

**SPEECH BY
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AT THE

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OF THE

ASSOCIATION OF MINE

MANAGERS

AT THE

COUNTRY CLUB JOHANNESBURG

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1. **INTRODUCTORY REMARKS**

Good morning (ladies) and gentlemen.

Thank you Mr President, Rudi Rudolph, for that kind introduction. It is a great pleasure for me to be here and I am honoured to have been invited to address this 110th Annual General Meeting of the Association of Mine Managers, a prestigious and influential organisation in an industry that has been so instrumental in so many aspects of the growth and development of South Africa into a modern democratic State with an increasingly meaningful role to play both on the continent of Africa and in the wider international community of nations.

As President of the Chamber of Mines I am invited quite frequently to address a variety of different audiences. There is none to which I am inclined to respond more positively than to an invitation from the Association of Mine Managers. Apart from the fact that I am a past member of the Association, it is always particularly gratifying to be able to speak to an exclusive group of mining industry professionals. We speak the same language, we are confronted by the same workplace challenges and, from a purely personal perspective, I feel comfortable in the presence of so many good friends.

2. **THE INDUSTRY AND THE NATIONAL BUDGET**

Listening just a few weeks ago to the annual Budget speech presented to Parliament by Finance Minister Trevor Manuel, I was reminded yet again of just how pivotal is the business of mining to the socio-economic well-being of our country.

In similar vein, many of the observations made by Mr Manuel also had me thinking how fortunate we all are – in spite of some serious frustrations – to be part of the South African mining sector. We are fortunate not because our industry presents easy and comfortable opportunity to make large amounts of money. All of us gathered here this morning are aware that there is not much truth in that statement. Neither are we fortunate simply because we are part of what is quite probably South Africa's only truly world-class industry.

More importantly, in my view, we have specifically good reason to feel fortunate because we are the representatives of an industry upon which both current and future national prosperity is materially dependent. In the absence of a viable mining sector our country's capacity to overcome the debilitating scourge of poverty will radically be diminished. So too will the national policy objective of becoming the principal economic powerhouse on the continent of Africa.

Back to Trevor Manuel's Budget speech to give credible substance to the views I have expressed.

3. **A CRITICAL TEMPLATE**

With the possible exception of the President's State of the Nation Address there is, in a normal parliamentary year, no presentation that surpasses the eminence and importance of the Budget speech delivered by the Minister of Finance. It is the critical template that defines the financial and economic imperatives of the nation. Additionally, and as all of us as taxpayers are compelled to accept with painful yet inevitable resignation, it identifies sources of revenue to be exploited for the accumulation of money to fund State activities which include the delivery of essential services.

During his speech Minister Manuel made several direct references to the mining industry some of which I intend to come back to in a few minutes. Referring to the industry's role as a foreign exchange earner, the Minister made the point that following several years of decline, South African mining production expanded by over four per cent a year in 2003 and 2004. He added that while output of gold had continued to decline, platinum, coal, diamonds and other minerals were benefiting from growth in demand and prices on international commodity markets. The Minister did not refer to the negative impact that the strong rand is having on mining company returns.

Direct references in the Budget speech to South Africa's leading industrial sector present little reason for astonishment and are therefore not the main reason for the interpretation I placed earlier

on the link between what was said by Minister Manuel and the ongoing centrality of mining to future national prosperity.

4. **OTHER URGENT AREAS OF PRIORITY**

My attention, and the logic for the case I am making, is more sharply focused on so many of the other urgent areas of priority that the Minister identified. All of them, some understandably more significantly than others, are demonstrative of the dominant role that is being played – and will continue to be played – by the mining industry. I would like to mention just a few of them to illustrate the validity of my line of reasoning.

- Emphasis was placed by the Minister on the need for economic development and investment. In 2004 the mining industry directly accounted for almost 12 per cent of total fixed investment in the economy. With approved capital projects of some R90-billion for the period 2004 to 2008, ours is clearly an industry investing in the future of South Africa.
- Minister Manuel made reference to the need to fight poverty. Here again mining is making a major contribution, essentially through its role as one of the country's largest employers. Latest available figures show that in the first six months of 2004, the industry provided direct employment to more than 450 000 people. In 2003 it paid R30.5-billion in wages and other benefits to employees. This amounted to almost eight per cent of the total compensation paid to South African private sector employees. It is estimated that some 6-million people are

directly dependent for their daily subsistence on mine employees. I am sure you will agree that this is powerful affirmation of the industry's centrality to socio-economic stability.

