AFRICA MINES

South Africa's long history of mining and rich resource inventory offer a wealth of possibilities, but policy settings have challenged the sector. **Stuart McKinnon** reports on plans to restore confidence in an industry vital to the nation's future prosperity.

The unearthing of diamonds along the Orange River more than 150 years ago marked the beginning of South Africa's journey to becoming a mining juggernaut.

Twenty years later gold was discovered near Johannesburg. The vast Witwatersrand Basin represents the world's richest deposit of gold, accounting for nearly half the globe's historic production of the precious metal.

South Africa also hosts abundant stores of coal, platinum, manganese and iron ore.

But in recent years its mining sector has been in steady decline.

A panel discussion at Indaba.

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Mining accounted for as much as 21 per cent of South Africa's GDP in 1980. It now accounts for just 7 per cent of the national economy.

A volatile currency, an unstable and unfriendly regulatory regime, union disruptions, rising costs and falling productivity have all contributed to the mining sector's ebb in recent years.

Errol Smart, the South African-born managing director of Australia's Orion Minerals, partly blames the country's big emigrant population for its poor reputation internationally.

"We only tell the bad, but there's a lot of good stuff," he says of his beloved home country. "When are we going to stand up and be proud?"

> 'We only tell the bad, but there's a lot of good stuff. When are we going to stand up and be proud?'
> Orion Minerals managing director **Errol Smart**

Smart laments the lack of minerals exploration over the past 30 years. He believes there are "screaming opportunities" in South Africa for exploration companies.

Smart and others in the industry are now hopeful of a "new dawn" for South African mining under the government of newly elected President Cyril Ramaphosa.

Last month he became the country's first sitting president to address delegates at Cape Town's annual African Mining Indaba, a conference which attracts industry leaders from across the globe.

Armed with a new, more consultative Mining Charter, the President was keen to put out the welcome mat to foreign investment and tell the world that South Africa was open for business.

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He sought to distinguish his administration from that of his predecessor Jacob Zuma, whose nine-year term in government was marked by mismanagement, corruption, a plunging economy and the mining sector's decay.

Ramaphosa conceded to Indaba delegates that policy inconsistency, uncertainty and deviation had marked the government's mishandling of mining in the past but insisted his administration had adopted a more collaborative approach.

"You've come to a country where collaboration is the order of the day," he said.

"We may have lost it over the past few years but we've reconnected with that important attribute that Nelson Mandela left for us."

Mandela — the late anti-apartheid activist who became the nation's first democratically elected president in 1994 at the end of the era of institutionalised racial segregation — is feted as the father of modern South Africa.

But the post-apartheid period has not brought the ethnic harmony or economic prosperity for which many had hoped.

South African society is blighted by endemic corruption, lingering racial tensions, high unemployment, income inequality, crime, labour disputes and crumbling infrastructure.

Overcoming these challenges to attract more foreign investment will take more than a few soothing words and well-meaning intentions.

Many investors will want to see tangible evidence of improvement in the troubled country before they will pump cash back into its ailing economy.

South African President Cyril Ramaphosa mingles with delegates.

For Ramaphosa, foreign investment brings with it the hope of reducing the country's crippling 27 per cent unemployment rate, lifting millions out of poverty and shoring up popular support for his government.

"We have recognised that we will not be able to meaningfully reduce unemployment and poverty without increased investment in critical areas of our economy — especially the productive sectors, of which mining is a vital part," he told Indaba, which celebrated its 25th anniversary this year.

"As a government, we regard the mining industry as a key player in the future growth and development of our economy, with huge potential for exploration, production and beneficiation.

"It is for this reason that we have prioritised the restoration of a policy and regulatory environment that is stable and predictable.

A worker at Orion Minerals' Prieska project sprays water on drill samples.

"Significant work has been done to remove the uncertainty that held back the development of the industry."

The Government's new Mining Charter is an attempt to provide certainty and a framework for mining companies developing projects and operating in the country.

The charter was developed after consultation between mining companies, investors, mining communities and labour, and while some of its measures are considered onerous, miners remain hopeful of winning concessions and are heartened by the spirit of collaboration in which it was framed.

Orion's Smart says of the charter: "It has got flaws, it's not perfect, but it's something we can work with."

The Australian-based company is developing the historic Prieska zinc-copper project in the remote Northern Cape province. For explorers like Orion, a key positive out of the charter is not having to bring on a 30 per cent black economic empowerment partner until it secures project financing.

Cash-poor explorers previously had to bring on partners as soon as they began operating in the country.

Smart notes the charter places no specific obligations on the junior exploration sector, other than a moral one.

"Nobody forces black ownership upon us from day one before we've found anything. Nobody tells us what suppliers to use or what technology to use," he said.

"But now, we've got to pick up the ball and run with it."

Perth-based miner South32 has a significant presence in South Africa, courtesy of its thermal coal business, manganese mines in the Kalahari Basin and aluminium operations on the east coast of the country.

