MINING INDABA 2020: ADDRESS BY
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Problems and potential:
the mining industry today
3 February 2020 (14:00)

Heads of state, cabinet ministers from South Africa and abroad, senior government officials, fellow CEOs, union leaders, members of the media and, of course, investors in African Mining.

It is an honour to speak to you, following just a few hours after Minister Gwede Mantashe.

I wanted today to focus, in depth, on some of the words conveyed to us from this platform a year ago by President Ramaphosa.

In his address, President Ramaphosa challenged the industry to implement what he termed 10 value-adding principles that would ensure that our industry adds additional value to our society.

We have done a great deal of thinking about the President's challenges. We have offered public media responses in various ways. I devoted the bulk of my address to the Minerals Council's 2019 AGM to those challenges.
Today I want to continue on that theme by focusing on what I think are the most important of those challenges. And I will put it in the context of the role and impact of mining in South Africa.

One of President Ramaphosa's most important challenges was for the industry to address its health and safety performance.

Two weeks ago, the Minerals Council South Africa and senior representatives from member companies attended the official announcement by Minister of the 2019 industry health and safety performance statistics.

At that time, as I do now, we acknowledged the shared journey travelled by industry tripartite partners – government, unions and employees, and companies – to improve health and safety in the mining industry. And, while we recognise the significant strides made, we know that we are not there yet.

Since 1993, the industry has experienced a more than 92% decline in the number of fatalities from 615 to 51 in 2019 with a year-on-year improvement of 37% compared to 2018.

The industry's performance in the latter part of 2017 and the first half of 2018 was indeed a challenging period, when the industry experienced an increase in fatalities for the first time in a decade. This was unacceptable to the industry, prompting the Minerals Council Board, through the CEO Zero Harm Forum, to initiate a number of measures to holistically address health and safety.

In January 2019, the CEO Zero Harm Forum started what has become known as CEO Heartfelt Conversations – which was a facilitated meaningful engagement amongst mining CEOs on health and safety-related issues.

A direct outcome was the establishment of a CEO-led strategy on health and safety, called Khumbul'ekhaya, which means "remember home". This strategy has placed at the forefront the elimination of fatalities as a priority, and to ensure that health and safety are addressed equally, while people are at work and beyond.

The Minerals Council also welcomed the significant improvements in disease incidence rates. These improvements, too, can be attributed to the collaborative and collective efforts of individual companies, Minerals Council programmes, the efforts of unions, government and tripartite initiatives led by the MHSC.

We remain committed to continuing to work with our social partners on all matters of health and safety.

This morning we launched the Minerals Council Facts and Figures pocketbook – which is available at the Minerals Council booth.

We think it's really important to reflect on the real value of mining to South Africa and her people, and then imagine what that might be in the future.

- Notwithstanding the many challenges the industry faced in 2019, the mining industry still made a direct contribution to GDP of R361 billion in 2019 – that's 8% of GDP.
- Total mineral sales were R538.9 billion. Of this, around R348 billion was exported.
- The industry made a R94.7 billion contribution to fixed investment.
- It paid royalties of R8.6 billion, paid company taxes of R24.3 billion, and valued added tax of R33 billion.
- It employed 455,000 people, who were paid R135.9 billion. PAYE from mining company employees amounted to R22.7 billion.

Sadly, though, by the Minerals Council estimates, 2019 production in the mining sector will have contracted by 2.8%. Although mining production saw some short-term improvement in the latter part of the year, the improvements were not strong or sustained enough to revise the outlook. In terms of indexed production trends, mining production has not improved significantly since 2009.

Another challenge was for the industry to "foster inclusive growth in the areas where they operate".

This challenge is in fact an overriding one. It covers and incorporates almost all of the other challenges, most of which deal with specific areas of value addition and inclusive growth.

It is a concept and a goal that our entire economy, and our industry in particular, cannot but be committed to. We know that inequality has not been adequately addressed during the democratic era. Governments over the past 26 years have done a remarkable job, particularly in respect of social transfers, and the extension to previously unserviced and deprived communities of everything from education, to healthcare, to water and electricity supply.

All these are essential services and products necessary for the creation of a more equal society where economic growth has been more inclusively shared.
But we also know that this hasn't been done as effectively as it could have been. President Ramaphosa addressed some of the reasons for this in his public address following the ruling party's lekgotla last month. And no doubt it will be a subject of his State of the Nation Address next week.

These, however, are the areas where government has responsibilities for contributing directly to inclusive growth. We are talking here about the role of the mining industry in this regard.

Here we have an inadequate story to tell over the last dozen or so years. Not because mining companies haven't made serious efforts. The transformation report commissioned by the Minerals Council and published last December highlights the significant progress made, in most areas, in implementing the provisions of the Mining Charter, itself an instrument of ensuring that parts of the benefits of growth flow to the previously excluded.

But the extent of growth, including inclusive growth has been constrained.

The reasons for this are well known, so we needn't spend too much time on them.

In brief:

- The international financial crisis that hit in 2008 hit commodity prices badly over the next number of years.
- Industry confidence was badly affected in South Africa under the previous government leadership when the state capturers decided they wanted a piece of the mining action, which brought insecurity of mining rights and regulatory uncertainty.
- And now, with many commodity prices looking quite healthy, we have the Eskom crisis eating drastically into our growth potential.

