CHIEF EXECUTIVE'S REVIEW

ROGER BAXTER
Chief Executive Officer

As ever, the Chamber of Mines' principal responsibility is to properly represent the interests of its members by providing advice and services directly as well as working with government to establish a statutory and regulatory jurisdiction that delivers the certainty, based on an equitable approach, needed to attract mining investment, to bring about transformation that will allow the industry to contribute to the aims of the NDP. Without investment, inclusive growth is not possible. The mining industry needs predictable, stable and competitive mining policy, and legislation that is workable and practically achievable.

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SAFETY

Mine safety and our objective of reaching a position of zero harm remain paramount. And our commitment is unflinching. Mine fatalities declined to 73 during 2016, a 5% decline on 77 in 2015. Sadly, though, we are not yet at our target of zero. It is of particular concern that there was an increase in fall-of-ground related fatalities, an area where the industry has made such great strides in recent years. The industry must redouble its safety initiatives.

My colleagues at the Chamber and I extend our sincere condolences to the families, friends and colleagues of those whose lives were lost.

In 2016, overall injury rates continued to fall, showing a consistent and underlying improvement in performance. It is worth noting that the rate of serious injuries recorded improved by 13% over the previous year. In the past two decades, the annual number of fatalities has declined by 88%, the fatality rate by 75% and the serious injuries rate by 69%. These are figures that underscore what is possible when mining companies, government, employees and the unions work together on this most important of issues.

The context and causes of catastrophic incidents that result in fatal accidents require a different approach. It is for this reason that the CEO Zero Harm Task Team was established, and plays such an important role in leading mine health and safety from the top so as to achieve the 2024 milestones on occupational health and safety.

It is in a similar vein that the industry cannot accept the inappropriate application by the DMR's safety inspectors of Section 54 mine closures. We unequivocally support the fact that the inspectors have a vital role to play in ensuring the safety of miners and compliance by all parties and that Section 54 instructions are a necessary part of this. But the wholesale closure of mines for minor and localised safety failures is disproportionate and, in many cases, contributes to systemic failures by focussing on the wrong things.

Discussions with the DMR over the past few years have thus far not led to a mutual understanding on this matter. This in turn has obliged some Chamber members to seek the intervention of the courts.

The Chamber has developed a draft Section 54 implementation policy and it is hoped this will get traction in government to enable a fairer application. The industry and its members remain open to engaging constructively in seeking fair, reasonable and mutually acceptable outcomes.

HEALTH

The mining industry's determination to improve the health and safety of its employees and to ensure fair compensation for those suffering from occupation-related diseases took further steps through a series of engagements with the Ministries and Departments of Health, Labour and Mineral Resources to discuss how best to approach the integration of compensation systems currently governed separately by the ODMWA and the COIDA. Working discussions are continuing. In the interim, the industry's support for the efforts by the Medical Bureau for Occupational Diseases (MBOD) to track and compensate former miners suffering from occupational illnesses continued with material progress made.

Further, the Chamber's contribution towards eradicating tuberculosis (TB) in mining communities continued to gain momentum as the Masoyise iTB programme entered its second year.

IMAGE

The mining industry is determined to improve the health and safety of its employees. Here, a Royal Bafokeng Platinum employee undergoes a medical examination

MINING ECONOMICS

Last year and the first weeks of 2017 saw a welcome change in the fortunes of some mining sectors. After opening 2016 at a low of $1,077/oz in London, spot gold prices advanced to a peak of $1,366/oz before steadily declining to a low of $1,126/oz in the year's final fortnight. Since the start of 2017, the gold price has strengthened somewhat, reflecting its worth as a safe-haven investment at a time of dollar weakness and uncertainty over the ramifications of the Trump presidency in the United States.

The progress in iron-ore prices was even more startling, based on Chinese demand, with benchmark prices almost doubling in the year to peak in the vicinity of $80/t cif Chinese ports by the close of 2016. In contrast, spot platinum prices were unable to sustain their improvement of the year's first three quarters. Platinum prices moved in line with those of gold. Having reached a year's low of $814/oz in the latter part of January 2016, spot metal rose to $1,182/oz in London in August before falling below $900/oz as the year came to an end.

There are signs that the world economy is recovering slowly with growth centred on a few mineral commodities. Against this, however, should be set the fact that the index of minerals production shows production to have been 15% lower in 2016 than its peak in 2005, another indication that greater certainty is needed if the country's output is to set out on a permanently upward trajectory.