- There are several other pertinent extracts from the Minister's speech that I could use to add further strength to the argument I am presenting but in the interests of complying with reasonable time constraints I shall make use of just one more. It relates to Transnet's wagon fleet renewal and modernisation programme. This is an area of enormous mining industry importance and one of equally massive industry activity. With 2004 statistics not yet available it is nevertheless interesting to note that in 2003, the industry moved virtually 99-million tons of bulk commodity ores for export purposes and was by far the dominant user of South Africa's railways and ports. The almost 99-million tons represent 53 per cent of Transnet's entire volume of transport for 2003.

5. **AN INDISPENSABLE INPUT**

(Ladies) and gentlemen, it is these largely indirect – yet critically significant – connections to a wide range of the 2005 Budgetary imperatives that advance such compelling evidence of the mining industry's continuing and indispensable input to the creation of wealth in South Africa.

This rather oblique – yet I think logically valid – interpretation of Budgetary edicts is what prompted me earlier to suggest that we

are fortunate to have a professional presence in the business of mining. Ours is an industry, perhaps not unique but quite clearly one of very few, that is making a positive difference in so many areas of essential and vigorous economic activity. It is also creating opportunities for millions of people to improve their standards of living by loosening the grip of poverty and associated detrimental conditions.

6. **HOLISTIC PERSPECTIVE**

Adopting a more holistic approach to the 2005 national Budget the industry, through the Chamber of Mines, supported the Minister's central theme of a new season of hope for South Africa in its second decade of democracy. Recent reintegration of the economy into the global marketplace provides a framework for a higher and more sustained economic growth rate and the Budget continues to build on the growth platform through balancing the need for a higher social wage with the requirement to promote a supply-side investment environment for business.

With reference now to my earlier undertaking to return to some of the direct implications for the mining industry, there are two that are particularly apposite. Both are potentially damaging and have therefore already been the targets of considerable preparatory and lobbying and advocacy activity by the Chamber of Mines.

The first is Government's proposed comprehensive review of mining taxation and the second – surely more ominous – is the next draft of the Mineral Royalty Bill.

Insofar as the taxation review is concerned there is an understanding in the relevant branches of Government of the high capital requirements and risks attached to attracting mining investment. Through the Chamber, the industry has made it clear that it seeks nothing more than a system that is fair and that is internationally competitive.

In building its advocacy strategy the Chamber has sought advice from the International Bureau for Fiscal Documentation, a globally reputable taxation consultancy based in Amsterdam.

The Bureau was asked to do three things:

- Survey mining taxation regimes in major minerals producing countries.
- Assess the main features of various mining taxation systems and how they deal with, and manage, specific mining industry demands, and finally;
- Distinguish the key principles that characterise successful mining taxation systems.

An initial report from the Fiscal Documentation Bureau has been received. It has been sent back to Amsterdam with a request for further clarity on a selection of different uncertainties. With the imminent emergence of an acceptably clear picture, the Chamber will submit its well defined views to the National Treasury.

7. **ROYALTIES**

In early 2003 the Treasury produced a draft Mineral and Petroleum Royalty Bill and in last month's Budget reference was made to the upcoming publication in the first half of this year of a second draft of the proposed royalty legislation. You will remember that in the first draft there was a recommendation for imposition of a revenue-based royalty ranging from two per cent on coal to eight per cent on diamonds. Gold was structured at three per cent and PGMs at four.

In a strongly worded submission to the Treasury the Chamber, while acknowledging Government's right to impose royalties on mining operations, made the point that if there had to be a royalty regime it should preferably be a profit-based system.

Such a system – more constructively in line with international best practice - would ensure that royalties would only be payable when there were profits. Additionally, and divorced from the consequences of a revenue-based system – it would not reduce the size of any given ore body but would create opportunity to ensure that a greater portion of the national patrimony was brought to account to the ultimate benefit of all South Africans.

