The Changing Structure of South African Mining

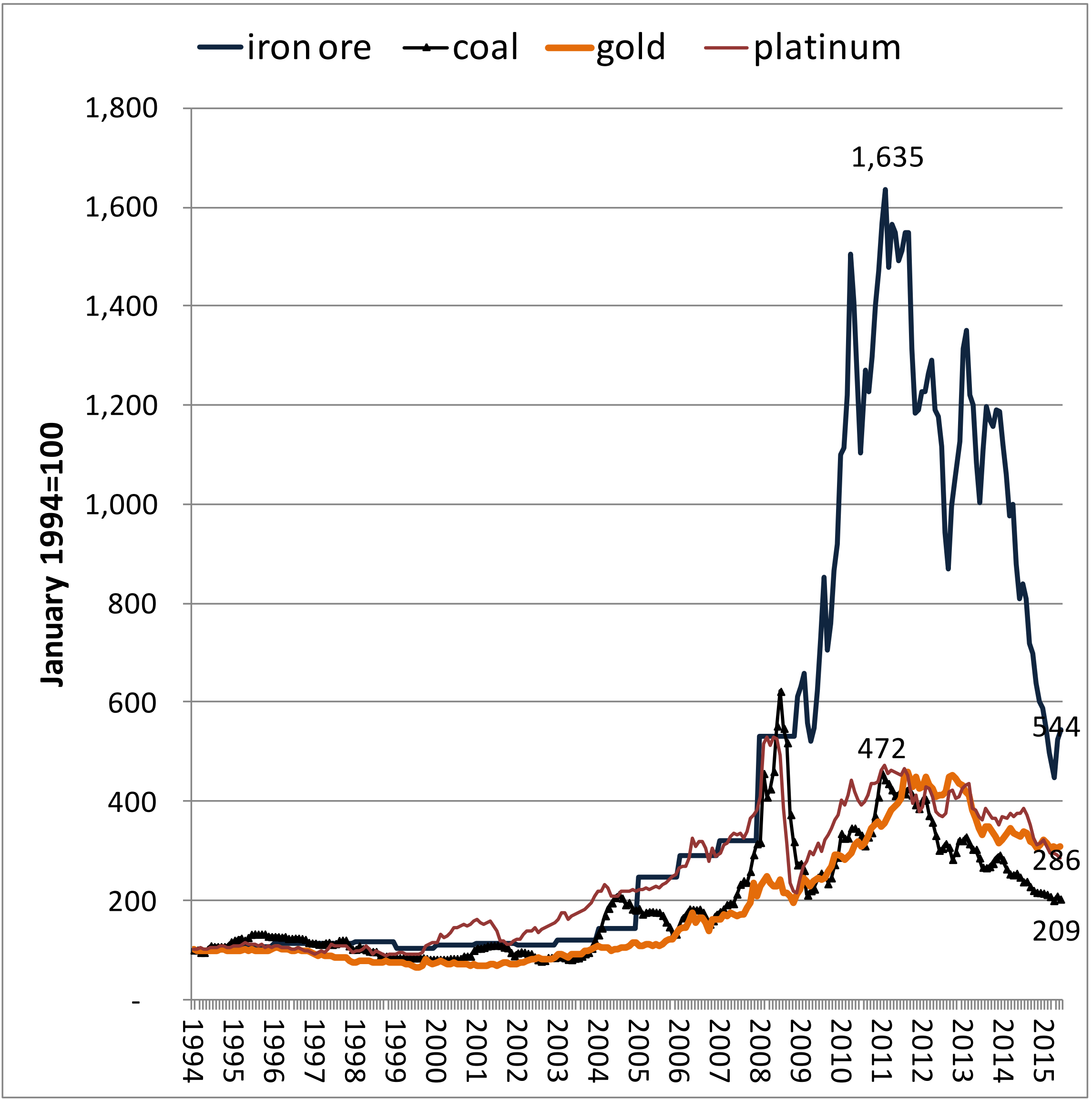
June 2016

TIPS Forum

Dimensions of structural change in mining

1. End of the commodity boom
2. Production structure and location
3. Ownership
4. Infrastructure