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The post year-end downgrading of South Africa's sovereign debt rating to junk status by two ratings agencies was a devastating blow to the economy. The consequent downgrading of banks and other companies soon followed, and the result is likely to be significantly detrimental for the entire country. The downgrade will raise the cost of capital, increasing government and private borrowing costs, increasing the portion of government revenue that has to be allocated to covering debt service costs – thus crowding out other key government programmes, weakening the currency, raising inflation and, ultimately, affecting investment, growth and employment creation. The poor especially will be affected by higher inflation, with fewer resources available for social grants, low investment and limited growth in employment opportunities. Consequently, poverty levels will rise.

We will continue to work with the new Minister of Finance and his team to restore our country's investment grade.

MINERALS REGULATION

Of concern to the industry is the protracted evolution of the DMR's proposed changes to the MPRDA and the Mining Charter, the latter in its third iteration. At the time of writing, pending the publication by the DMR of a new draft following that published in May 2016, various issues are of concern. There is the question of mining companies' compliance with their BEE ownership obligations in terms of the existing Charter, the so-called "continuing consequences" factor. The Chamber in 2015 lodged a court application for a declaratory order on the proper interpretation of this provision. The decision to do so was originally made jointly with then Minister Ngoako Ramatlhodi. We have held back on proceeding with the application pending discussions aimed at reaching consensus.

Other concerns raised by the Chamber in the past year relate to the proposal that mining companies must contribute 15% of skills expenditure to a Mining Transformation and Development Agency (MTDA) for social and training spend. Little is known of the purpose and governance of this agency, and instead of creating brand new government bureaucracy, we should be focusing on improving the MQA. The DMR's procurement and employment equity targets remain, in our view, impractical and unachievable.

The DMR also continues to insist that multi-national companies supplying goods and services to the mining industry should pay 1% of turnover generated from local mining companies to the new MTDA. This doubles the target set in the 2010 Charter.

The Chamber believes that this is simply an additional tax which the multi-national companies will pass on to local mining companies in the form of higher prices, rendering the South African mining industry less competitive than it already is.

MODERNISATION

The Chamber and its members believe that the future of South Africa's mining industry remains firmly rooted in the mines' ability to work ever-deeper ore, safely, healthily and profitably. We support endeavours by our members to develop new equipment and mining techniques that could eventually lead to fully mechanised and remotely-operated underground equipment. For such equipment and techniques to be successful, we need a collaborative, holistic and people-centric approach to its adoption.

THANKS

It falls to me to sincerely thank outgoing Chamber President, Mike Teke, for his three and a half years of inspired leadership, and its Vice Presidents, Andile Sangqu and Neal Froneman, for their unstinting support and guidance through the year. Thanks must also go to Graham

IMAGE
Underground at AngloGold Ashanti's Mponeng Gold Mine, the world's deepest mine

Briggs, who retired as Vice President in May 2016. As always my thanks go, too, to the Chamber Council, to our executive team and the Chamber's entire staff for all the progress we have made in the period under review.

I am confident that working together as a team the Chamber will progress further in its task of properly representing and assisting its members, and that it will continue to play an ever-increasing role in the development of South Africa's mining industry for the benefit of all.

LOOKING BACK TO LOOK FORWARD

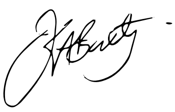
In concluding this review, which inevitably focuses on the challenges faced by the industry, I wish to pause and consider the role of mining and of the Chamber of Mines in South Africa.

Mining has played a vital role in the economy for over 100 years. In 2016, the mining industry contributed R304 billion towards South Africa's gross domestic product (GDP), representing 7.3% of overall GDP. Mining directly contributed R93.3 billion to fixed investment, while R3.7 billion in royalties and R12.5 billion in taxes were paid to the South African government. Mining remains a significant contributor to employment, with 455,109 individuals employed directly by the sector at the end of 2016. This represents just over 5.4% of all employed nationally. In total, these employees earned R120 billion in 2016, and contributed around R18 billion to the fiscus in terms of Pay As You Earn (PAYE) tax.

We must ensure that the legacies of the future are positive, value-accretive and responsible.

Looking back, this is an industry that has contributed greatly to the South African economy and its people. It has also done so at a cost – to people and to the environment – sometimes knowingly and intentionally, sometimes not. This is an industry that, today, must recognise its past and address the legacies that it has to bear. It is also an industry that must look forward to ensuring that future legacies are positive, value-accretive and responsible. The Chamber has accelerated its efforts in dealing with legacy issues and great progress is being made. The Chamber and its members remain committed to inclusive growth and meaningful economic transformation in the sector.

In 2015/2016, the Chamber of Mines Council considered the reports of a comprehensive brand assessment of the Chamber of Mines. It also considered and approved the Chamber's strategic direction in the future focussing on making the Chamber a cutting edge, progressive, modernising and transforming South African organisation.



ROGER BAXTER
Chief Executive Officer
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