We know today's challenges are consequences of the past. It's not only the mining industry that's affected. Per capita economic growth has been, and is forecast to continue to be, negative.

Today we can be grateful for the presence in government of people like President Ramaphosa and Ministers Mboweni, Gordhan and Mantashe who have the unenviable task of leading many of the remedial actions needed to optimise growth, and to make optimal inclusive growth possible.

What does it take to achieve inclusive growth?

The literature on inclusive growth tells us that redistributive policies of government can play a part. So can (and do) the efforts of companies, including mining companies, in local economic and infrastructure development, human resources development and training, advancement of women and advancing upstream and downstream linkages (or beneficiation, as we call it).

However, it also tells us that the most sustainable basis of inclusive growth is employment. This must be the priority.

What is the mining industry's current employment story? We are seeing heavy job losses in the gold, deep level platinum and diamond sectors.

Our gold and diamond sectors, have been in operation for more than 150 and 130 years respectively. So their downscaling was always inevitable. But this has been exacerbated by some of the factors already discussed.

Deep level PGM mining has struggled against not only power security and power tariff challenges, but also developments in the platinum market, due in part to the international financial crisis, and the impacts of labour issues in the first half of the last decade.

Yet we shouldn't think there is no employment growth in mining. We may be drawn to that way of thinking because retrenchment exercises always make news. Slow but steady employment increases don't.

Yet the latest data show we also have encouraging growth in some sectors. Coal, manganese, iron ore and chrome are the leaders in this regard.

What is needed now is a range of steps to address the constraints and to facilitate optimal growth in these and other sectors, and to slow down the decline of those that are contracting.

Where the power crisis is concerned, the Minerals Council argued in detail last month as part of a BUSA input to a NEDLAC Executive Council meeting, that government needed to act urgently enable the bringing on stream of new private sector power options for embedded generation and private generation for self-use, but which is fed through the national grid.

In addition, government and Eskom should be contracting in, at the least cost possible, any extra renewable energy from existing wind and solar plant that are sitting idle.

We are very pleased to report that following in-depth had engagement with the President and the Minister of Mineral Resources and Energy both through BUSA and directly as the Minerals Council there is absolute commitment to creating a pathway to energy self-generation by the mining industry. In fact, an action team has been established – involving the DMRE, NECSA and the industry to uncover and address the impediments to energy self-generation. This is a critical example of how the private sector and government can work together to address a national crisis, and help set the industry and the country on a path to growth.

In our industry, we know of seven of our members ready to embark on generation plants that would bring over 600MW of power into the system. This trend would likely grow when unnecessary regulatory hurdles are removed. And there are companies in other industries with comparable plans.

These projects could be implemented in anything from less than a year to a couple of years. This would not only be good for those companies, but it would ease the pressures on Eskom and enable it to mitigate load shedding and power curtailment which causes hardship for householders, economic restraint for businesses and obstacles to inclusive growth.

The urgently-needed steps are not limited to state owned enterprises. South Africa's fiscal situation has deteriorated most worryingly. The public debt to GDP ratio has risen from 24% in 2008 to 60% in 2020. And a fiscal deficit at 6.5% of GDP promises to lift that ratio up to debt trap levels.

Debt servicing costs are taking up funds that should be used for education, healthcare and other growth-creating services and goods, including infrastructure. All this is why South Africa is in imminent danger of losing its last remaining investment grade from a ratings agency.

This is not a problem because we need to be loved by ratings agencies. It is a problem because it will exacerbate all these other trends that are overtaking us.

Minister Mboweni's budget in three weeks' time will be critical in telling local and international investors whether we are seriously beginning to turn around this desperate situation, or whether we are to continue stumbling ever closer to the precipice. And it can't be done through the raising of taxes, which are already high.

The solutions are in addressing government spending and, we hope, through returns on the current rehabilitation program of SARS. In the medium term, it will take a growing tax base based on economic growth.

And this is why the urgent work is not limited to the power and fiscal crises.

The microeconomic and socio-economic policy shifts addressed in the National Treasury paper published last year need active implementation in order to further modernise and streamline the economy. Just some of these:

- Our troubled education system needs fixing in many areas. But until we have a widespread early childhood development in place, the entire system is built on unstable foundations
- Our transport and telecommunications infrastructure needs to be modernised
- Elimination of unnecessary red tape, especially for small business
- As the more labour intensive forms of mining phase out, labour-rich tourism and agriculture needs to be further developed and, again, irrational obstacles to growth removed quickly
- There and elsewhere, industrial policy interventions should use incentives, not punishment, to encourage investment

The credibility of the criminal system needs to be rehabilitated too. Much of this lies at the door of the SAPS and the National Director for Public Prosecutions. All strength to her elbow, especially. The public needs to see those who are criminally responsible for the current crises brought to book. It cannot happen too soon.

And the most concerning regulatory issues need resolution if investor confidence has any chance of returning. At the forefront of these are the land expropriation issues and, for mining, the full recognition of the continuing consequences of past transactions.

We – as a mining industry - are willing to play our part in working with government and other stakeholders in salvaging South Africa’s economy. The urgency of carrying out these tasks cannot be overstated.