5. Regulatory framework

1. The end of the commodity boom

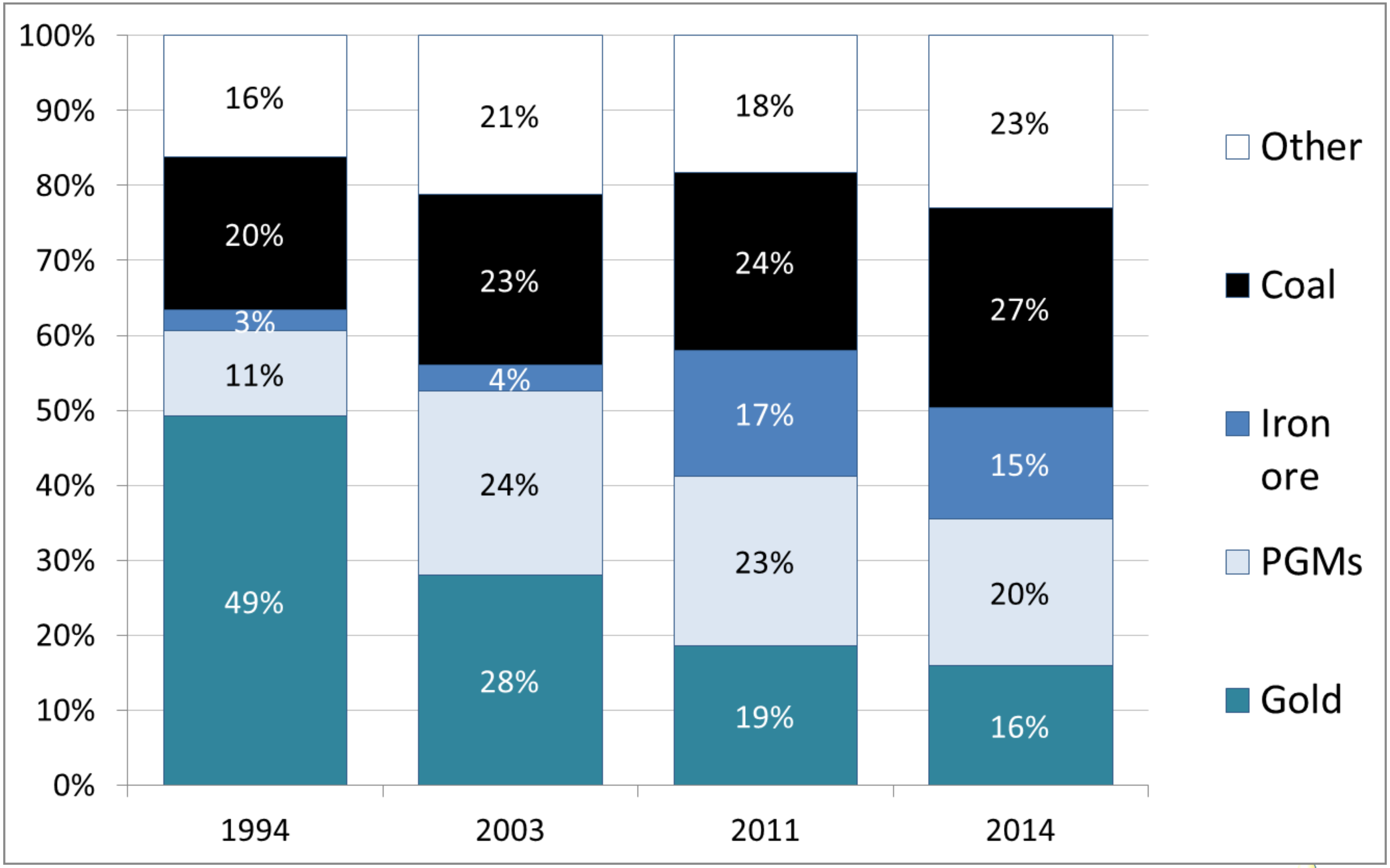


- April 2011 to June 2015:
  - Iron ore price fell 67% (mostly from November 2013)
  - Coal price fell 54%
  - Platinum price fell 39%
  - Gold price fell 13%

