

**SPEECH BY MR M G DILIZA,
CHIEF EXECUTIVE,
CHAMBER OF MINES, AT THE
112TH ANNUAL GENERAL
MEETING OF THE ASSOCIATION
OF MINE MANAGERS
AT COUNTRY CLUB
JOHANNESBURG
ON
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1. **INTRODUCTORY REMARKS**

A very good day to all members of the Association of Mine Managers; distinguished guests; (Ladies) and Gentlemen.

I am greatly honoured to be here today and I must thank Mr Neil Herrick, President of the Association, and members of the Association's Council, for inviting me to say a few words at this auspicious annual event.

Anybody who has any involvement with the critically important business of mining in South Africa will be aware of the consistently valuable role that is played by the Association of Mine Managers. There are very few professional associations in our country that can lay claim to an historical record that stretches back more than 100 years. Yours is truly an Association of considerable substance, one that has counted among its members some of the mining industry's most eminent and colourful personalities.

Today, as you come together to attend your Association's 112th Annual General Meeting, you retain your reputation as a group of immaculately skilled professionals whose knowledge and expertise are indispensable assets to an industry with accepted capacity to stimulate national economic growth and thereby make a meaningful contribution to the achievement of one of Government's major policy imperatives which is the alleviation of poverty.

It is of interest to note that the Association of Mine Managers and the Chamber of Mines are of similar vintage and my recognition and acceptance of the Association as one of South Africa's most pre-eminent professional entities, are factors that contribute to my appreciation of being given the opportunity to present an address at today's AGM.

Among many other common goals and objectives, the Association of Mine Managers and the Chamber of Mines are both committed to the creation of an environment in which mining operations can most effectively and efficiently be conducted. Over the years, in its capacity as a lobbying and advocacy agency acting in the best interests of its mining company members, the Chamber has had countless engagements with influential individuals and institutions – many of them located at various levels of Government – to secure the best possible enabling environment for our mining industry.

I am pleased to be able to report that many of our interventions – certainly not all of them – have been successful.

It is my emphatic belief that the main reason for the Chamber's largely successful record in the policy formulation arena resides in the fact that it has established a reputation, specifically at the highest levels of seniority in the Department of Minerals and Energy, as an organization of impeccable trust. This is not a situation that has been easily created. It has come about through the conscientious efforts of dedicated and professionally qualified members of staff who in current circumstances accurately represent our country's demographic architecture.

As a critically important Chamber constituency, I would like to assure all members of the Association of Mine Managers that the Chamber is at an advanced stage in its quest to acquire the most appropriate professional and intellectual chemistry that is required to meet the host of challenges that continue to confront South Africa's leading industrial sector.

All of you will know as well as I do that the challenges I have referred to are ongoing. Some, quite obviously, are more onerous than others but whatever their level of threat to the mining industry they all need to be identified, properly analysed and finally competently confronted.

With your indulgence Mr President, and fellow members of the Association, I would like to make use of the time still available to me to classify just three contemporary issues that the Chamber is dealing with and which I think are of particular interest to operational managers and high level mining industry executives.

2. **THEFT OF PRECIOUS METALS**

My first area of focus will be the theft of precious metals from South African mines and refineries. I would then like to say a few words about electricity generation capacity and then conclude with Chamber responses to the Second Draft of the Mineral and Petroleum Resources Royalty Bill.

On the subject of precious metal theft, some of you will be aware that the Chamber commissioned the Institute of Security Studies to investigate this

very damaging phenomenon and to compile a comprehensive report which was published towards the end of last year. For those of you who have not seen the report and would like to do so, it can be accessed on the Chamber website which is at: www.bullion.org.za.

Information that emerged from the research conducted by the Institute of Security Studies is disconcerting as it shows that ongoing theft remains a major threat to the precious metals mining industry which is identified as a sector of strategic importance for the development and sustained growth of South Africa.

The Institute's report makes it clear that the theft of precious metals and mining equipment has the potential to erode the profitability of marginal mines to such an extent that they would have to stop production and lay off their employees. It adds that despite advances in crime detection and prevention technology, transgressions are nonetheless common at most mines and processing plants. The precious metals mining industry is not capable, the report states, of determining exactly how much product is lost during processing phases, leaving a window of opportunity for theft and corruption.