We await with interest the Treasury's publication of the second draft of the Royalty Bill. There are strong indications that Government is unlikely to deviate from its proposed revenue-based royalty system. In that event it is the industry's opinion that

commodity percentages need to be reduced and that royalties should only become payable when a mining company is in a tax-paying situation. It is also essential that royalty rates be internationally competitive.

Although it has not yet arrived in the public domain and will not effectively be implemented until 2009, there is clearly no doubt that Government's second thrust at a parliamentary-approved mining commodity royalty regime will be a demanding challenge for the industry to confront on the not too distant horizon of time.

8. **BENEFICIATION**

How comforting it would be if the effect of Government enactments on the operational and strategic pursuits of the mining industry was confined to what was contained in the annual national Budget. That is a concept, unfortunately, that resides in the realm of wishful thinking. Realistic evaluation reveals that a significant proportion of all Government policy formulation activity will impact in one way or another on the mining sector.

Right now, in the first quarter of 2005, there is a host of intended legislative decrees that have potential to influence the way that we conduct our business. Keeping up with Parliament's legislative programme is a relentless process and it is one that demands the conscientious focus of the Chamber's Chief Executive and his staff whose task it is to identify legislative objectives and then devise lobbying and advocacy positions for endorsement by the Executive Council.

Allow me over the next few minutes to deal briefly with a few of the major issues, both legislative and one or two with entirely different sources of origin, that will be affecting our various organisations in the foreseeable future. I will also identify what is being done, or what is intended to be done, about each of the subjects raised.

First on the list is the contentious issue of beneficiation. What we have seen so far from Government is a draft Precious Metals and Diamonds General Amendment Bill, the major purpose of which is to rationalise the regulation of matters pertaining to the downstream development of precious metals and diamonds. What we know for certain is that the Bill gets nowhere close to being Government's final and definitive approach to beneficiation. The Minister of Minerals and Energy has publicly declared that she is passionate about beneficiation and it has been suggested that Government will soon be introducing measures to ensure that gold, diamond and platinum producers retain a portion of their products in South Africa for beneficiation purposes.

Locally based value-addition activity is viewed as having significant job creation capability and is additionally seen as an opportunity to attract foreign investment.

With beneficiation being classified as a possible offset against Mining Charter ownership targets, it has been the subject of considerable investigation and research by the Chamber.

The position that has been developed by the Chamber supports Government's view that increased levels of beneficiation at the manufacturing level will be good for South Africa. It is firmly stated, however, that mining companies – which have well developed competence in mining and not jewellery fabrication – should not be coerced into the downstream beneficiation business. In a global context there is no evidence that major mining companies have ever ventured successfully into the manufacturing beneficiation arena and it is the view of the industry – as represented by the Chamber – that beneficiation should be exclusively driven by commercial criteria and encouraged through creation by Government of a favourable investment environment.

Finally, the Mining Charter's beneficiation offsets must essentially be presented as incentives and not as requirements.

9. **BEE CODES OF GOOD PRACTICE**

On the subject of the Mining Charter, our country's first sectoral empowerment guideline negotiated and agreed to voluntarily by mining industry stakeholders, there exists an element of confusion over how it will be affected by the Department of Trade and Industry's recently published Empowerment Codes of Good Practice.

This was a matter that was tabled at last month's meeting of the Chamber's Executive Council when it was resolved that urgent meetings be sought with the Minister of Minerals and Energy as well as the Minister of Trade and Industry to obtain clarity on what

the implications of the Codes will be on the Mining Charter which appropriately encompasses many of the unique circumstances pertinent to mining.

Without making any attempt to suggest that the Mining Charter is superior to the Codes of Good Practice, the outcome that will be sought in the meetings with the two Ministers is that the Mining Charter should take precedence over the Codes of Good Practice.

10. **STRENGTH OF THE RAND**

Because of the devastating impact it has had on our industry over the past few years and almost entirely has been responsible for the mining sector – and consequently South Africa – being unable to extract substantial benefit from the global commodities boom, I am compelled to refer briefly to the strength of the Rand.

In both 2003 and 2004 the Rand has been one of the best performing emerging market currencies. Just last week I noticed the rather startling statistic released by SA Revenue Services that the Rand has strengthened by 130 per cent since 2001.

