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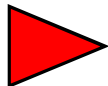
“Repositioning the South African Mining Industry for Sustainable Growth and Meaningful Transformation”

Presentation to AMIHRP

By Roger Baxter, Chief Economist,
Chamber of Mines of South Africa,
13 August 2010



PRESENTATION OUTLINE



Introduction: Going for Sustainable, Balanced and Labour Absorptive Growth

The True Economic Potential of the South African Mining Sector

The Current Economic Performance of the South African mining sector

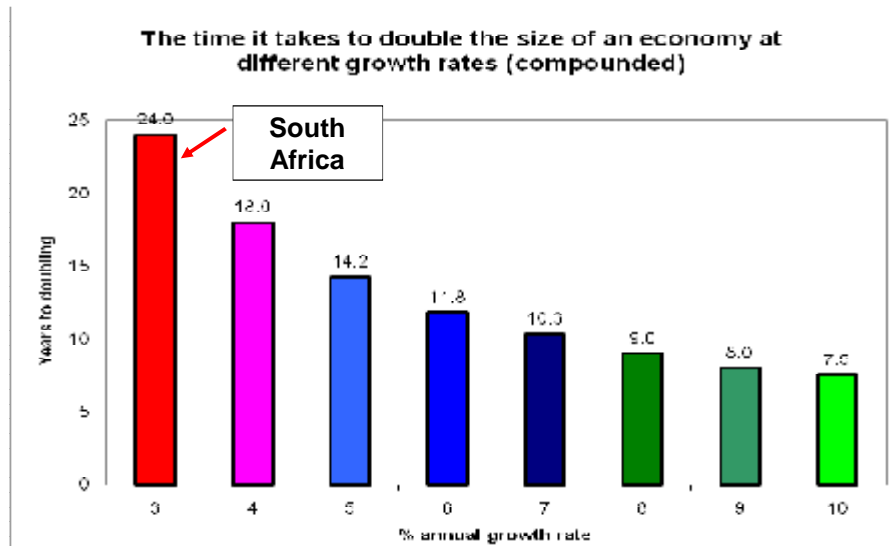
Rating the global competitiveness of the South African Mining Industry

Proposals to help SA Mining Industry Back on to Growth Trajectory

Introduction: Going for Sustainable, Balanced and Labour Absorptive Growth

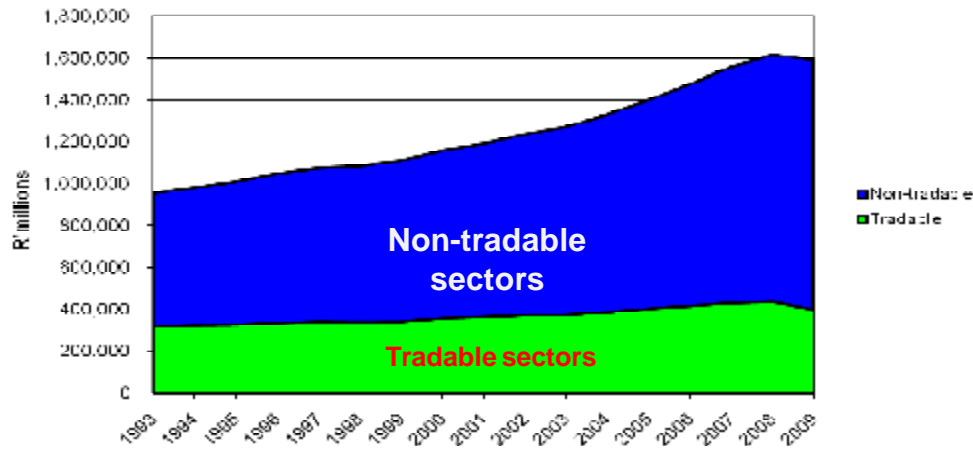
- Despite significant progress made in getting the economy back on to a higher growth path (3.3% 1994 to 2009), the country faces major unemployment and poverty challenge.
- SA's labour participation rate at 42% is low vs peers, its unemployment rate is high (>20%), its levels of income inequality are very high (Gini coefficient 0.59) and too many people are caught in the poverty trap.
- Government has now placed the creation of *meaningful employment* as a central pillar of economic policy.
- All parties recognise that *higher levels of sustainable, balanced and labour absorbing economic growth* is key to reducing unemployment and poverty.
- Government is aiming to develop a *New Economic Policy* by mid-2010.

While South Africa has improved growth to 3.3% p.a. 1994-2009, it is just too slow to meaningfully tackle unemployment & poverty



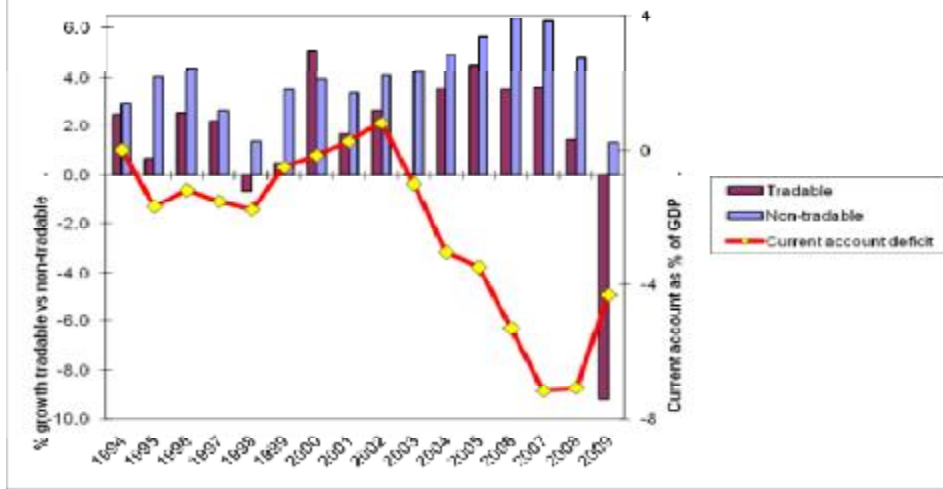
Too much of the economy's recent growth has been driven by credit fuelled non-tradable demand side, & tradable export sectors have languished.....

South Africa: Contribution to GDP in real terms, non-tradable vs tradable sectors of economy (real terms)



Non-tradable sector growth has sucked in imports & created external imbalances, such as large current account deficits.....

Real annual GDP growth for tradable sectors versus non-tradable sectors, and the current account deficit as % of GDP



To ensure more balanced and higher levels of growth 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 foreign exchange earning, GDP multiplier and employment creation foot print.
 - But questions need to be asked and answered as to what role mining can play in the future
 - Does South Africa have the mineral potential to support a growing mining industry?
 - What role can mining play in the economy?
 - What are the factors affecting the competitiveness (and growth) of the mining sector and can we fix them?
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Mining Industry Growth, Development And Employment Task-team (MIGDETT)

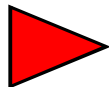
- Tripartite, leadership driven. Setup in December 2008.
 - Deal with Short term issues (business survival and trying to limit retrenchments):
 - Try and avoid retrenchments where possible (short-timing, extended leave, etc.)
 - Good protection already afforded to workers through LRA/BCEA/MPRDA
 - Reduce cost pressures where possible
 - Maintain predictability and stability of policy
 - **SUCCEEDED 48 000 jobs lost versus 100 000 jobs losses expected**
 - Long term issues (repositioning the industry for growth):
 - Must get infrastructure right for the next boom
 - Address longer term regulatory constraints
 - Develop sufficient human capital to enable the sector to grow in future
 - Move to “SA Inc” approach
 - **WORK IN PROGRESS**
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Agreement by tripartite leadership to develop “Strategy For Sustainable Growth And Meaningful Transformation Of The South African Mining Sector”

