough”
- 2010 “Back to the Boom”
- 2011 “The game has changed”
- **2012 “The Growing Disconnect”**
- **2013 “A Confidence Crisis”**
- **2014 “Realigning expectations”**



The Global Mining Industry is realigning expectations:

In 2013/14 for the top 40 mining companies:

- Confidence crisis continued.
- Prices fell (and increased volatility)
- Revenues were flat at \$719bn.
- Net profit down 72% to decade low of \$20bn.
- Record impairments of \$57bn.
- Net debt up 42% and gearing has risen from 27% to 37%.
- Market values have fallen by 23% to \$958bn (end 2013).
- Exploration down 30%.
- Host nations increase taxes, and shareholder seek more discipline and earnings.
- There are new CEOs at nearly half of the top 40 companies and strategies are in place to regain confidence and realign expectations.





Shifting Risks: Realigning expectations

2012	2014	2015
1. Resource nationalism	1. Capital allocation & access	1. Productivity improvements
2. Skills shortage	2. Margin Protection & productivity improvements	2. Capital dilemmas
3. Infrastructure access	3. Resource Nationalism	3. Social Licence to operate
4. Cost inflation	4. Social Licence to operate	4. Resource Nationalism
5. Capital project execution	5. Skills shortage	5. Capital projects
6. Maintaining a social license to operate	6. Price and currency Volatility	6. Price and currency Volatility
7. Price and currency volatility	7. Capital project execution	7. Infrastructure access
8. Capital management & access	8. Sharing the benefits	8. Sharing the benefits
9. Sharing the benefits	9. Infrastructure access	9. balancing talent requirements
10. Fraud and corruption	10. Threats of substitutes	10. Access to water & energy

Source: "Business Risks Facing Mining and Metals, 2013-2015, Ernst & Young

South Africa requires faster, more balanced and inclusive economic growth

- Progress has been made to get the economy back on to a higher growth path (3.2% 1994 to 2012).
- However, SA's unemployment rate is too high (>20%), its levels of income inequality are very high (Gini coefficient 0.59).
- Government has now placed the creation of *meaningful employment* as a central pillar of economic policy.
- **Higher levels of sustainable, balanced and inclusive economic growth is key to reducing unemployment (NDP).**



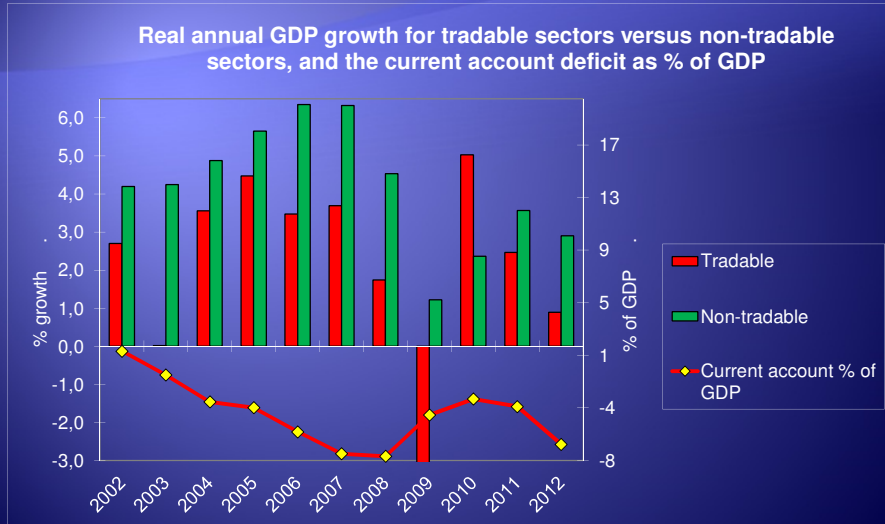
While SA's growth rate has risen to 3.2% p.a. 1994-2013, it is just too slow to meaningfully tackle unemployment & poverty



Source: StatsSA



Resulting in large external imbalances, that must be funded by capital flows.....



Source: StatsSA



To ensure more balanced and higher levels of growth & job creation the country needs its tradable export sectors to grow at a much faster pace

This is where mining fits in:

- Mining has a very large employment, foreign exchange earning and GDP multipliers.
- The National Development Plan (NDP) recognises the important role that mining can play.



