

MR ROGER BAXTER, CEO CHAMBER OF MINES, KEYNOTE ADDRESS TO THE JUNIOR MINING INDABA, 7 JUNE 2017

I want to begin by congratulating the organisers of this indaba for successfully convening the events of today and tomorrow, which have now become firmly entrenched on the SA mining calendar. Thank you for including the Chamber of Mines on this agenda, and for recognising the role it can, and should, and will play in ensuring that more and more people have access to South Africa's mineral endowment.

It may not be widely known how hard the Chamber has been working to make itself an institution that serves junior miners well. In the pre-democracy decades, and even into the 1990s, the Chamber was essentially the face of large mining conglomerates, and of course the many entities that were spun off from these.

The industry and the Chamber have changed significantly since then. Some of you might have attended our AGM last week – if you did not, I would invite you to read the words of our outgoing president Mike Teke. In his closing address he said that, “We - as an industry - are committed to drive a progressive and transformative agenda to enable mining to regain its lost glory as a key industrial sector for our economy. Mining really matters for the growth, transformation and development of South Africa.”

The Chamber has over 30 members that fall into the category of emerging or small scale miners.

Though there is no hard-and-fast definition of what makes an emerging miner, these are generally firms that operate in the early phases of the mining cycle. Those with which the Chamber is currently engaged are primarily registered companies that hold mining or exploration rights. Most are operating in the coal sector where barriers to entry are less onerous than those into deep-level, hard-rock mining. This is followed by diamonds, manganese, iron ore, platinum, industrial minerals and chrome. Most are black-owned, empowered firms, particularly those in the coal sector.

Definitions relating to small scale mining on the other hand vary greatly. It *excludes*, in our view, subsistence or artisanal mining, but includes genuinely small scale operators. Examples of these small operators would be the members of the Clay Brick Association or the South African Diamond Producers Organisation, which represents the smaller diamond companies. Both of these are Chamber members.



Our Emerging Miners' Desk – or EMD - which was launched in 2014, has made considerable progress in its main purposes of recruiting and assisting new entrants into the mining industry, and in implementing a programme that will assist emerging miners in understanding their legal obligations; assisting them in conducting their mining activities in a socially responsible manner, and in complying with the environmental obligations required from all mining companies.

In seeking to actively extend and diversify our membership, emerging miners pay a low membership fee and have full access to all Chamber resources.

Since its inception the EMD has run a number of public workshops covering diverse areas such as the Mining Charter, finance, water management and environmental compliance. These workshops are free of charge and topics are determined by needs expressed by the participants. The EMD also runs closed sessions exclusively for its members. Examples are on the inputs mining companies can make into the development of the third iteration of the Mining Charter and on finance, run in conjunction with the IDC. The EMD has also hosted a workshop to facilitate the linking of smaller producers, with their larger counterparts in order to create operating and commercial synergies.

An area that I have found particularly exciting is the growing mentorship programme for emerging miners. Many of us here today have been in the industry for decades. But we will always be able to look back and pinpoint those people who were our mentors – the individuals who steered us when the going got tough, who told us what we needed to hear rather than what we wanted to hear, and who very occasionally said well done! I personally have been privileged to have worked closely with leaders such as Jurie Geldenhuys, Rick Menell, Bobby Godsell, Sipho Nkosi, Mark Cutifani and Mike Teke as Chamber Presidents over the past two decades. Their strong ethical leadership and experience was defining for my own career.

In this EMD programme, the Chamber matches, on a pro bono basis, retired executives with emerging miners. We have been very grateful for the participation of a pool of retired executives who have committed to ploughing back their skills, experience and wisdom for the benefit of future leaders in the mining industry. As the Philosopher Aristotle said “knowledge is something that you gain in the classroom, but wisdom is gained through observation”. When I think of the number of decades of experience these retired executives bring to the table, it is indeed humbling.

Some of these relationships are more formal than others, and some last longer than others. The issues they deal with range from financial advice, business strategy, legal and regulatory issues, advice on the acquisition of mines, and business partnerships. And, as we get better at identifying the areas where there are gaps, so we will improve this programme and, hopefully reach more people.

We are particularly keen to get more and more women involved in the sector. And, on this note, it is particularly pleasing that I can advise that we will have two mining executives who are women that have been elected to the Chamber of Mines Council at our AGM held on 23 May.

Mining has always been a challenging enterprise. Its people are not typical of most in an industrialised society. Except for the small proportion working in head offices and the like, miners don't choose where to live and work. It's the location of the orebody that determines that. In that sense, becoming a miner involves, for many, sacrifice, including the giving up the familiarity of one's original home comforts. Mining requires "deep pockets" and the ability to plan far into the future. As my immediate past President Mike Teke says "mining is characterised by long cold winters and short hot summers". The vagaries of commodity cycles combined with the long lead times to starting projects and the huge capital involved really demonstrate the critical necessity for a stable and predictable policy and regulatory environment if a country wants to grow its mining sector.

For the investor it involves risk. For those investing in a new enterprise it requires the leap of faith needed to start investing today in the knowledge that the returns will start flowing in only sometime in the distant future. Even investing in a going concern is a significant risk. Ask those who took interest at the height of the commodities boom in the first half of 2008.

That is why the industry, and the Chamber of Mines in particular, as representative of producers of 90% of the minerals mined in South Africa, takes such strong positions on the policy and socioeconomic issues in South Africa.