- To be developed by tripartite under auspices of MIGDETT (including other key government departments)
 - COM to lead competitiveness task team with McKinsey study as institutional framework
 - SAMDA to lead transformation study
 - Detailed rules of engagement spelt out (constructive, problem solving, no holy cows, confidential, etc.)
 - Mining Charter review part of the process
 - Strategy document debated at Mining Summit in late March
 - Final declaration signed 30 June 2010
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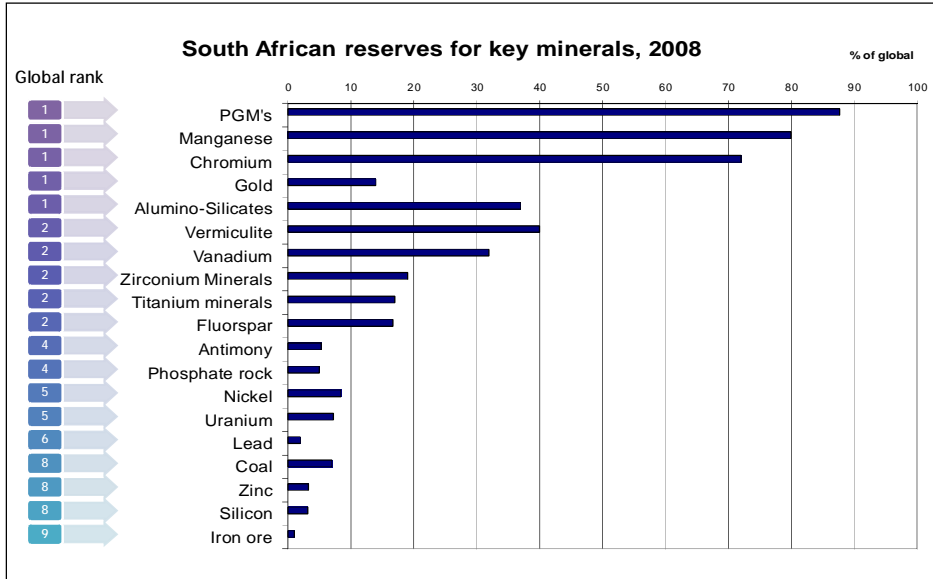
Role Of Mining Often Underestimated

- Key foundation industry (enabled SA to become the most industrialised country in Africa)
 - Large employer of semi-skilled and skilled workers
 - Critically important NET generator of FOREX
 - Significant multipliers into the rest of the economy (large procurement, investment and wage spender)
 - Equally important, very large magnet for foreign investment inflows (which help fund current account)
 - Significant contributor to transformation in the economy
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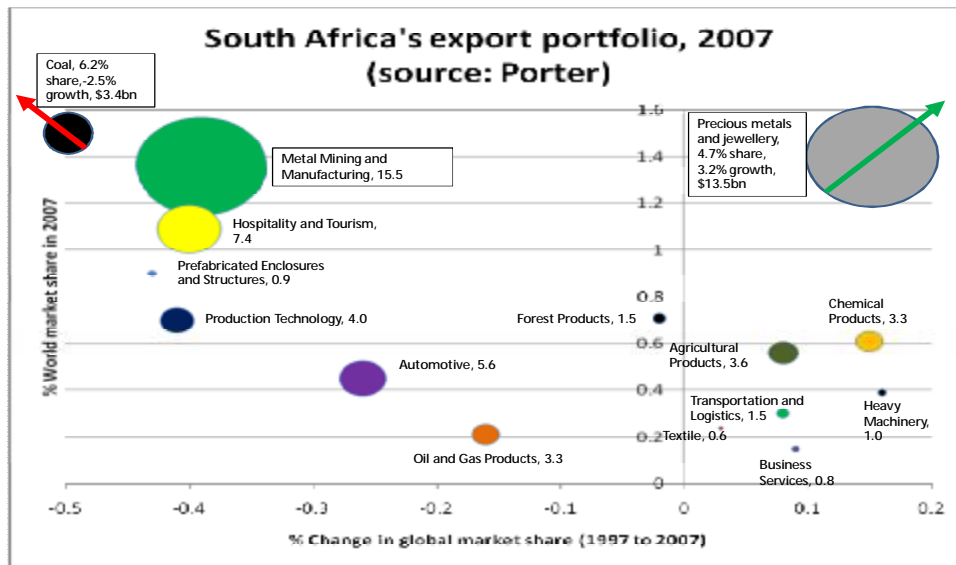
Mining - The Essential Core Of SA Economy

- Creates 1 million jobs (500 000 direct & 500 000 indirect).
 - Accounts for about 18% of GDP (8% direct, 10% indirect & induced).
 - Critical earner of foreign exchange >50%.
 - Accounts for 18% of investment (9% direct).
 - Attracts significant **foreign savings** (>30% of value of JSE).
 - 18.5% of corporate tax receipts (2007 R22 billion, 2008 R33 billion)
 - 50% of volume of Transnet's rail and ports
 - 93% of electricity generation via coal power plants
 - 15% of electricity demand
 - About 37% of country's of liquid fuels via coal (R30 billion worth)
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SA has significant geological prospects.....



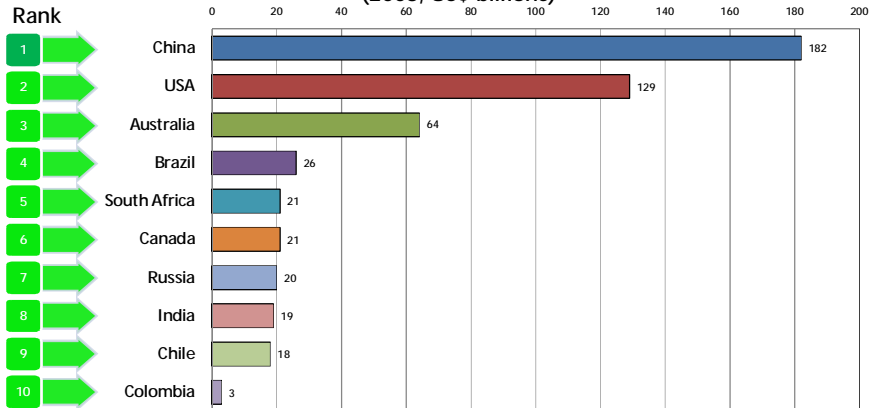
The mining and beneficiation cluster remains key to South Africa's export performance, & can be significantly enhanced.....



The South African mining industry is the world's fifth largest by GDP value...

South Africa has the world's fifth largest mining sector measured by real GDP

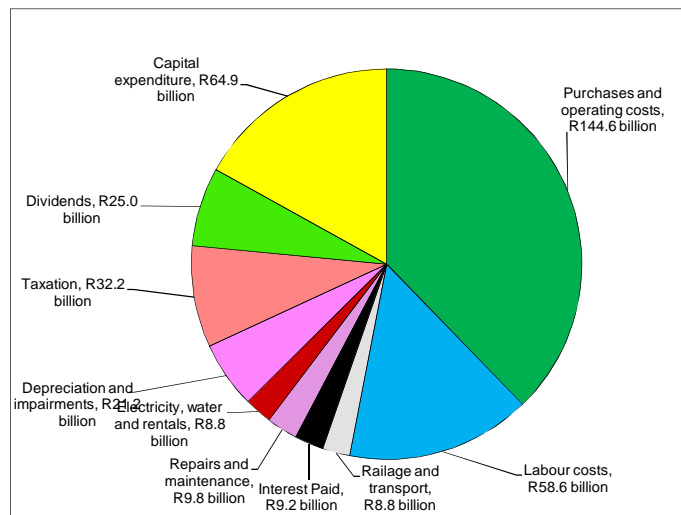
The global top ten mining countries as measured by Mining GDP (2008, US\$ billions)



A large share of the industry's expenditures are captured locally

SA Mining industry, income and expenditure 2008

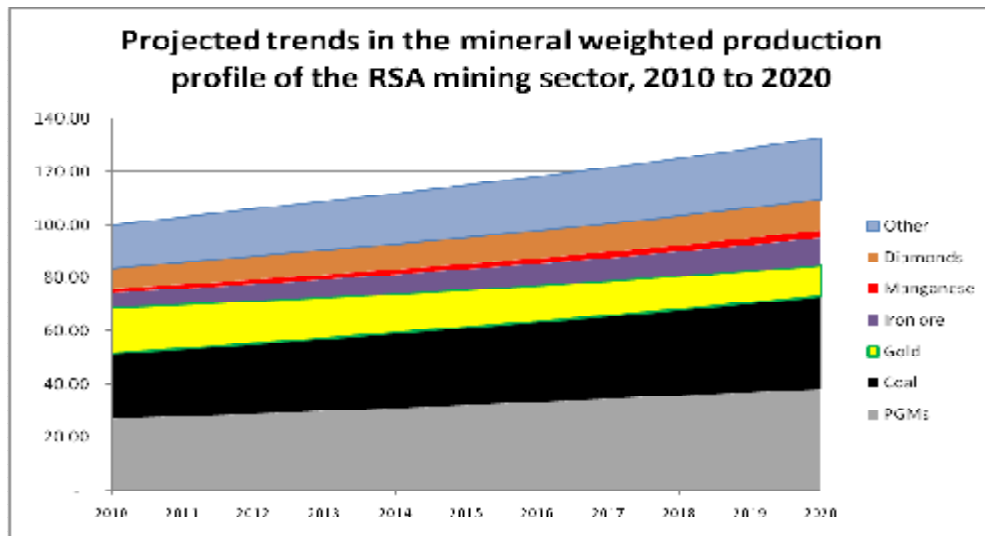
Total income R364 billion, total expenditure R383 billion



If the mining sector had grown at the same pace as the rest of the economy, the industry in real terms would be 87% larger than it is today, but the impact on export earnings would have been significant.....