Falling profits

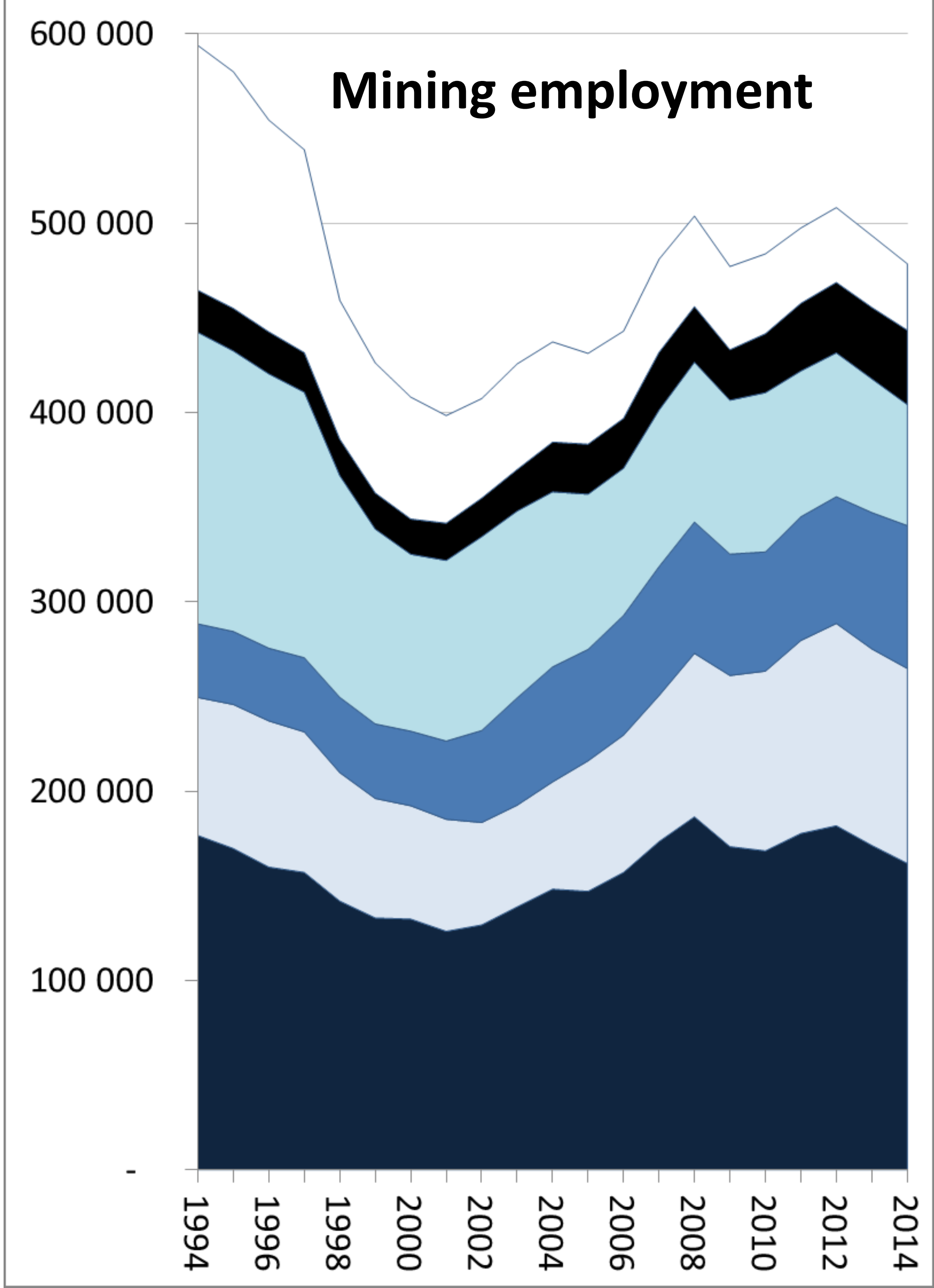
- Mining in second year of overall losses
- Depreciation as critical cushion
- Growth in iron ore and platinum in boom was linked to rising costs – so now making losses or near-losses
- Consequences include
  - Job losses and closure of marginal shafts
  - Slowdown in investment
  - Foreign investors selling out
  - Risks of poor off-take from infrastructure projects