I don't need to tell you that for junior miners, which generally don't have the capacity to have large in-house departments to deal with regulatory issues, there are particular challenges in respect of, for example, delays in mining rights and other permitting applications, development and implementation of SLPs and keeping up with often changing environmental, safety and other compliance issues. The Chamber has sought to work with the DMR to address these particular challenges, among others. As mentioned earlier the

foundation of creating a successful mining sector is a stable, predictable and competitive regulatory framework. Obviously a country needs the mineral base and infrastructure too.

Of course, there are certain tensions at play between the industry and the DMR at this moment. The industry is concerned about the outcome of the DMR's Reviewed Mining Charter which is – apparently - going to be published soon. The DMR unilaterally decided to embark on a totally different process towards developing their Charter, and published a draft in April 2016 without engaging any of the key stakeholders. This was contrary to the 2004 and 2010 Charters where significant engagement had taken place to produce Charters that the industry, government, labour and communities could work with. The key essence is the critical need for stakeholder buy-in. We are uncomfortable with the fact that the process toward developing this new DMR charter has lacked the consultative and engaging spirit that was the norm in the previous iterations.

That has not been the case this time. DMR officials, and on occasion the Minister, met stakeholders, including the Chamber, in separate forums to hear presentations. There was no effort to negotiate towards a workable agreement. With the companies having the primary responsibility to meet the charter's goals, it would be highly unsatisfactory to be faced with a charter that that contains targets that are patently unachievable, and establishes unaccountable structures to administer company funds.

That said, the industry has been, and remains fully committed to meaningful transformation in the sector, but based on a progressive and achievable agenda. The Chamber and the mining industry as a whole continues to recognise that further progress is necessary. We are more than happy to accept targets that build on the significant progress already made. And we would this to take place in ways that meets employees' and communities' preferences and meets growth and development imperatives through incentivising entrepreneurship.

More has been achieved than our toughest critics would like to acknowledge.

In 1994, this industry had a pathetically small number of senior black and women technicians and managers. Today, the majority are black and/or female. The situation cries out for some more creative thinking in the sphere of ownership which, as you would be aware, could become a matter of contestation when the new charter is published.

Here too, there has been progress. As our outgoing president Mike Teke pointed out in his address at the Chamber's AGM last month, in 1994 there were no black mining entrepreneurs at all. Today we see well known corporate names in our sector that emerged from a string of other deals - African Rainbow Minerals, Exxaro, Royal Bafokeng Platinum, Kalagadi Minerals, and his own Seriti Resources.

In the ownership sphere, these are the real models of transformation. Where ownership involves entrepreneurship rather than mere passive holdings. The kind of work that many of you are pursuing too.

We need to get away from the mistaken idea that all the other mining companies are "white-owned". Today more than 50% of the industry is owned by millions of South Africans through pension funds and investments, across all racial groups, including through the Public Investment Corporation and the Industrial Development Corporation. The bulk of the remainder is owned by foreign pension and other asset management funds, on whose investment dollars we are very dependent. None of these companies are owned and controlled by individuals like the mining magnates of old.

In 2004 we had agreed with other stakeholders in the content of the first mining charter that we needed to create a critical mass of black economic empowerment that would become self-perpetuating. We believe that we have ostensibly achieved this goal, but other stakeholders have different viewpoints. Going forward as a country we do need to be thinking more creatively about how our economy, and our industry in particular, can and should be transformed.

Of course, if we are going to demand fair and equitable treatment for the industry, we need to be sure that we behave with honesty and integrity towards our society. That is why the Chamber has developed a membership compact that all members are expected to comply with. I invite you to scrutinise it on our website.

It is also why last year the Chamber commissioned a detailed study designed to establish the veracity of reports that South African mining companies indulge in tax evasion through transfer pricing and other forms of mis-invoicing.

Last year UNCTAD, the UN Conference on Trade and Development, published a report claiming that these practices are pervasive throughout the developing world. And they used South Africa as one of their case studies, looking at a number of minerals and found largescale breaches amounting to more than \$100bn

from 2000-2014. This followed on a report the previous year, 2015, from the UN Economic Commission on Africa, in a study headed by our own former President Mbeki that made similar findings in respect of Africa as a whole.

The Chamber commissioned Eunomix, an independent economics consultancy, to examine the UNCTAD report to establish whether there was any truth in its findings in respect of South African mining.

As you may have read, the initial Eunomix report, which focused on gold mining, the explanation for the alleged “missing” \$78bn in gold (which amounts to a very large proportion of total gold revenues for the period) was twofold:

- First, they used COMTRADE data which compares reported exports by product and country of destination with the reported imports of the products by those same countries. COMTRADE generally does not register monetary gold exports as such. The UNCTAD researchers failed to look at a host of other alternative data. Had they bothered to look at SARS data, StatsSA data, not to mention Chamber of Mines data and audited financial statements of the gold companies, they would have easily found most of the missing gold.
- And second, they would have found the rest had they worked out (as Eunomix easily did) that gold from other countries imported to be refined at the Rand Refinery was registered on one side of COMTRADE’s register but not the other.

Simple really. The final Eunomix report, covering the other minerals, will soon be published. Don’t be surprised to discover similar explanations.

The mining sector is exciting. There significant risks for the hardy entrepreneurs gathered here today. But there are great opportunities too. We at the Chamber of Mines wish you all the best, and look forward to working with you – in the best interest of our sector, and our country, and her people.