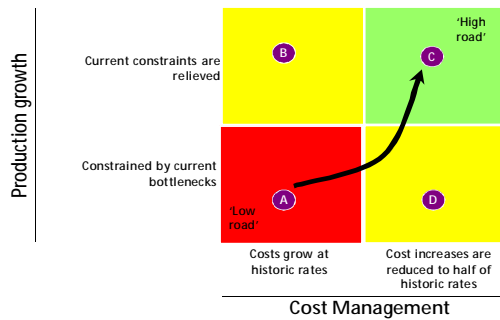
		Actual 2008 result	Actual 2009 result*	Hypothetical result if mining grew at same pace as rest of economy for 1994 to 2009, for the year 2009
Mining sales	R'billions	300	232	390
Mining exports	R'billions	219	169	285
Total merchandise exports	R'billions	704	548	680
Mining exports as % of merchandise exports	%	31%	31%	42%
Current account balance	R'billions	-162	-104	19#

For period 2010 to 2020, conservative modeling indicates that a 3.9% growth rate for the non-gold mining sector is realistically possible, with another >100 000 jobs possible.....



A “high road” is very possible for South Africa’s mining industry.....

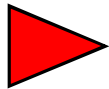
Two scenarios were developed for the forward looking scenarios



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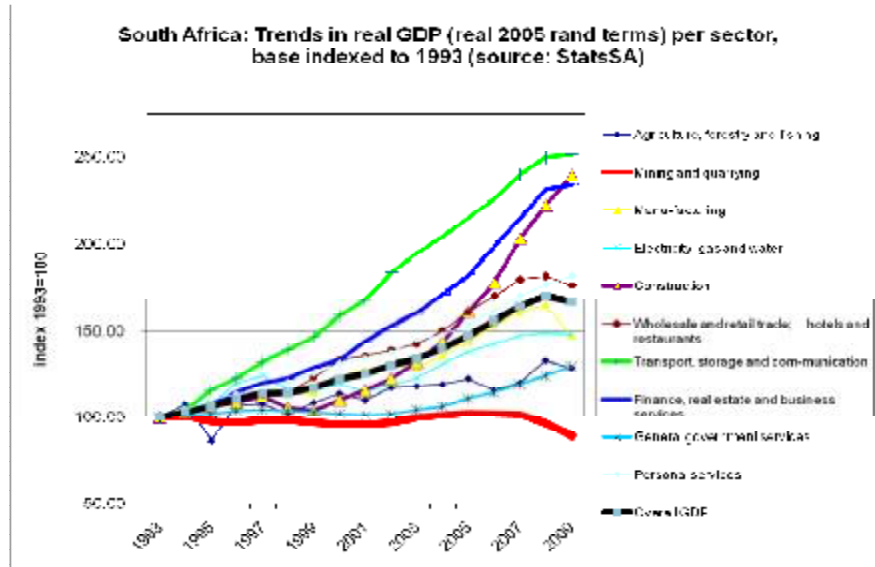


The Current Economic Performance of the South African mining sector

Rating the global competitiveness of the South African Mining Industry

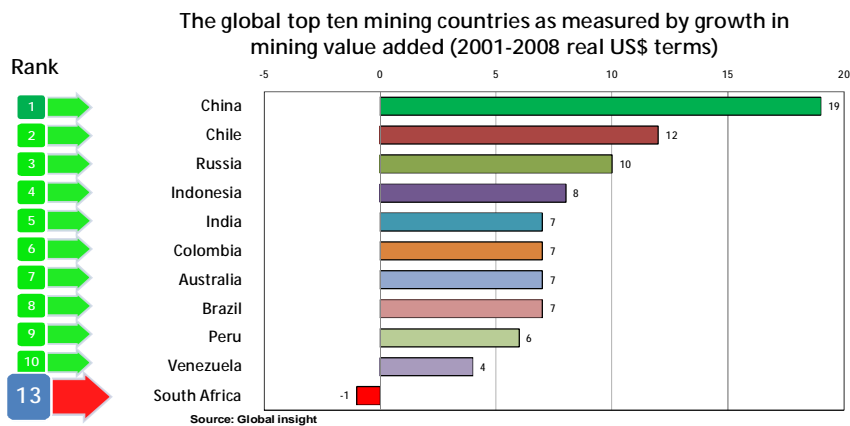
Proposals to help SA Mining Industry Back on to Growth Trajectory

Despite being the mainstay of economy for much of 20th century, the mining industry's recent performance has been dismal.....



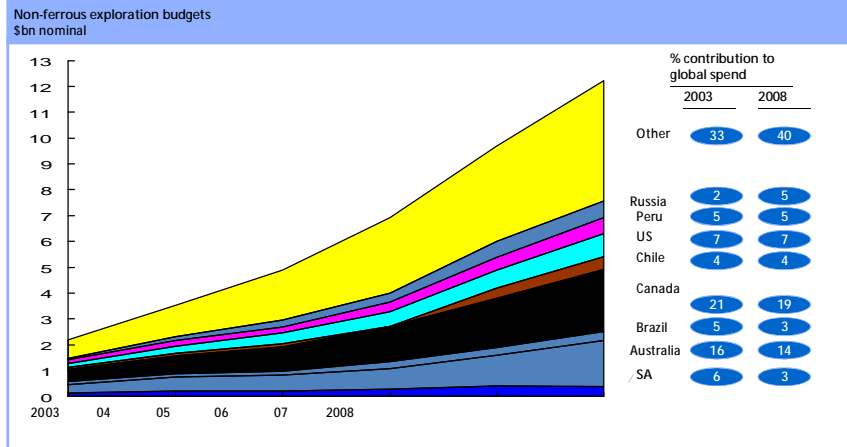
South African mining has performed poorly versus its peers.....

South Africa's mining sector has underperformed in terms of economic growth relative to peers



SA's share of global exploration spend has fallen

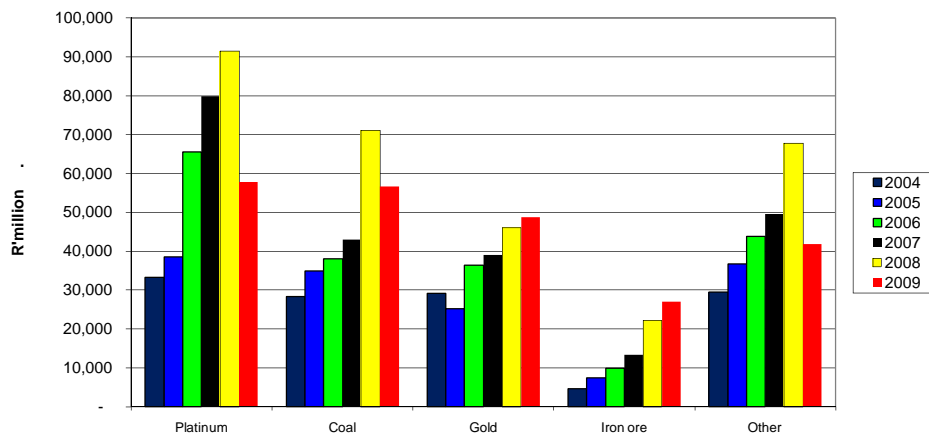
SA's contribution to global exploration expenditure has declined from 6 to 3% of global spend, between 2003 and 2008



