#NotOurCharter

DMR'S REVISED CHARTER
AND THE STRUGGLING MINING SECTOR

Without private sector investment, South Africa's economy cannot grow, and will inevitably face further downgrades

The private sector accounts for 80% of employment and economic activity in South Africa. One of the key pillars of promoting a higher economic growth rate – which is desperately needed – is to significantly increase private sector investment.

Investment hates uncertainty, punitive and repressive policies and institutions that are not trusted to fairly and impartially drive the laws of the land.

South Africa is in a recession. Business and investor confidence are at a very low ebb. The damage caused by the release of the DMR's Mining Charter will lead to an exacerbation of the crisis in the mining sector and, in turn, in the country. This will have negative ripple effects throughout the entire economy. It will in all likelihood lead to a further downgrade to the country's sovereign debt rating – with huge negative implications for all South Africans.

The negative response to the release of the DMR's revised charter has already caused severe damage to private sector investment

R51 billion
VALUE LOST
on 15 June by SA listed mining companies

Click on *any of the questions below to jump to the answer.*

Why is economic growth important?

Who is the private sector?

What do we mean by 'smart tape'?

The mining sector is in an investment and economic crisis

The mining sector's economic reality is already uncertain

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The unilaterally developed DMR Charter will discourage investment, with further drastic socio-economic consequences

Why is economic growth important?

A country's economic growth rate is a measure of its economic output. This may be measured by GDP, for example. Economic growth is necessary to sustain and improve the livelihoods of citizens of a country. Without economic growth, employment will decrease, debt will rise and poverty and economic hardship will increase.

Who is the private sector?

Anyone or anything that is not directly owned and run by the state – from large companies and investors, to entrepreneurs and small business owners, to individuals. The private sector is the engine of any market economy, and its expenditure is discretionary. It can choose whether or not to invest, and where to invest.

What do we mean by 'smart tape'?

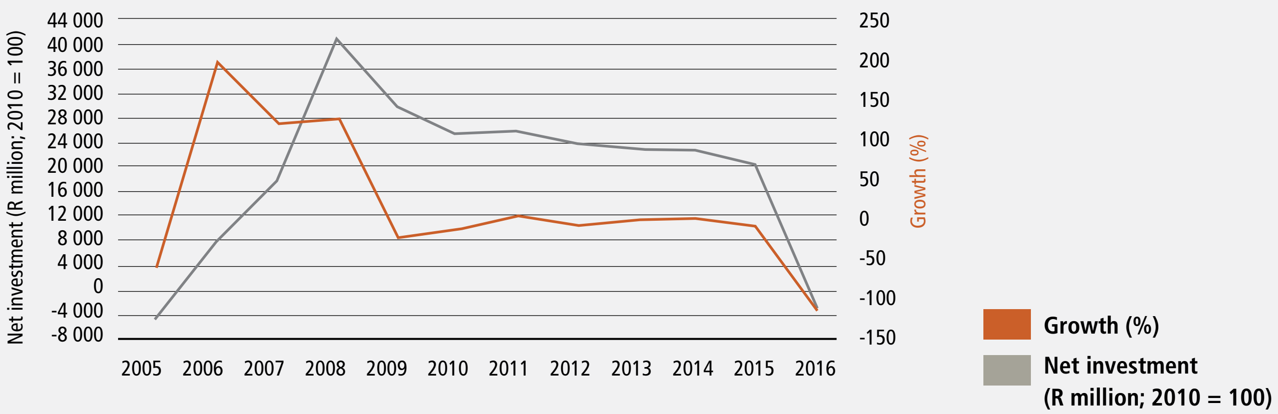
'Smart tape' is the opposite of red tape. Red tape entails ineffective and sometimes counter-productive rules and regulations, and bureaucracy. 'Smart tape' is efficient and supportive. Investment is driven by confidence, which in turn is driven by stable and competitive policies, 'smart tape', credible institutions that abide by and administer the laws, and on the sound rule of law.

The mining sector is in an investment and economic crisis

South Africa's mining sector is in crisis.

- In 2016, the sector is smaller in real GDP terms than it was in 1994.
- In the past 5 years, mining's contribution to GDP shrank by 0.2% per annum, while the rest of the economy grew by 1.6% per annum.
- Investment at the gross and net levels has declined materially over the past two years. The industry is now not even covering depreciation, which means production declines will follow.

Net fixed investment in mining

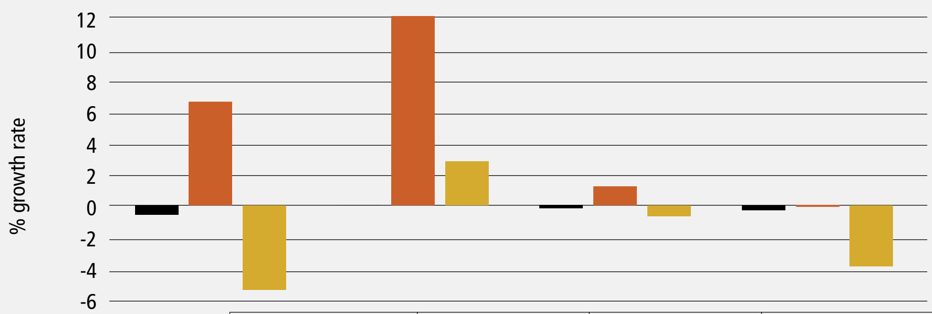


Source: SARB

- In 2015, the sector made a R31 billion loss. At current prices, 60% of the platinum mining sector, a significant engine of mining, is loss-making.

