

SA MINING NEEDS TO ADAPT TO ENSURE SUSTAINABILITY

According to a report titled *Mining after Covid-19: The South African Case* by the **Boston Consulting Group**, the impact of Covid-19 on the South African mining industry has been acute.

The report states that with continued uncertainty in the medium-term, but also given the prevailing structural challenges, mining companies in South Africa will have to adapt their operating models to ensure safety and sustainability.

Mining sites in South Africa were among the hardest hit by country lockdowns, suffering significant production losses. "Our current scenario modelling estimates that 15% to 25% of South Africa's 2020 output has been lost due to lockdown and resultant ramp-up of production," says Tycho Möncks, managing director and Partner at Boston Consulting Group, Johannesburg, and co-author of the report.

Although mining is an industry that has historically been a major contributor to GDP, foreign exchange earnings and employment in South Africa, the sector has taken a knock in the past 10 years. Between 2010 and 2018, the sector suffered a 10% loss in output, a 45% decrease in annual mining capital investment and has shed 50 000 jobs. Deteriorating costs, competitiveness internationally, an uncertain regulatory environment, and unreliable energy supply continue to act as major obstacles to the growth of the industry.

These challenges made the impact of Covid-19 difficult to absorb. "However, the mining industry, together with the business community at large, has worked feverishly in recent months to respond to the immediate needs of the crisis, but also to recommend reforms to improve the long-term investment environment for growth and competitiveness," says Möncks.

Government and mining companies' continued priority needs to be workforce protection to avoid any further spread of Covid-19. Numerous digital and other solutions could help, especially for contact tracing and while some mining companies have taken decisive steps, full coverage is not yet in place. Companies should also not let their guard down, and plan for how they can help to deploy vaccines for their workforce and communities once those are available.

Managing cash flows and liquidity also continues to be vital, and mining companies can develop strategic "war rooms" to monitor inventory, supply chain, and financial health to drive recovery in the short term.



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However, now is the time to ensure the longer-term competitive positioning of the industry in the years following the Covid-19 crisis. As part of a structural reform package, BCG has identified eight priority actions to improve mining competitiveness in South Africa:

Regulatory reform: South Africa should continue to rethink its regulatory framework to enforce regulation in a more permanent, stable, and predictable manner. Ideally, it would result in significant amendments to the Mineral and Petroleum Resources Development Act (MPRDA) to write the regulatory requirements, which are currently expressed in South Africa's mining charter into the MPRDA. Although this would be a challenging process, it would be massively beneficial to regulatory stability and certainty.

Industry modernisation: Through technology, mechanisation, and digitisation, mines can improve operational performance, cost efficiency, safety, and productivity - extending the life of the mine, increasing production, and creating new and improved job opportunities.

Reliable energy supply: South African mining lost between R7- billion to R12-billion of production due to load shedding in 2019. Complementing generation, either through self-generation or independent third-party generation, is the key to mitigating the risk of unreliable energy supply. Government should further ease the regulatory burden and process barriers to self-generation.

Infrastructure development: Bottlenecks in South African rail and port infrastructure inhibit the export of certain minerals. South African ports are currently 20% to 40% less efficient than their global peers. A detailed feasibility study needs to be commissioned to address the immediate bottlenecks, which includes increasing the Saldanha railway capacity to 87 metric tons and allowing private concession of the Lephalele–Maputo railway line, targeting 15 metric tons of additional capacity.

Intensified community development: All new projects should be conceived with inputs from government, industry, and communities, building long-term development plans on what communities should look like in future. Then, individual projects should feed into long-term community development plans that can be rigorously tracked over time.

Exploration strategy: South Africa's mining exploration has declined from representing 2% of global exploration historically to less than 1% today. To overcome this challenge and put South Africa in a better position to encourage exploration investment, mining companies should develop a comprehensive exploration growth strategy, remap high potential geographical areas, improve the quality of the geomapping platform, and encourage risk capital through a flow-through share scheme similar to the Canadian model.

Government-industry task force: A joint government–industry task force should be created to oversee and fast track all processes required to improve mining competitiveness in South Africa. This task force should be made up of all relevant decision makers to ensure effective, joint and hence true value accretive and quick decision making.

Investment promotion: The progress of the South African mining industry is currently undermined by negative general perceptions of the industry globally – and specifically by South Africa being seen as a challenging mining environment. Government and key industry stakeholders should develop a consistent narrative on mining in South Africa as an attractive investment destination. Crucially, this narrative should be underpinned with actual reforms to address some of the real concerns many investors have. This narrative can then be communicated, with credibility, at mining conferences and other key events.

“In addition to addressing the current structural constraints, the industry is grappling with a longer-term transition towards climate resilience. To better position themselves, mining companies in South Africa should begin to ramp up exploration for commodities that are expected to be in higher demand because of climate change,” says Möncks.

“Implementing measures to address climate challenges will require all stakeholders, including mining companies, regulators, and investors, to collaborate diligently. Through effective collaboration, the various stakeholders can transform the mining industry in South Africa into one that is greener and more competitive globally.” ■