Mining - The “Flywheel” of the SA Economy

- Creates 1.35 million jobs (520 000 direct & 830 000 indirect).
- Accounts for about 19% of GDP (9% direct, 10% indirect & induced).
- Critical earner of foreign exchange >50%.
- Accounts for 20% of private investment (12% of total investment).
- Attracts significant foreign savings (R1.4 trillion/ 29% of value of JSE).
- 2012, R20 billion & R5.6 billion in royalties.
- R437 billion in expenditures, +/- R389 billion spent locally.
- R93.6 billion spent in wages and salaries
- 50% of volume of Transnet’s rail and ports
- 94% of electricity generation via coal power plants
- 15% of electricity demand
- About 37% of country’s of liquid fuels via coal
- R4 billion spent on skills development
- R2 billion spent on community investment



But, SA mining has not met its potential

- RSA mining the last commodity boom with mining GDP declining by 1% p.a. between 2001 and 2008, versus 5% growth rate in top 20 mining economies mining sectors.
- Large shares of the gold & platinum mines are loss-making at current prices.
- The industry has recently been hit by labour market challenges and by the unfortunate Marikana tragedy.
- The industry has faced bouts of policy uncertainty (the nationalisation discussion, the review of mining taxation, carbon tax, etc.) and some licensing challenges.
- The industry has faced binding infrastructure constraints (shortages of electricity, rail and water).
- Declining productivity and rapidly escalating costs have challenged the sector.



Progress is being made on creating a climate conducive for investment

- The President has adopted the NDP as front and centre of economic policy going forward.
- Significant discussions have taken place on the MPRDA Amendment Act and progress made on resolving key challenges and promoting regulatory certainty.
- The next step is on the MPRDA regulations.
- The Royalty Act is in place and is cutting edge global best practice.
- The Davis Tax Review is underway looking at the role the tax system in enabling the mining sector to contribute to the NDP.
- Significant work is going into SIP 1 and 3 on infrastructure.
- Significant work is going into investigating how to deal with the negative legacies of the migrant labour system.



But we need to work on a few areas

- Build on the progress made on transformation.
- Promoting the localisation of procurement opportunities.
- Deal with negative legacies of the past (e.g. the migrant labour system).
- Coordinating efforts on housing development.
- Potential reforms to Labour Laws.
- Developing joint strategies to promote downstream beneficiation
- Develop an integrated regulatory framework for environmental management in mining.





Current Environment

- Gold & Coal
 - Chamber level wage negotiations in 2013
 - Two year agreements expiring 30 June 2015

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Current Environment (2)

- **Platinum**
 - Lonmin, Amplats & Implats
 - Three year agreements expiring 30 June 2016
 - Royal Bafokeng
 - Five year agreement expiring 30 June 2019
 - Aquarius
 - Three year agreement expiring 30 June 2017



Challenges in the workplace & solutions (1)

- **Challenge:**
 - Prolonged & violent strike action
- **Processes in the pipeline:**
 - DOL Indaba
 - Deputy President's engagement with NEDLAC as per SONA



Challenges in the workplace & solutions (2)

- **Challenge:**
 - Inter-union rivalry
- **Solutions:**
 - Labour Relations Amendment Bill, 2012 signed into law by President
 - Framework Agreement on Peace & Stability (Feb 2013)
 - Deputy President's Framework Agreement for a Sustainable Mining Industry (July 2013)



Challenges of a social nature & solutions

- **Challenge:**
 - Employee indebtedness
- **Solutions:**
 - Deputy President's Framework Agreement on a Sustainable Mining Industry
 - Advise employees of garnishee orders
 - Promote financial literacy of employees



Challenges of a social nature & solutions (2)

- **Challenge:**
 - Transforming the migrant labour system
- **Solutions:**
 - Deputy President's Framework Agreement on a Sustainable Mining Industry
 - Living conditions
 - Mining Charter targets



Challenges of a social nature & solutions (3)

- **Challenge:**
 - Payment of retirement benefits to ex-mineworkers
- **Solutions by 1970s Funds & MPF:**
 - Tracing agents given performance contracts
 - Increased number of tracing agents
 - Intensive media campaigns
 - Road shows to Mozambique, Botswana, Swaziland, Eastern Cape etc





Safety Initiatives & Progress

a) **Initiatives:**

- 1997: MHS Act promulgated
- 1998: Tripartite MHS Council Established
- 2003: Tripartite agreement on targets and 10-year milestones
- 2008: Tripartite Action Plan on H & S
- 2008: Chamber established MOSH Learning Hub to promote leading practices
- 2011: Culture Transformation Framework agreed
- 2012: Chamber established CEO Elimination of Fatalities Team

a) **Fatalities reduced from 486 in 2003 to 93 in 2013 (81% down)**

b) **Challenges: Culture Transformation Framework, Women Safety & Innovations to accelerate safety improvements**