- In the period 2012-2016 over 70,000 jobs were lost in the sector. The sector is currently shedding – on average -1,500 jobs per month.

Growth rates, mining GDP, fixed investment and employment



	1994 – 2000	2001 – 2008	2009 – 2014	2015 – 2016
Mining GDP	-0.6	0.0	-0.2	-0.3
Mining investment	6.6	12.1	1.2	-0.1
Mining employment	-5.4	2.8	-0.7	-3.9

Source: Stats SA and SARB

The mining sector's economic reality is already uncertain

The mining sector has to cope with three fundamental areas of uncertainty over which it has very little control:

- international commodity prices;
- the rand exchange rate (mostly relative to the dollar), and
- domestic cost pressures (other than labour).

International commodity prices (measured in rand terms) have been extremely volatile since the financial crisis of 2008, varying between +40% and -40%. Prices have been declining since the beginning of 2012 and have only recently regained upward momentum (since the second half of 2016). The domestic cost base of the mining sector (excluding labour) is largely determined by administered prices related to energy, transport and logistics (more than 50%). The costs of intermediate inputs have been rising at double digits (on average) for the last 10 years.

The result has been a sector in decline measured by virtually every indicator (over the last 5 years, annual weighted average rates of change, inflation adjusted numbers):

- Turnover fell by 1% (Stats SA)
- Value added to the economy by 0.3% (Stats SA)
- The number of people employed fell by 14%, or 70,000 people (Stats SA)
- Gross fixed investment stagnated and net fixed investment turned negative in 2016 (Stats SA)
- Reported profits declined by 8% (Stats SA)

Over the past 5 years, the mining sectors' profits have declined by 8%

The regulator has further undermined (and not supported) the sector

The sector has faced a hostile regulator, inappropriate Section 54 safety stoppages, rapidly escalating costs (with Eskom being a main driver), challenging employment relations, and policy and regulatory uncertainty. It has also been in the eye of the storm regarding state capture, and all that entails.

It is unsurprising that South Africa is ranked a dismal 74th out of 104 mining jurisdictions in the 2016 Fraser Institute Survey for investment attractiveness in mining. In fact, South Africa is ranked a very weak 13th out of 18 countries in Africa in the Fraser Institute Survey, behind countries such as the DRC, Ethiopia, Ivory Coast, Burkina Faso and so on. The largest contributor to South Africa's poor performance in the Fraser Institute rankings is the uncertainty regarding the interpretation of existing regulations (ranked 90th), uncertainty regarding environmental regulations (ranked 80th), regulatory duplication and inconsistency (ranked 94th), uncertainty on land claims (ranked 94th), workplace disruptions (ranked 101st), and poor security (ranked 93rd).

Continued uncertainty regarding the finalisation of the MPRDA Amendment Bill adds to the policy uncertainty facing the industry. In addition, inefficiency within the DMR bureaucracy has resulted in delays in the issuing of new prospecting and mining rights, the approval of Section 11 transfers, and the approval of Social and Labour Plans, for example. This has contributed to the industry's new project investment being placed on hold.

The unilaterally developed DMR charter will discourage investment, with further drastic socio-economic consequences

The DMR's unilaterally developed charter has spooked the markets and will be negative for investment. It was developed in a flawed process and contains provisions that will have a significant negative impact on the viability of many mines and discourage investment in the sector.

By way of example, the 1% of turnover preference payment to BEE shareholders would be massively detrimental to other shareholders. Using the 2016 total dividends paid by mining to shareholders of R5.9 billion as an example, 1% turnover preferential payment of R5.8 billion, would mean that other shareholders (including existing BEE shareholders, employee and community trusts, and pensions funds) would receive virtually no dividend payments at all.

It is clear that no proper economic impact assessment has been done by the DMR on the impact of the different provisions in the DMR's charter.

Listed mining companies lost R51 billion in terms of their market capitalisation value on 15 June 2017. This will affect the pension funds and investments of millions of South Africans. Importantly, that R51 billion loss in market capitalisation is off the back of a sector's valuation that was already being negatively affected by policy and regulatory uncertainty – effectively this uncertainty was already priced into the share prices to some extent.

Should the DMR's charter be implemented in its current form, the Chamber estimates that between 50,000 and 100,000 direct jobs are at risk in the sector, if investment is not made to stem the decline. The mining sector's net fixed investment is already negative, with the sector not even covering depreciation. Given the deleterious impact of the Charter, this will result in declining production going forward which will negatively affect investment, production, GDP, employment, export earnings, taxes to the state and will undermine all the multiplier effects of mining into the rest of the economy.

The mining sector's poor economic performance over the past five years will worsen and be a drag on the overall growth rate. Through the mining sectors' multiplier and induced effects, the rest of the economy will also be weakened. Given the fact that mining generates two jobs in the rest of the economy for every one job created in mining, the impact of the DMR's charter on other sectors will be a further reduction of employment of between 100,000 to 200,000 additional jobs.

Perceptions regarding South Africa's investment attractiveness will continue to deteriorate (from the already inauspicious level of 13th in Africa). Less investment, means falling production, jobs losses, etc, as the downward spiral continues. This will contribute to the ratings agencies potentially further downgrading the country to total junk status (only Moody's still has the country rated at one notch above junk status), and all citizens will be negatively affected.

No proper economic impact assessment has been done by the DMR

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