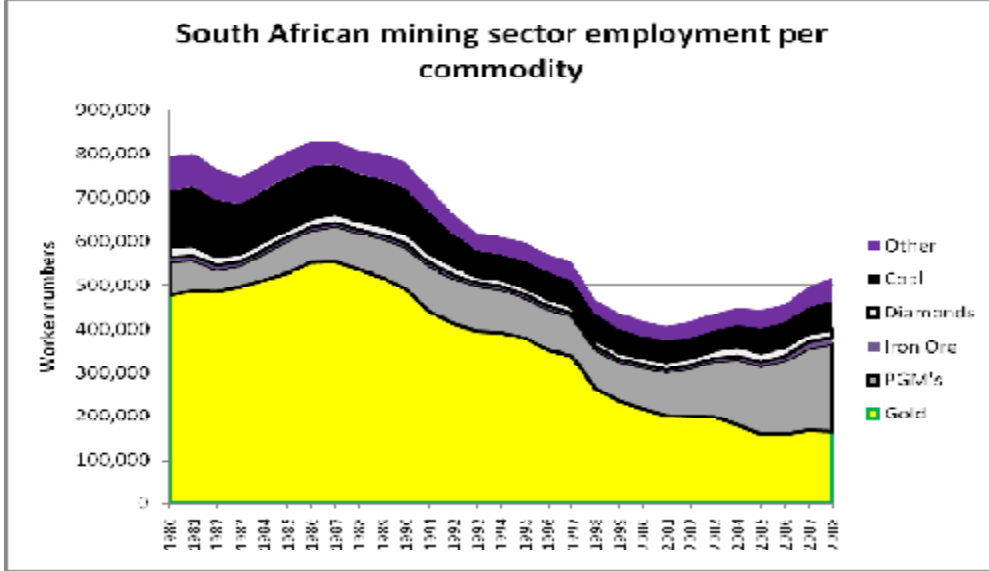
SOURCE: MEG; McKinsey & Company analysis

Total RSA mineral sales fell by R68 billion in 2009, due to global crisis and domestic constraints

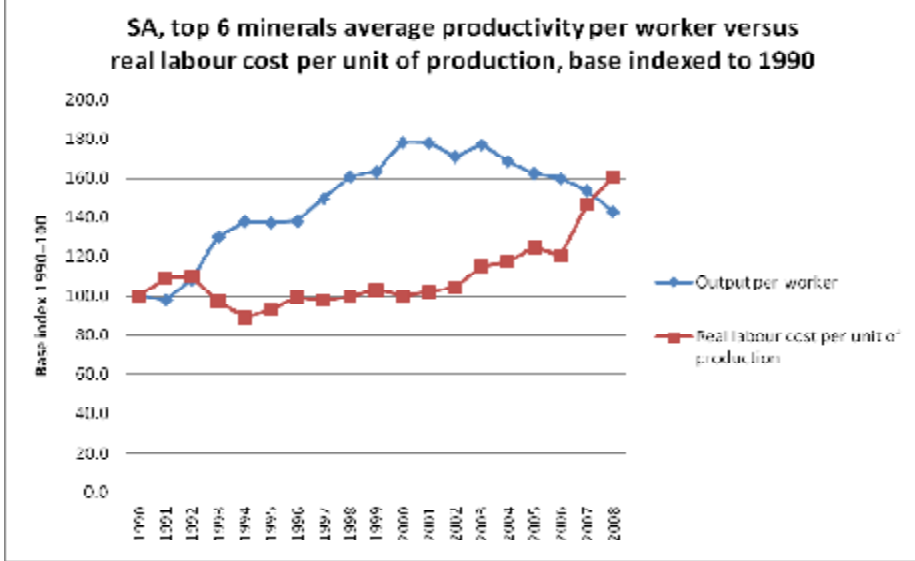
South African mineral sales, past 6 years



RSA mining employment fell from heights of late 1980's to bottom in 2002 & is now up to about 500 000 people.....



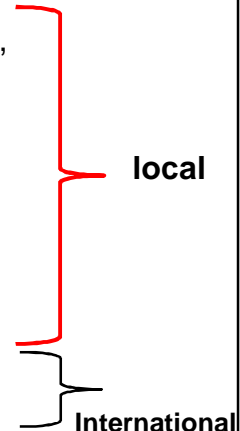
RSA mining productivity continues to fall in face of rapidly escalating labour costs



South Africa was unable to take advantage during the commodity boom mostly due to domestic issues

- **Mining production declined in period 2006 to 2008, despite significant increase in investment in that period.**

- Mine closures for safety related issues (some valid, some not) –s54's
- Binding infrastructure constraints (electricity, rail,)
- Red tape constraints (e.g. water licenses)
- Policy uncertainty (changing the rules of the game)
- Human capital constraints
- Stagnant productivity and rapidly escalating costs
- Volatility in rand-dollar exchange rate
- Then the global crisis hit

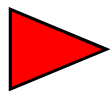


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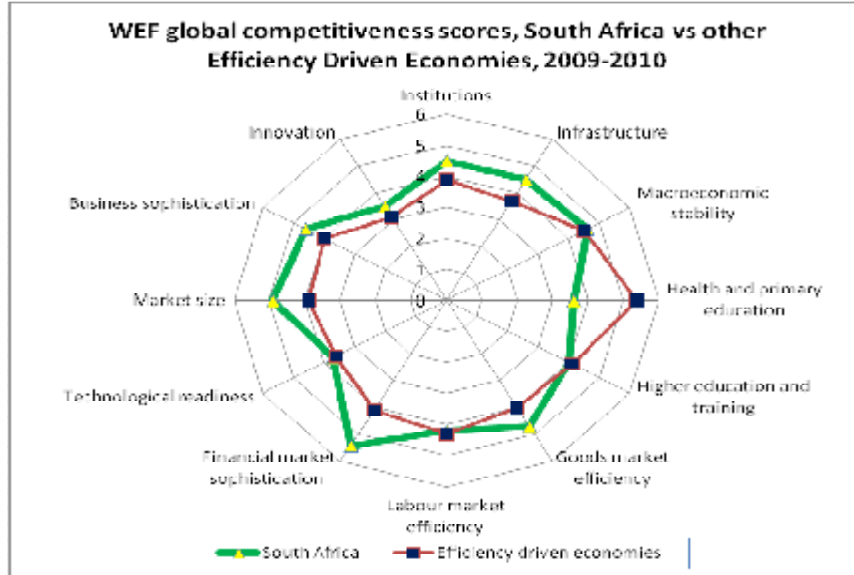
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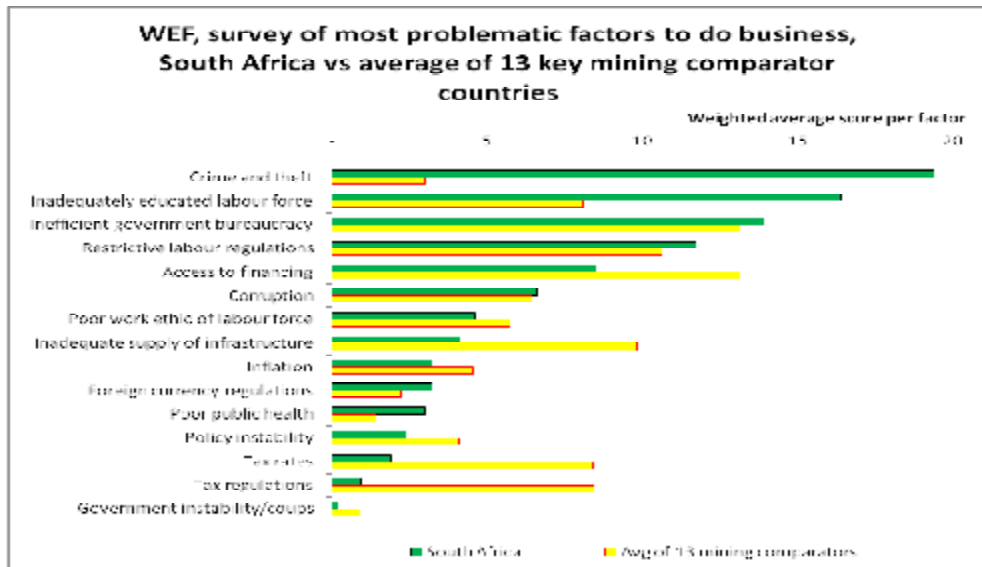
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Proposals to help SA Mining Industry Back on to Growth Trajectory

At a general level South Africa ranked 45th most competitive economy in WEF 2009-2010 report out of 133 countries.....