Its chief executive Graham Kerr said the company was encouraged by the recent ministerial appointments of Gwede Mantashe (resources) and Pravin Gordhan (public enterprises) in the new Government.

While positive that the new Mining Charter had become more interactive and consultative than under the previous president, Kerr said the country still did not have an investment framework that encouraged new developments.

The new charter enforces a free-carried 10 per cent interest for local employees and host

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South32 chief executive Graham Kerr.

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communities as part of the 30 per cent BEE shareholding in new projects.

"You're not going to invest in speculative or risky exploration where you have to give people a free carry as well, so I think that's a disincentive," Kerr said.

"But I think the remaining pieces of the charter are quite good."

Kerr said reliable energy supply remained one of the country's biggest challenges.

South Africa's state-owned power utility Eskom is mired in debt and struggles to provide electricity for the country's growing needs.

"Eskom at the moment is in dire straits financially, it's in dire straits in terms of leadership, it's in dire straits in terms of just maintaining its baseload equipment to be able to supply its current users," Kerr said.

"There's been high levels of load shedding (rolling blackouts) . . . so I think that doesn't bode well."

Kerr said it was a reflection of many years of underinvestment and poor management, rather than the fault of the current administration, but it remained the biggest risk to the economy.

"It's having a big impact on everyone," he said.

It's a point Ramaphosa has conceded and last month acted upon by announcing plans to split the utility in three.

The plans, which are bitterly opposed by labour groups, aim to make Eskom's operations more efficient and turn around the company's dire financial state.

"Restoring energy security for the country is an absolute imperative," Ramaphosa told delegates at Indaba.

South32 is selling its thermal coal business in South Africa, which will bring its exposure to the country down from an earnings component of 13 per cent to 9 per cent of its total global operations and has no new growth projects planned in the nation.

Another hot-button issue for investors in South Africa is land reform proposals involving the expropriation of land without compensation.

Again, Ramaphosa reflected on an "understandable concern" around the issue.

"We must emphasise that our approach will enhance, rather than undermine, property rights as we seek to address what we have termed the original sin which was committed against black South Africans during colonial and apartheid days," he said. "Investors need not fear that their investments and assets will be taken away from them."

Lavan corporate partner and head of the firm's mining division Krista Bates said land reform in any country tended to act as a red flag to investors as a potential precursor to other forms of nationalisation of assets.

It's clear Ramaphosa faces competing challenges as he seeks to forge a new path for South Africa and its mining sector, and doubts remain as to whether he can overcome the big and myriad obstacles that stand in his way.

In May, his Government will face elections which could either bolster his leadership or diminish it.

The incumbent leader needs to shore up personal support within his own dominant African National Congress party but also beat off the threat of opposition parties, which have been gaining ground in recent times.

'For South Africa to keep up with the pack, it's going to have to clarify the Mining Charter.'

Lavan corporate partner and head of mining **Krista Bates**

South32 is the biggest manganese ore producer.

Workers at the BHP spin-off's manganese operations in South Africa.

South32's energy coal operations.

Bates, who spent years working as a lawyer in sub-Saharan Africa, noted South Africa was competing with its African neighbours for foreign investment, some of which had friendlier investment climates and mining regulations coupled with less political risk, particularly in light of the upcoming elections.

"So I think what we will find is that for South Africa to keep up with the pack, it's going to have to clarify the Mining Charter and convince the international community that it is a stable investment destination," she said.

Bates, who also sits on the board of the Australia-Africa Minerals and Energy Group, said proposals to wind back the BEE component and the 10 per cent free carry in South Africa's Mining Charter would make the country a more interesting proposition for mining investment.

"Until the Mining Charter is settled and transparent for investors and elections have passed, then they're unlikely to see a great deal of new investment coming in," she said.

The respected Fraser Institute survey recently ranked South Africa 43rd in a list of 83 countries judged for their attractiveness as a destination for mining investment.

And the country was rated 56th in terms of the perceptions of its Government's policies around mining.

While far from impressive, its rankings have improved from the 2017 survey, though not as quickly as some of its African neighbours.

South Africa's Minerals Council welcomed the improved ranking but believed there was considerable scope for improvement in the country's score.

Council chief executive Roger Baxter attributed South Africa's higher ranking to the early effects of the shift of political leadership in the country under Ramaphosa and Mantashe.

He believes the economic and transformational potential of mining in South Africa is vast.

"Even in the absence of a greenfields exploration boom in South Africa, mining investment could almost double in the next four years if the country was to return to the top quartile of the most attractive mining investment destinations," Baxter argues.

"Given the industry's commitment to real transformation, this would also materially advance the entire country's transformation agenda." i

■ The writer travelled to South Africa as a guest of Orion Minerals.

Orion Minerals boss Errol Smart with a drill sample at Prieska.