SARS also disclosed that this year's January trade deficit amounted to R3.3-billion. It was the ninth trade deficit month in the last 10 months, and the mineral products' component of the more than R3-billion deficit was R1.15-billion. These are very big numbers and their consequences are being reflected in the erosion of mining company profit levels and announcements by several organisations that jobs are going to be lost.

In developing a lobbying strategy on the strong Rand the mining industry has, of necessity, had to exercise both caution and sensitivity. It has required acknowledgement that while the strong currency has been bad for the mining industry there are other commercial and industrial sectors – specifically those engaged in the importation of goods and services – that have derived significant benefits from a powerful rand.

Additionally, it has been important to avoid creating an impression that the industry is attempting to compromise the independent prerogative of the Reserve Bank to formulate monetary policy. The interventions that have been made have been focused on encouraging the accumulation of higher foreign exchange and gold reserves to be accompanied by incentives for increased foreign direct investment.

There is evidence that the Central Bank is doing these things and their effect should ultimately be a reduction in currency volatility and thus a more stable currency environment.

The industry has never lobbied for the introduction of measures that will produce a weak currency – only the elimination of volatility and creation of stability.

11. REACH

Dealing with locally generated issues of contention is more than enough to keep mining industry executives in a state of perpetual vigilance. Every now and again, however, there is a development

elsewhere in the world that constitutes a serious threat to our viability.

The European Union is currently developing a chemicals policy known as the Registration, Evaluation and Authorisation of Chemicals – conveniently abbreviated to REACH. Originally formulated to deal with synthetic and organic chemicals, the policy proposes that all minerals exported to EU countries, including those containing precious metals, will fall within its scope.

Implemented in its current form REACH will mean that South African minerals will be subjected to requirements that will significantly increase the costs of accessing markets by local mining companies. The obvious implications are reduced profits and an additional threat to jobs. It is believed that these harmful consequences are probably unintended but taking account of the fact that 90 per cent of South Africa's primary mineral products and 38 per cent of processed mineral products are exported to the EU, REACH is a development that cannot be ignored.

There is an approach being developed in the Chamber of Mines which will enlist the active support of Government to point out at the highest political level in the EU, the considerable harm that REACH will bring to the South African and other mining economies throughout the developing world. The anti-REACH strategy will also involve the African Mining Partnership.

12. WAGE NEGOTIATIONS

(Ladies) and gentlemen in bringing to a close my address this morning I think it is important to note that in about two months time the Chamber will be entering a new round of wage negotiations on behalf of the gold and coal mining industries.

While the upcoming negotiations will be restricted to gold and coal sector employees, there is a strong likelihood that the National Union of Mineworkers will reintroduce its demand, tabled initially at the 2003 wage negotiations, for a bargaining council for the entire mining industry. Clearly, this is an issue of considerable interest to the industry and one that has been thoroughly researched by industrial relations practitioners. The NUM has not yet submitted its demands to the Chamber but if the bargaining council issue is included it will certainly bring an additional controversial component to what could be an already difficult process of negotiation for the major participants.

As far as wages are concerned, I agree with recent observations made publicly by Tony Trahar. He identified as a major challenge the need to secure near inflation wage increases in the mining industry. At this time there is probably nothing quite so important for both the short and medium-term viability of South Africa's premier industrial sector. One hopes that this is an imperative that the unions will be willing to share.

13. **CONCLUDING REMARKS**

What I have attempted to achieve this morning is to paint a fairly big picture that illustrates both the positive and some of the threatening developments that palpitate with varying degrees of brightness on the mining industry radar screen. Ours is a very big industry, however, and I will clearly have failed to get everything on to the agenda. To have done that I would have been required to speak at a speed completely beyond my verbal articulation capacity and therefore, almost certainly, beyond the capability of any reasonable audience to comprehend.

Like so many of the exceptional mining industry executives who preceded us over a period of well over one hundred years, it is our task to deal effectively with the threats and make best possible use of the positive opportunities to ensure that the South African mining industry will retain its globally commendable profile while continuing to play its emphatically critical role in the development and growth of our country and all its people.

To you Mr President and all the members of the Association of Mine Managers who are gathered here today, thank you most sincerely for giving me the opportunity to address you. I appreciate your gesture and would like to convey my congratulations and best wishes for his soon to begin term of office to the incoming President of the Association.

Thank you all very much.