At a general level, issues related to crime and poorly educated workforce stand out as big challenges.....

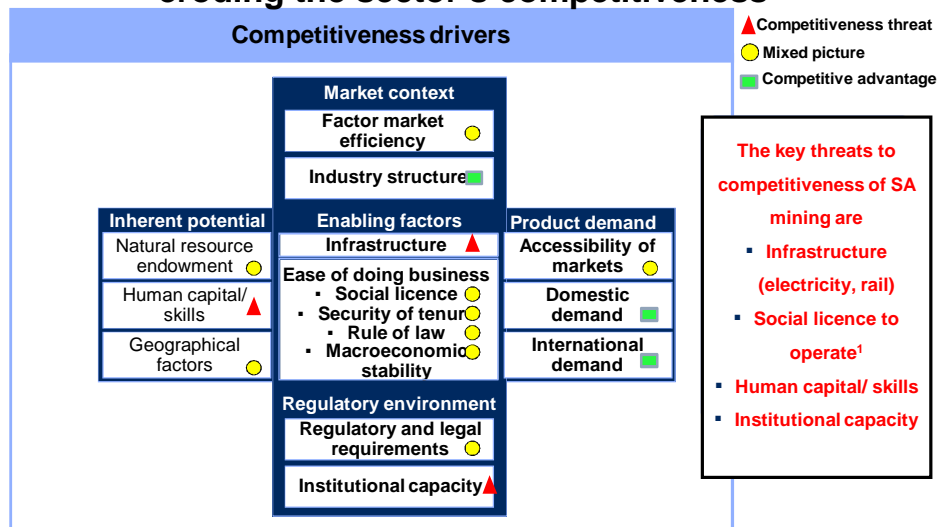


Assessing the competitiveness of the RSA mining sector.....

•There are both controllable (infrastructure, regulatory environment, etc) and uncontrollable factors (geology, grade, location, etc), that affect the competitiveness performance of the mining sector. The competitiveness assessment looked at five key areas:

- Inherent potential
- Market context
- Product demand
- Regulatory environment
- Enabling factors

The lack of growth is due to a combination of drivers eroding the sector's competitiveness

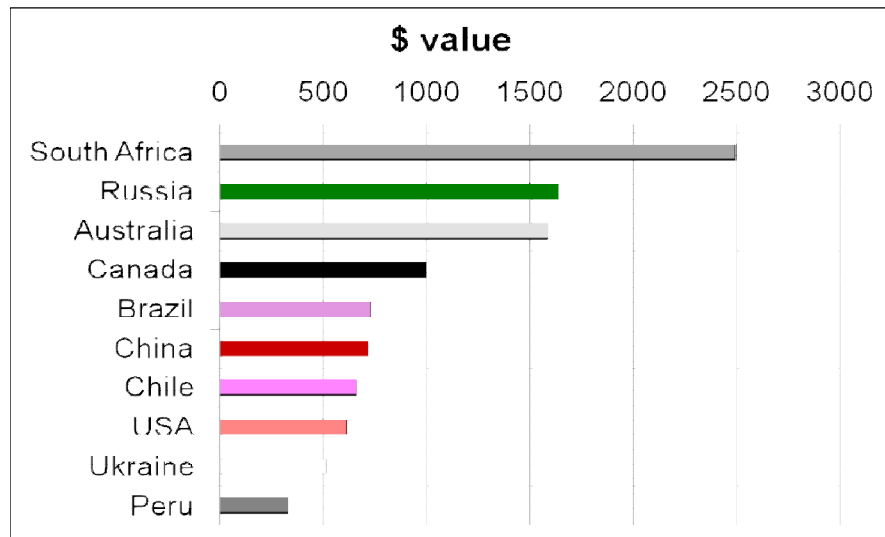


1 Dealt primarily in sustainability and transformation workstreams
 SOURCE: McKinsey & Company

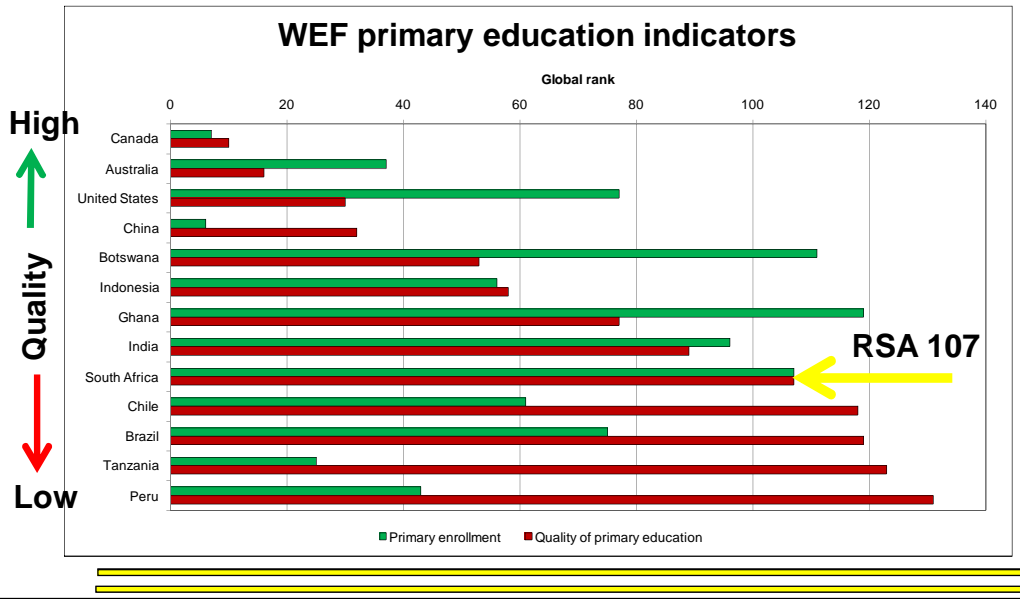
Inherent country potential:

- RSA has significant geological potential (as per chapter 2)
- Human capital challenges remain large, the industry has shortages of engineers, which impose a constraint to growth.

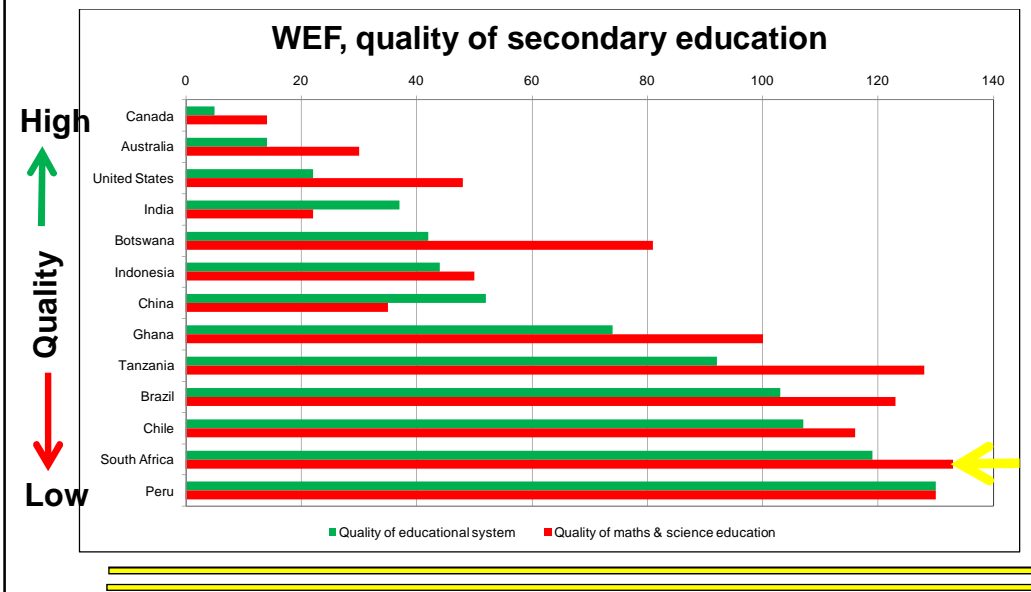
Recent Citibank research note rates South Africa as the richest “in situ” mineral resource holder in the world:



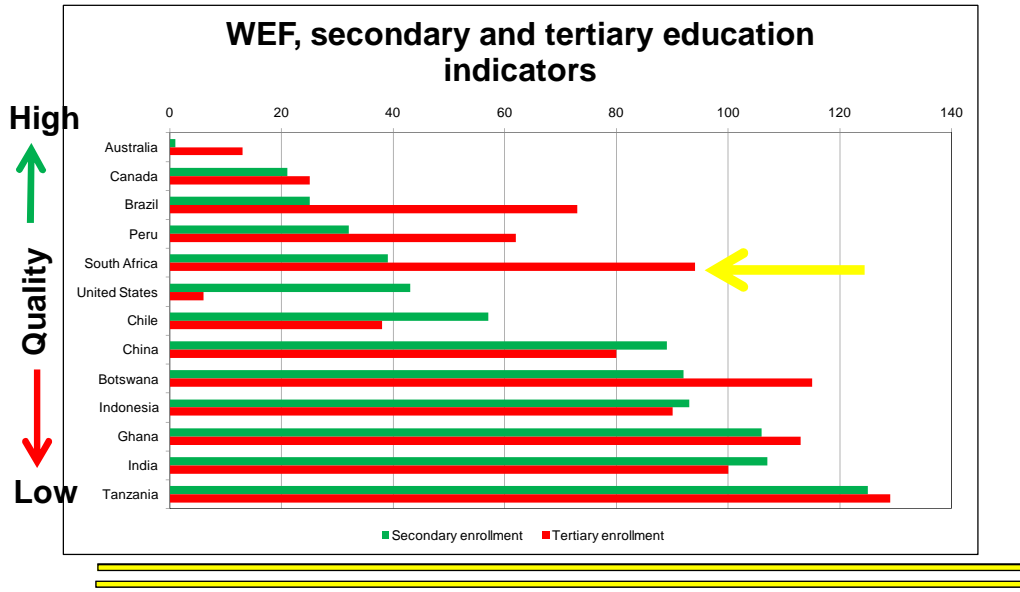
SA ranks poorly in terms of the quality of the primary education system (rank 107 out of 133)....



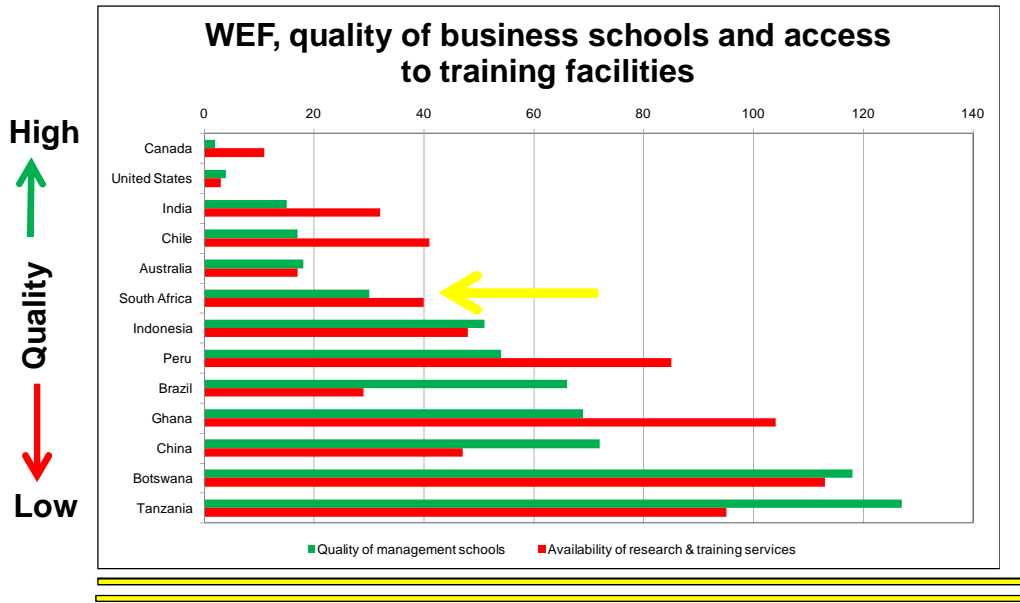
SA ranks poorly in terms of the quality of the secondary education system (rank 133 out of 133 for maths & science)....



SA ranks poorly in terms of the tertiary educational enrollment (rank 94 out of 133)....



SA bright spot for tertiary education, business schools ranked in top quartile (rank 30 out of 133)...



SA Mining facing shortages of engineers.....

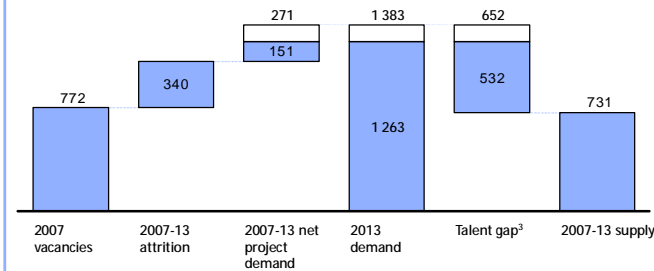
South Africa faces shortages of Mining Engineers

ILLUSTRATIVE

Mining engineers

No.

- Attrition includes aging and retiring workforce, but not switching to other industries
- Net growth modelled for gold, platinum and coal which represent ~80% of current vacancies
- Post-crisis scenario assumes exploration and prefeasibility projects are put on hold



- Even with the influence of the global financial crisis, SA will have a severe skills shortage of mining engineers
- The shortage is likely being exacerbated by poaching from other sectors and other countries

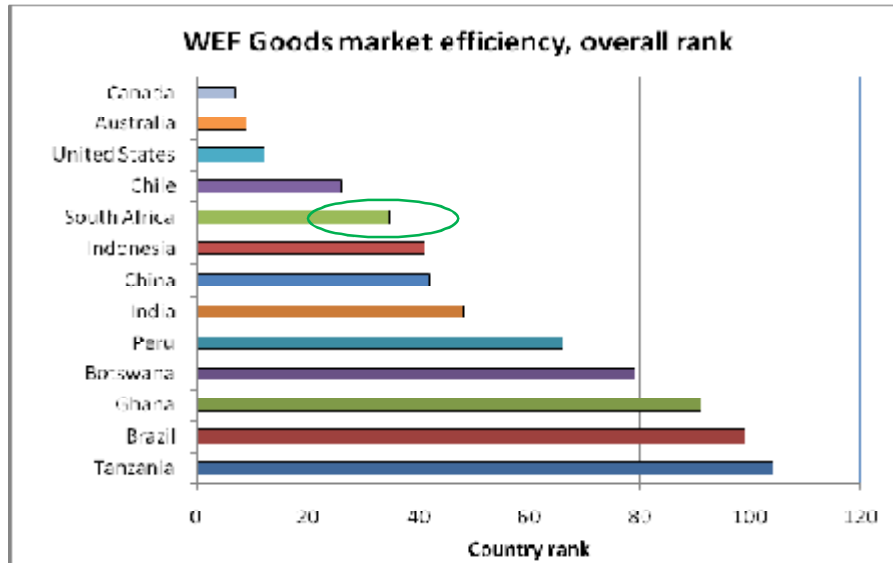
1 Vacancies from MQA Scarce Skills Survey and JIPSA estimates; engineer attrition rates are 10-17% (10% used)
2 Difficult to quantify as many mobile skilled engineers leave for extended periods but are not classified as having emigrated
3 In 2006, 428 mining engineers graduated from SA universities, so this gap is more than 25% greater than this