Working through the Chamber, the mining industry has recognized the necessity to adopt a collaborative approach to address the organized crime threat that faces the industry. As a result, a joint initiative between the industry and the police – known as the Joint Investigation Group, or JIG in its abbreviated form – was established several years ago. The function of the

JIG is to investigate and analyze the activities of criminal syndicates involved in the theft of precious metals.

Some very interesting and productive work has been done.

Shortly after becoming active, the JIG classified precious metal smuggling syndicates into five distinct levels. Level five syndicates are situated at the top of the criminal hierarchy and Level one at the bottom. The Level five syndicates are active in the international arena while Level four down to Level one operate within South Africa's borders.

Compelling extrapolations have been done by the JIG to quantify the extent of theft from gold and platinum mining operations. It was established not that long ago that there were three Level five gold smuggling syndicates that were being supplied by 17 Level four syndicates operating inside South Africa.

Surveillance by the JIG of the activities of just one of the Level four syndicates showed that it supplied the Level five syndicates with a monthly average of gold bearing material worth R18-million.

Assuming that each of the 17 Level four syndicates dealt in only 50 per cent of the identified R18-million a month, it transpires that Level four syndicates may well be selling unwrought gold to the value of close to R2-billion a year.

The Institute's report classifies this 50 per cent business success of Level four syndicates as a very moderate estimation.

Shifting the focus to platinum, the report notes the identification of five Level five syndicates focused on South Africa. It cites the example of the confiscation by authorities of one shipment of 13 containers of PGMs with an estimated value of R51-million.

If it is then assumed that each of the Level five syndicates received just one annual shipment worth an average of R51-million, they would be illegally exporting more than R255-million worth of PGMs a year.

The pertinent question posed by the Institute's report is: "Just how many shipments are, in fact, exported by the well organized criminal syndicates?"

3. SUCCESSSES

In just a moment I will expose some of the successes recently achieved by the JIG but before doing so I intend to refer to some interesting information that has come to light in the wake of arrests that have been made.

Examining the profile of offenders, the report compiled by the Institute notes that 56 per cent of offenders apprehended at gold mines were found to be unemployed while 41 per cent were mine employees. At platinum mines 73 per cent of offenders were employees or contractors while 18 per cent were unemployed.

The report makes the well justified observation that it was alarming to find that such a high percentage of offenders were trespassing on secure mining areas while committing theft.

(Ladies) and Gentlemen there is no doubt that the theft of product from mines that are managed by members of your Association is an extremely menacing phenomenon.

It is gratifying to note, however, that positive headway is being made by the industry's joint initiative with law enforcement agencies. Earlier this week I received information on arrests made and recoveries of product during the last six months from the head office of our country's organized crime detective service.

Since September 2006, 110 arrests have been made. Unfortunately, most of the offenders that were arrested were at the lower syndicate level. There were only 10 Level four syndicate arrests and at the sophisticated, internationally operating Level five syndicates, no arrests were made. The value of stolen precious metals recovered during the past six months exceeds R40-million, while additional property to the value of R19-million has been seized. Almost R1.7-million in cash was confiscated and there were other items of quite considerable value, some R15.6-million, taken by the Asset Forfeiture Unit.

It may well be that what is being achieved amounts to no more than claiming the tip of an unacceptably large iceberg, but it is comforting to know that at

both industry and law enforcement levels there are dedicated individuals whose combined efforts are definitely beginning to make a difference.

Given the gravity of the problem and the alarming extent of the amounts lost – not only by the mining industry but also the national economy because of reduced industry contributions to the fiscus – I am sure that the Chamber will have your Association's enthusiastic support in its ongoing collaboration programme to deal with this extremely harmful practice.

4. **POWER OUTAGES**

With their potentially disastrous consequences for mines, I am aware that the continuing occurrence of power disruptions has reached a level of utmost concern. Our Chamber's Executive Council, at its most recent meeting, classified South Africa's electricity generation crisis as a matter that needed to be raised urgently with the Minister of Minerals and Energy, Ms Buyelwa Sonjica. It is absolutely imperative that the Minister be comprehensively informed, and given a practical understanding of mining industry health and safety risks that will inevitably arise if mines – deep level ones in particular – are left for extended periods without a supply of electricity.

Enquiries conducted by the Chamber reveal that the current thin reserve margin in electricity generation capacity arises essentially from a 2001 Cabinet decision, supported by both the Department of Minerals and Energy and Public Enterprises, which prohibited Eskom from building any new power stations.