2. Production structure and location



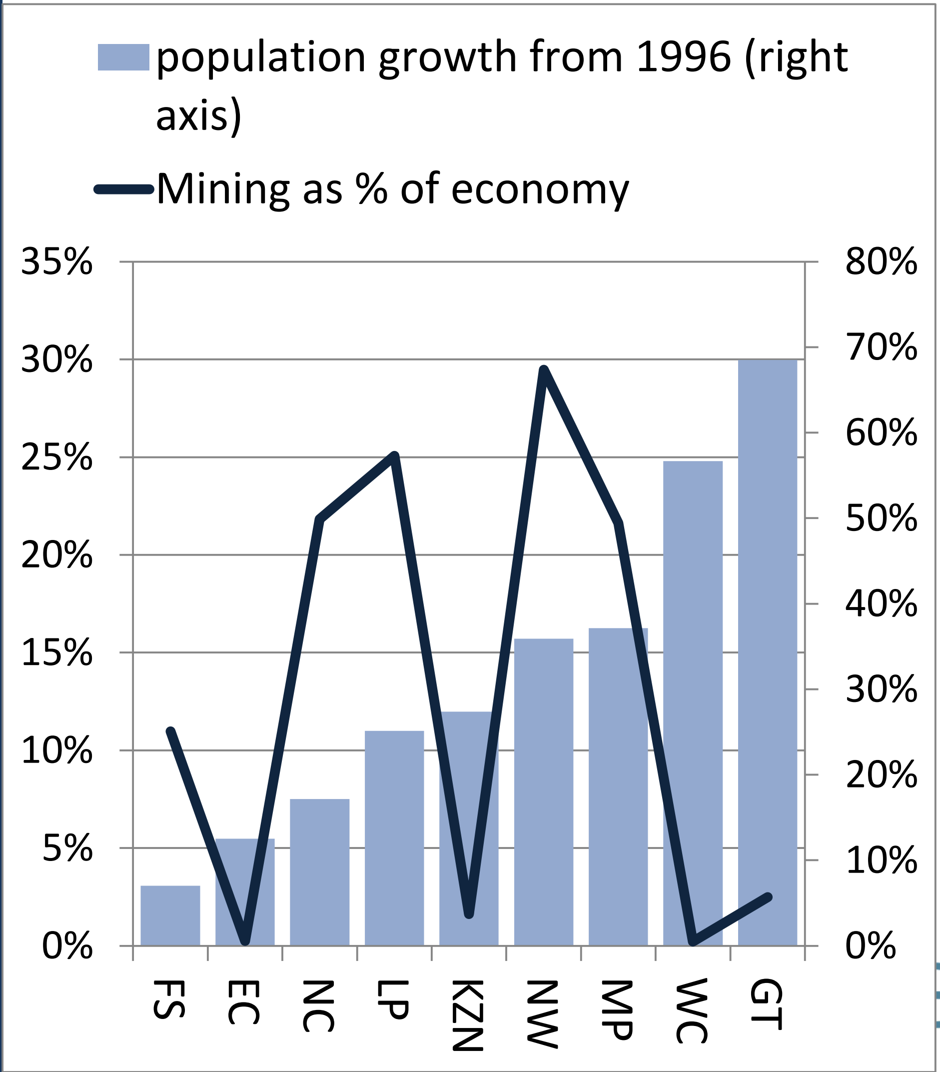
Geography

- Mining is now concentrated in the North West, Mpumalanga, Limpopo, the Free State and the Northern Cape.
  - In Limpopo, Mpumalanga and the Northern Cape, mining contributes over 20% of the provincial economy
  - In the North West it makes up 30%.



Some implications

- New mines in rural areas - stress on mining towns
- Stagnation in Free State
- National Infrastructure Plan shaped by commodity boom – what happens if demand disappears?