SOURCE: McKinsey & Company (BMI Basic Materials Institute)

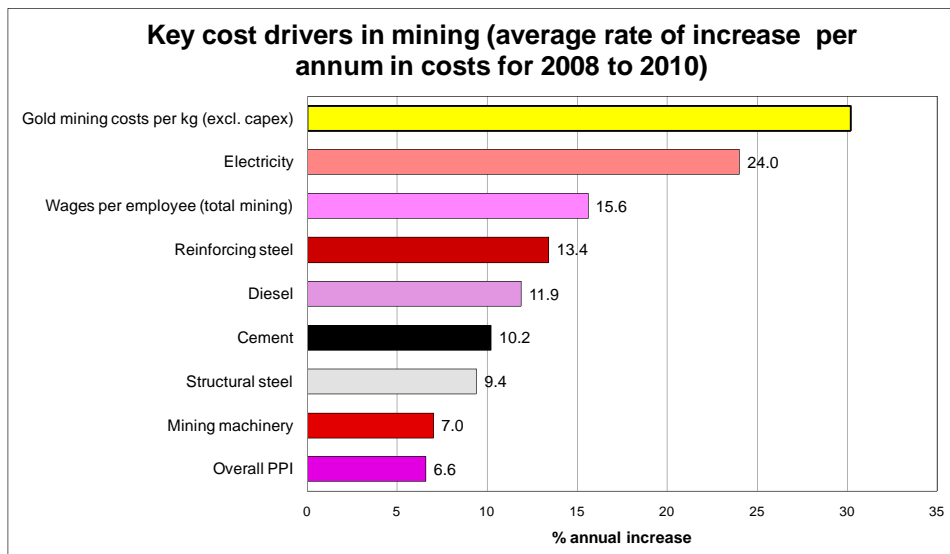
Goods market efficiency:

- SA has well developed local supplier markets.
- However, practices such as import parity pricing and high administered pricing increases (some off a low base) are affecting mining.
- In the labour market the country is ranked 90 out of 133 for labour market efficiency, but this does not highlight specific mining issues.
- In infrastructure markets, SA is ranked reasonably well, but concerns over electricity and rail.
- In financial markets, SA is ranked very highly for both sophistication, the protection of investors and so on, but big challenge is financing for small emerging companies (especially black companies).
- In terms of industry structure, SA is similar to other mining countries, but all parties agreed on need to promote vibrant emerging sector.

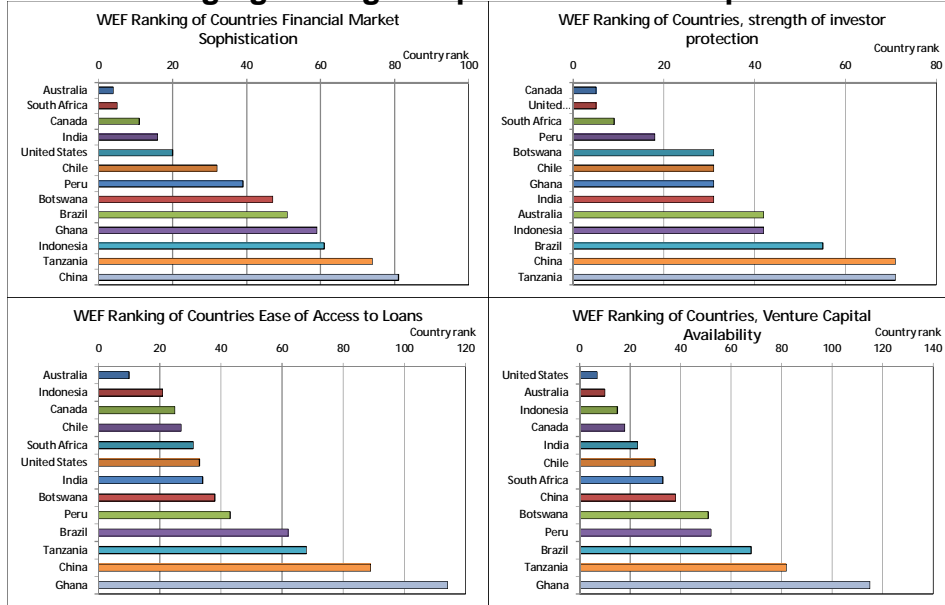
SA ranked relatively well in terms of the efficiency of supplier markets....



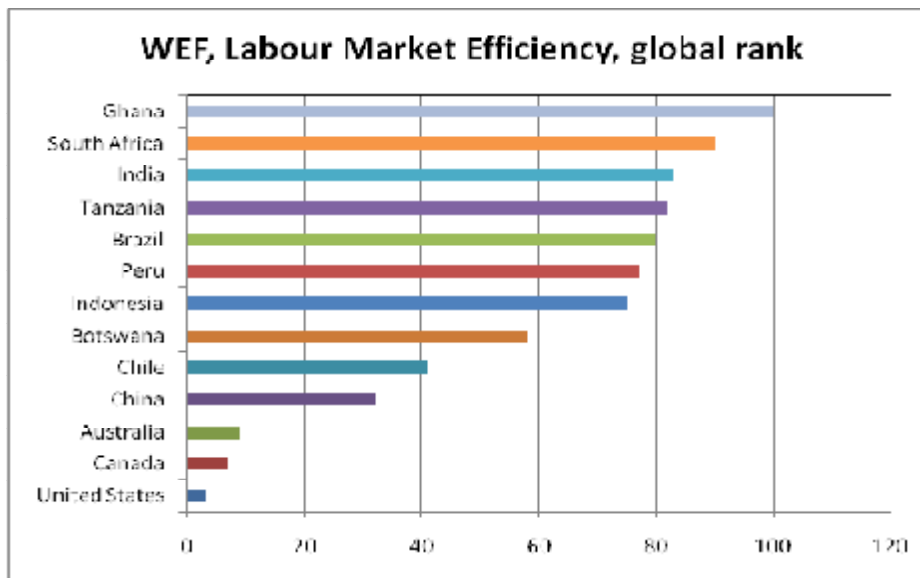
But local cost pressures a real challenge (administered prices, steel, etc.).....



SA Financial market ranking good, but real challenges for emerging mining companies to raise capital.....



SA labour market efficiency, rank 90 out 133 (whole economy),



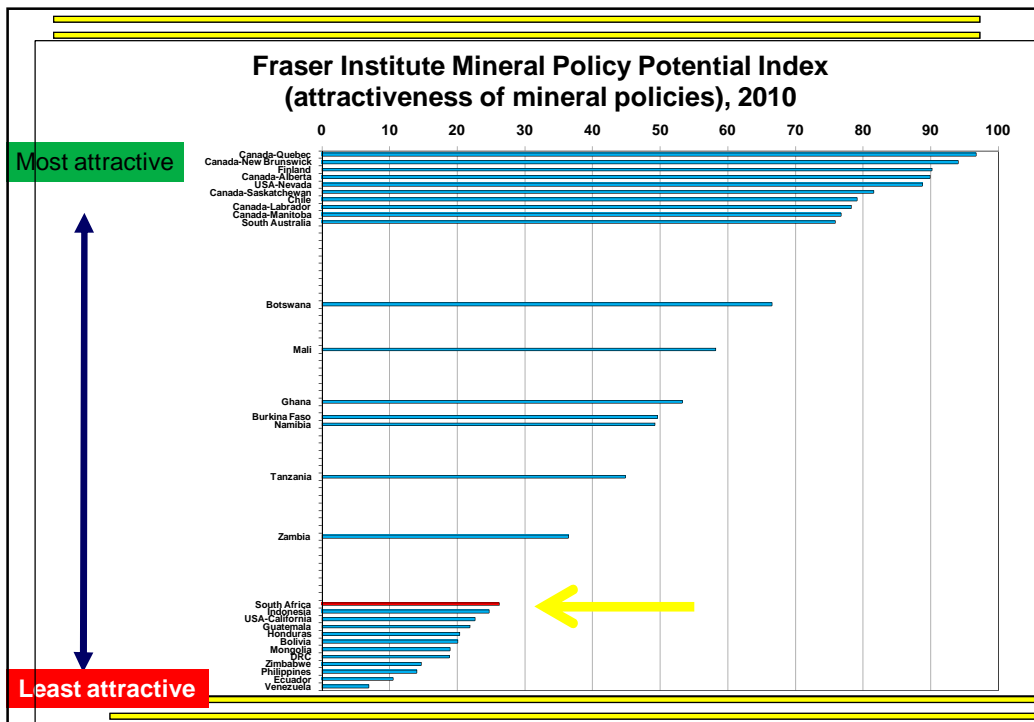
Regulatory environment:

- General agreement that objectives of MPRDA of promoting a **sustainable, safe, environmentally responsible, growing and transformed industry** are NB and globally aligned.
- Issue of lack of clarity in the laws, & view that certain administrative discretionary powers create uncertainty has been raised.
- Improving time periods for processing and granting rights raised.
- The promotion of exploration
- The promotion of better access to information on mining and prospecting
- Promoting a seamless environmental permitting process.

