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Priority actions to improve mining competitiveness post COVID-19

Lucas Chaumontet, MD and Partner at Boston Consulting Group's Johannesburg office.

In order to turn around the South African mining growth trajectory and rebound stronger from the COVID-19 crisis, a set of collaborative actions is required from all key stakeholders, including government and labour. Speaking to *Modern Mining's* Munesu Shoko, Lucas Chaumontet, MD and Partner at Boston Consulting Group's Johannesburg office, details eight primary actions for government and industry to improve mining competitiveness in SA post COVID-19.

The COVID-19 pandemic presented significant challenges for the mining sector in 2020. Although commodity prices did not fall closer to trough levels as expected at the start of the pandemic, the crisis led to significant production losses through the resultant lockdowns. In its report, *Mining After COVID-19: The South Africa Case*, Boston Consulting Group (BCG) estimates that approximately 350 mines globally have lost some production as a result of country lockdowns.

South African mines suffered significant mining production losses during the country's hard lockdown. The impact of COVID-19 on the South African mining sector, says Chaumontet, was exacerbated by the fact that the industry was "already in bad shape structurally" well before the pandemic hit.

"The mining industry in South Africa was already structurally challenged well before the pandemic, from a production and jobs perspective. There were also lingering issues around competitiveness, with several mines already sitting on the higher end of the cost curve compared to their global counterparts. The industry was also lagging behind global best practice in terms of modernisation and digitisation," says Chaumontet.

South Africa's mining industry, notes the BCG report, has struggled to be cost competitive internationally, due in part to geological factors. Despite the country's large reserves, deteriorating cost competitiveness and quality of remaining deposits are a cause of concern. The country's deep gold reserves, in particular, are becoming more challenging and costly to extract relative to the gold mining costs in competitor countries.

"There are also other elements that are external to the mining sector itself, but are part of the South African operating landscape, for example, the unreliable energy supply," says Chaumontet. To provide context, the report notes that the mining industry endured the equivalent of 30 days of no power in 2019, and estimates that the industry lost in the region of 4% of total planned output

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during the same year due to power outages.

In light of these factors, the mining sector was already on the back foot in 2020, with little capacity to absorb a large, unexpected, exogenous shock such as the COVID-19 pandemic. The industry has, however, worked feverishly in recent months to respond to the immediate needs of the crisis, and also to recommend reforms to improve the long-term investment environment for growth and competitiveness.

How can the South African mining growth trajectory be turned around to enable the industry to rebound stronger from the COVID-19 crisis? "There are basically eight key areas we have identified in the report to improve mining competitiveness in South Africa," says Chaumontet.

Regulatory reform

The BCG report suggests that South Africa should rethink its regulatory framework to enforce regulation in a much more permanent, stable and predictable manner. The global best practice approach for this is to legislate regulatory requirements and to leave as little administrative discretion as possible in regulatory requirements.

"Mining investments are for the long term, and when you change the rules of the game frequently, it becomes uncomfortable for investors," says Chaumontet, adding that a conducive and stable regulatory environment is important for the country to attract the much needed mining investment.

This, notes the report, would require a significant amendment to the Mineral and Petroleum Resources Development Act (MPRDA). Although this would be an arduous and time-consuming process, it would be massively beneficial to regulatory stability and certainty since, in the long term, it would mean that mining regulation is subject to full parliamentary scrutiny.

Modernisation

Modernisation is key to the competitiveness of the mining industry, given that a total of 64% of South African mining output falls on the high half of the global cost curve. Through technology, mechanisation and digitisation, mines can improve operational performance, cost efficiency, safety and productivity, thus extending the life of the mine, increasing production, and creating new and improved job opportunities.

Technology is the key to unlocking cost competitiveness for South African mining, and the industry should proactively look at opportunities for the appropriate investments. Special effort, suggests the report, should also be made to bring all stakeholders along on this process, which could be mutually beneficial for all involved.