3. Ownership

Before 1994:

- Dominant gold mining companies with capital trapped in SA
- Invested in diverse activities with a focus on manufacturing

1994 to 2004

- Gold mining companies became global conglomerates
- Selling out of South Africa
- Cherry pick in South Africa:
  - Platinum
  - Kumba

From 2004

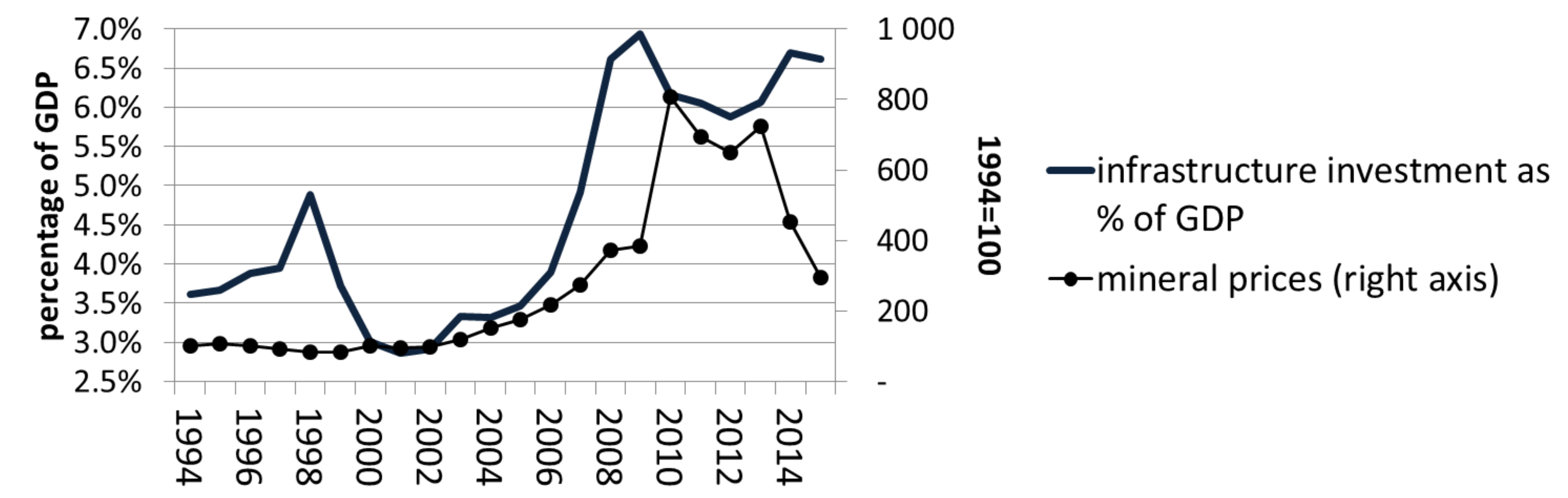
- Gold taken over by local companies (Sibanye, Harmony, Anglogold Ashanti)
- Platinum being sold to local gold companies