South Africa has excellent policy potential assuming best practice.....

Frazer Institute Survey 2008/9 factors encouraging investment in exploration versus deterrents to investment for South Africa

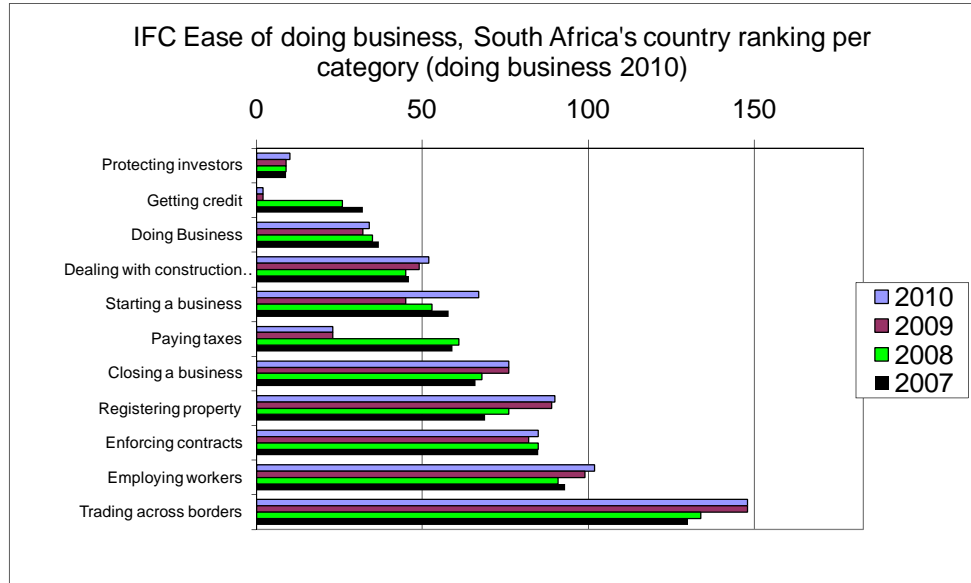




Enabling factors:

- SA ranked reasonably well in ease of doing business.
- Infrastructure – at a general level SA's infrastructure is ranked as reasonable, but specific constraints have emerged (rail and electricity)
- Social license to operate (safety, health, environment, etc.,) important component of the industry's long term license to operate.**
- Sustainable mining into the 21st century a case for change, whereby the industry stakeholders need to work together in helping to improve on the social license to operate, including the continued improvement in technology to ensure a sustainable sector into the future.**
- Macroeconomic stability – the issue of the volatility in the rand exchange rate has been raised (especially its impact on L/T planning).
- Political stability – SA is a stable constitutional democracy. Parties agree that transformation is a key component of promoting stability and long term license to operate.

South Africa is ranked 35th easiest place to do business.....

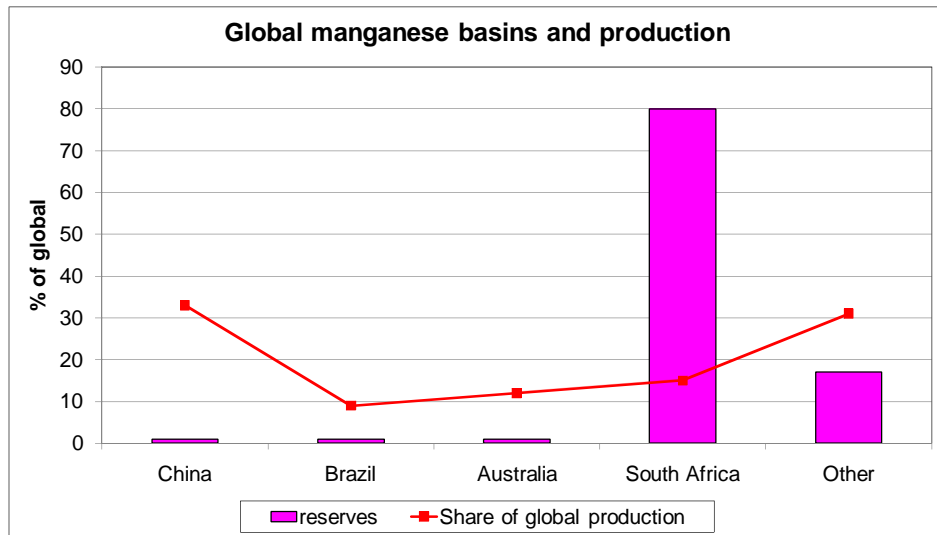


Infrastructure challenges:

Rail

- Only 12.7% of SA's freight is carried by rail, but more than half of Transnet's business is bulk commodities.
- Coal exports have fallen in the last five years as efficiencies on RBCT line and supply challenges from mines affected exports.
- Waterberg – migration of coal production to Waterberg over next 2 decades.
- Cost effective rail capacity NB for growth of manganese and ferro-chrome sectors.
- There are a number of challenges relating to access to rail and port infrastructure for small emerging producing companies.
- Mpumalanga coal feeder system challenges.

Despite having 80% of the world's manganese, South Africa only accounts for 15% of supply, rail is a challenge & an opportunity.....



Social license to operate:

- Social license to operate is a key challenge to the industry's long term license to operate and to the competitiveness of the sector.**
- Making continuous improvements in the industry's safety record and progressing towards the 2013 milestones is a critical issue.**
- Similarly, improving the health outcomes for the industry are also very NB and the industry is again working towards 2013 targets.**
- Managing environmental impacts of mining is also a key issue towards sustainable mining and promoting competitiveness.**

Sustainable Development:

- Key policy objective.
- Is mining contributing to growing country's capital base (human, social, financial, infrastructural)?
- Is the industry meeting its health and safety objectives?
- Is the industry creating long term capital through effective engagement with local communities?
- How do we change mining's current processes (via innovation and technology) towards improving mining's SD performance?
- How do we manage legacy issues to improve our SD performance
- If we get many areas right – are we effectively communicating what we do to key stakeholders?

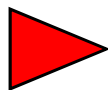
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- **Substantive tripartite declaration on 13 topics signed on 30 June:**
 1. Promoting growth and transformation
 2. Infrastructure
 3. Innovation, productivity and cost competitiveness
 4. Sustainable development in mining
 5. Beneficiation
 6. Regulatory framework
 7. Human resource development
 8. Employment equity
 9. Mine community development
 10. Housing and living conditions
 11. Procurement
 12. Ownership and funding
 13. Monitoring and funding
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COMMITMENT 7

Human Resources Development

Recognising the current shortage of requisite skills and that human resource development constitutes an integral part of competitiveness and social transformation of the workplace and knowledge based industry, parties commit to the following:

- Conduct at least two skills audits by 2014 and assess institutional and organisational absorptive capacity by no later than December 2010;
 - Invest a percentage of annual payroll in all skills development activities, but excluding the mandatory skills levy, as follows:
 - Target for 2010 = 3%;
 - Target for 2011 = 3.5%;
 - Target for 2012 = 4%;
 - Target for 2013 = 4.5%;
 - Target for 2014 = 5%;
 - Ensure that mechanisms for directing the mandatory skills levy are in place, efficient and effective.
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**MINING AND MINERALS MATTER FOR
THE GROWTH, DEVELOPMENT AND
TRANSFORMATION OF
SOUTH AFRICA**