As far back as April 2004, the Chamber cautioned the Minister of Minerals and Energy that increasing demand for electricity was depleting reserve capacity much faster than initially expected. As a result of this intervention, which was accompanied by representations from other pressure groups, Eskom was given permission, towards the end of 2004, to proceed with the construction of new power stations.

Given the time required to plan, construct and commission a power station the first new base load generation plant will only start operating in 2011. In the interim, the demand is continuing to increase resulting in a constantly decreasing reserve margin.

A few weeks ago, I met with Eskom's top management to express the mining industry's grave concerns. At the meeting, Eskom presented its plans for the expansion of generation capacity. Chamber analysts believe that the Eskom proposals are good but amount to too little too late. As a result the electricity generation reserve margin will remain below the desired levels for at least the next three to four years.

Eskom's top management are well aware of the critical importance of electricity in health and safety applications in the mining industry. They have appealed to their large customers, the mining industry being one of their biggest, to implement energy saving measures wherever possible.

In the circumstances, the Chamber supports Eskom's appeal and stresses the need for all mines to be sure that their emergency electricity generation back-up systems are in perfect working order.

The information we have at our disposal makes it clear that ongoing power outages are an absolute certainty. The potential threat that they pose to the lives of mining industry employees demands our constant awareness and will be vigorously emphasized when next the Chamber's office-bearers meet with Minister Sonjica. A request for an urgent meeting with the Minister has been sent to her office.

5. **ROYALTIES**

Having spoken of the certainty of ongoing power outages, there is another certainty looming in the form of royalties that the National Treasury is planning to impose on the mining industry. The Chamber has given detailed attention to the Treasury's royalty proposals and has submitted a response which makes five main points dealing with issues of fundamental principle. The Chamber's submission has additionally been used to create an effective lobbying strategy. Let me briefly identify the principal assertions that are contained in the Chamber document.

- In the first instance – and having to accept that the State has a right to impose royalties on the exploitation of finite natural resources – it is strongly emphasized, as a measure to promote investment, that South Africa's proposed royalty regime must be stable, predictable and competitive. The recommended gross revenue system is opposed with a preference expressed for a net-based system which it is believed, will better serve the long-term national interest.

- The Treasury is asked to abandon the concept of separate rates for refined and unrefined minerals which amounts to the application of non-beneficiation penalties. We believe that the debate should be turned away from coercive penalties on the mining sector and focused instead on establishing the reasons for the failure of the domestic manufacturing beneficiation sector to compete on global markets.
- While the Petroleum Resources Royalty Bill recognizes the negative impact of royalties on marginal mines it is the Chamber's belief, mainly because of the need to promote the junior mining sector in South Africa, that the relief offered to marginal and small mining operations needs to be enhanced.
- The latest royalty proposals do not deal effectively with the problem of double royalties and it is the Chamber's proposal that the Bill be amended to provide exemption from the requirement to pay a royalty where one is already payable in terms of the Mineral and Petroleum Resources Development Act.
- The Chamber's fifth major proposal is that all, or a substantial portion of royalties paid by mining companies should be ring fenced in a dedicated fund to pay for accepted sustainable development initiatives.

6. CONCLUDING REMARKS

(Ladies) and Gentlemen, it is around these five briefly explained objectives that the Chamber will build and expand its case for engagement with the National Treasury on the Mineral and Petroleum Resources Royalty Bill. We all know that first prize would be to persuade the National Treasury to abandon its royalty proposals but unfortunately we are equally convinced that Minister Trevor Manuel has no intention to allow the industry to escape the royalty net.

I have greatly enjoyed being here today and I hope that the three major issues that I chose to deal with in my address have provided some useful information to all members of this distinguished audience. There are many other issues of interest flashing on the Chamber's operational radar screen. Time prohibits me from dealing with them on this occasion.

Mr Neil Herrick thank you once again for giving me the valued opportunity to speak at this AGM. I am aware that today's event brings to an end your term as President of the Association of Mine Managers and I congratulate you on a job well done and wish you all the best for the future. To your successor, Mr Dawid Stander, my sincere congratulations as you begin your Presidency of this august Association. Please be assured of my willing co-operation on all matters of common interest.

Members of the Association of Mine Managers and distinguished guests gathered here today, thank you for your kind attention.

9 March 2007