4. Infrastructure

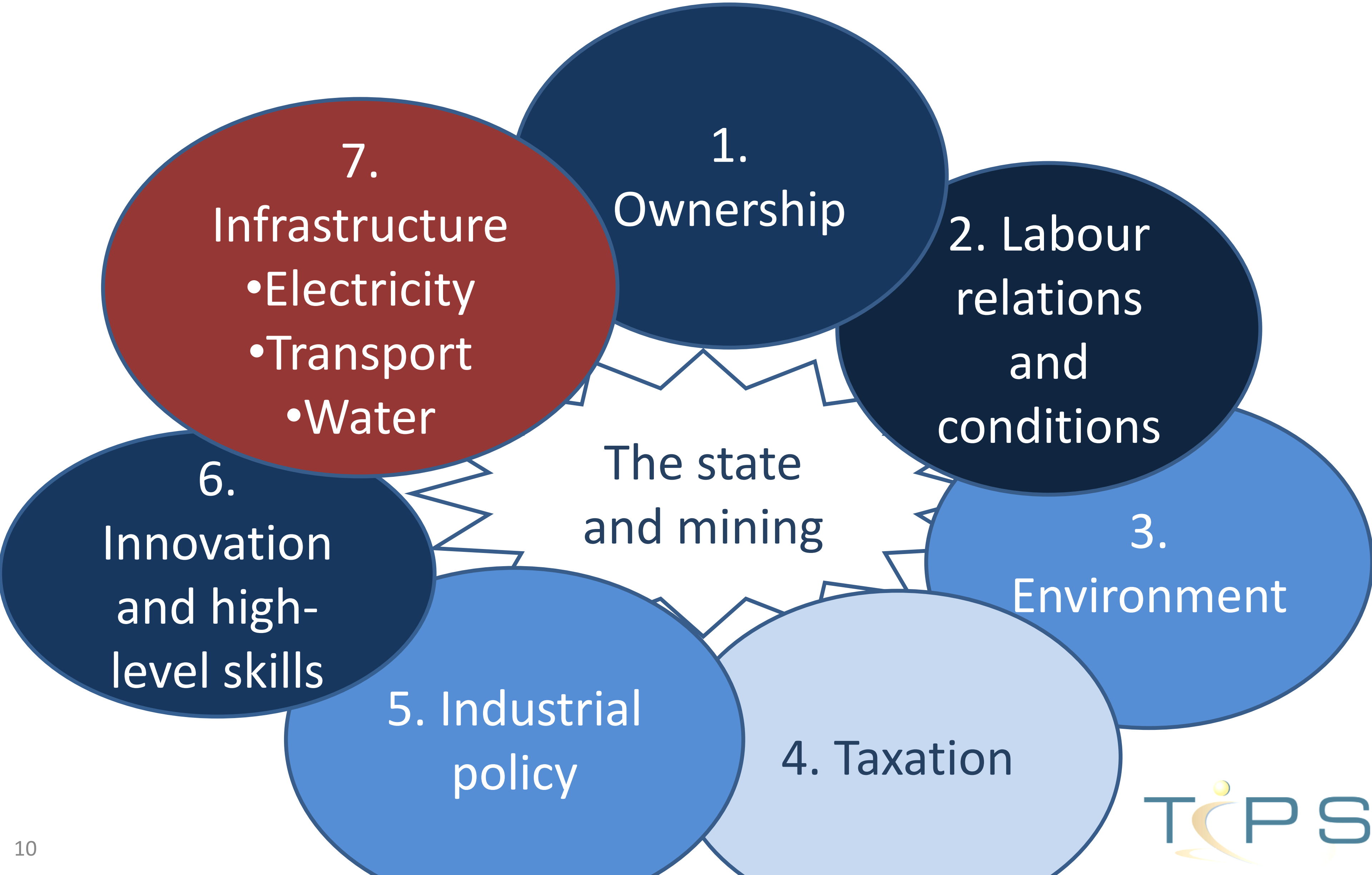
The National Infrastructure Plan

- Core components: Rail to LP and in NC; coal-fuelled plants; water in Waterberg
- Shift to user-pays
  - Heavily dependent on demand from mines
  - But rising cost may mean stranded capacity
- Beneficiation in this context?

- The MEC
  - Doubled the cost of electricity from 2008
  - A new MEC in Limpopo and Mpumalanga?



5. The regulatory framework



Major regulatory and policy changes

1. Owner
- New licen
regime
- Charter: BEE, management
- Unbundling of Iscor

Nationali-
sation
claims

1. Labour
New labour laws:
LRA, BCEA, EE, Skills, H&S
Charter: Housing, EE, HRD, ESOPs, H&S

3. Environment:
New environmental laws
New municipal powers
Carbon tax proposals
Charter: EMPs

4. Taxation:
Royalties
Environmental incentives/taxes
Skills levy
UIF

Transfer
mispricing
allegations

Industrial policy:
Unbundling of Iscor
Beneficiation policies
MPRDA amendments
Charter: BEE procurement, beneficiation strategy

Beneficiation
and export
tax discourse

6. Innovation and high-level skills:
Restructuring and downsizing of state institutions

7. Infrastructure:
User pays principle
Environmental assessments
Municipal planning requirements
Electricity licencing
Charter: community projects

Some conclusions

- New strengths
  - More diverse industry
  - Genuine local control
- Major concerns
  - Clarity about priorities given the end of the commodity bust
  - Spatial impacts
  - Risks of beneficiation vs other (Hirschmann) linkages, including workers' demand and fiscus as well as inputs