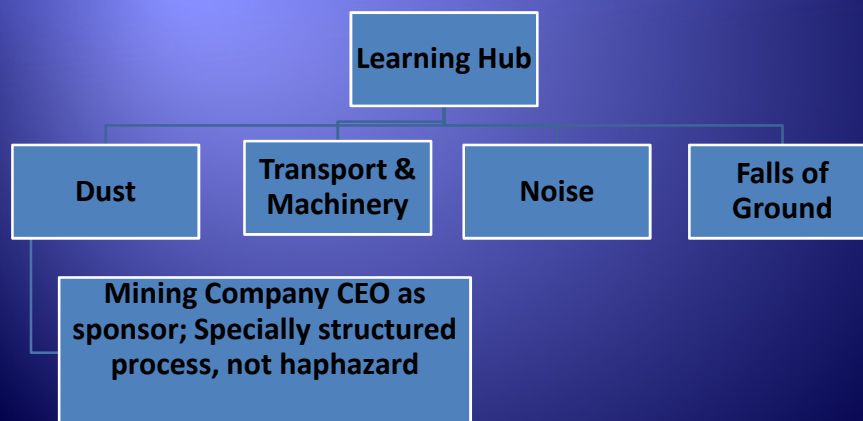
Health Initiatives and Challenges

- Incidence rates of TB in the sector are dropping.
- The Chamber has adopted a position that, with regard to management of TB, contractors should be treated the same as employees.
- Progress is being made with control of noise, with noisy machines being eliminated.
- Challenges
 - Maintain vigilance on HIV programs.
 - Silicosis: Progress in dust control, but impact on silicosis cases will be seen in many years to come.
 - Uncertainty on the NHI may lead to companies “contracting out” health services.
 - Compensation for occupational lung diseases



The Learning Hub

- Learn from H&S pockets of excellence in the industry
- Encourage the adoption of leading H&S practices



Mining and the Environment

- **Regulatory Frameworks**
 - Support for integrated approach to licensing
 - Concerns regarding NEMLA 3 and NEM: Waste Amendment Act
- **Escalating costs of doing business**
 - Pricing strategies for water and waste, carbon tax, environmental levies and financial provision
- **Competition for natural resources use**
 - Biodiversity, Agriculture, Eco-tourism
 - Water security : WC/WDM -“making every drop count”



Mining & Biodiversity

Good Practice Guidelines for South Africa

Compiled For : The Mining and Biodiversity Forum of South Africa

Example of a guideline

Managed by:

Chamber of Mines of South Africa
Mining Just, Better, Smarter, Safer, Stronger, Greener, 2014

Compiled By:

Synergistics
Environmental Solutions

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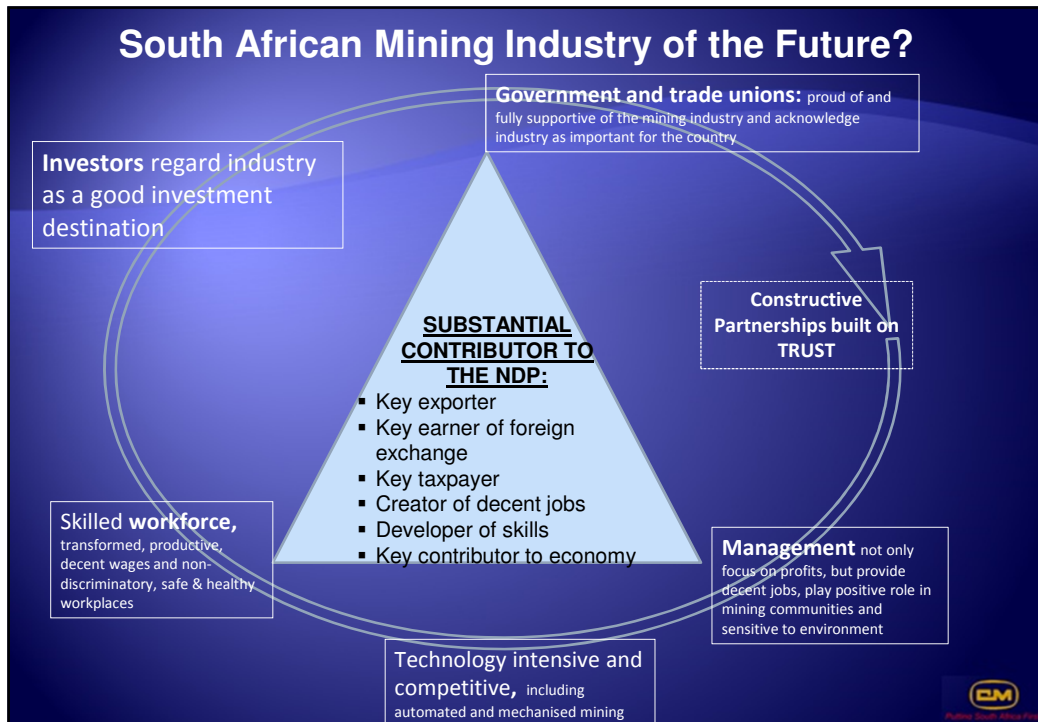
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RSA, reinforcing competitive strengths, tackling competitive weaknesses

- RSA has a number of competitive strengths and advantages that must be built on.
- Significant work is going into challenging areas:
 - The President’s Mining Dialogue must be properly implemented to tackle the migrant labour system issues.
 - Labour market stability is important, and we need to work together to improve productivity and the competitiveness of the industry.
 - Policy certainty is being improved. The ANC has rejected wholesale nationalisation and adopted the NDP as the cornerstone of economic policy (mining is recognised as a key industry).
 - The industry is working on improving skills, developing and adopting new technologies.
 - The future looks different.





Conclusion

**Mining and minerals matters for the
growth, development and transformation of
South Africa**