"There needs to be a next wave of efficiency and productivity in the industry driven by the implementation of new technologies such as artificial intelligence, automation and digitalisation and all other technologies that are possible today to reaccelerate the industry's efficiency regime," he says.

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Energy supply

On the back of the estimated R7-billion to R12-billion of lost production due to load-shedding in 2019, which is anticipated to continue until 2022 at least, the report calls for further opening up generation, either through self-generation or independent third-party generation, which is the key to mitigating this risk.

The government should further ease the regulatory burden and process barriers with regards to self-generation. This will allow mining companies to achieve stable production and more predictable prices for electricity.

"When it comes to reliable energy supply, it's a combination of fixing the power utility on the part of the government and then also for mines not to completely rely on the grid for their power needs. More capacity needs to be built, especially renewable power. Large-scale self-generation projects should be allowed, as this will help improve power reliability and also a reduction in the cost of energy for mines," says Chaumontet.

Infrastructure development

Bottlenecks in South African rail and port infrastructure inhibit the export of certain minerals such as iron ore and manganese. Chaumontet says it's important to debottleneck and improve operational excellence to squeeze more volumes out of the existing infrastructure.

A detailed feasibility study is to be commissioned to address the immediate bottlenecks, which include the expansion of the Saldanha Railway capacity to 87 million tonnes for more iron ore, manganese and zinc capacity; allowing private concessioning of the Lephalale-Maputo railway line, targeting 15 million tonnes of extra capacity; and improving the

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productivity of South African ports, which are currently 20% to 40% less efficient than global peers.

Community development

Chaumontet says community development is such an important topic in the South African mining industry. For any mining project to succeed, he says, it has to involve more community participation throughout the project lifecycle, from when it is set up to when it's in operation.

Licence to operate, the report notes, remains a particularly thorny issue in South Africa. Many mining companies face challenging relationships with local communities, particularly where basic service delivery is not fully functional.

BCG proposes that all new projects are conceived with inputs from government, industry and communities, building long-term development plans on what communities should look like in the future. Then, individual projects should feed into long-term community development plans that can be rigorously tracked over time. Mining companies should also prioritise the upskilling of local communities to create long-lasting empowerment.

Exploration strategy

South Africa's mining exploration has declined from representing 2% of global exploration historically to less than 1% today. Geological database quality also lags behind other jurisdictions, a factor considered to deter mining exploration.

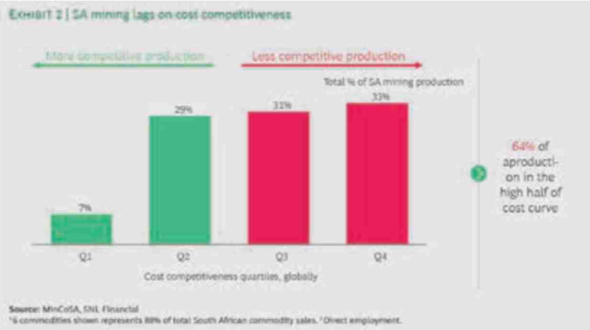
In order to overcome this challenge and put South Africa in a better position to encourage exploration investment, says the report, a comprehensive exploration growth strategy is required. It should revolve around remapping high potential geographical areas, improving the quality of the geomapping platform, and encouraging risk capital through a flow through share scheme similar to the Canadian model.

"Prioritising exploration is important for South Africa, given that the commodity mix is not looking good, especially the dominance of coal, which puts the entire industry at risk in the long term. Investing in exploration to find new commodities that have a long-term future is key," he says.

Government-industry task force

The BCG report notes that the South African government and the mining industry have on numerous occasions attempted and concluded "social compacting" processes whereby reciprocal commitments were made. These processes have to date not yielded optimal results due to a lack of implementation capacity.

BCG proposes that a joint government-industry task force 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 all required stakeholders are involved.



64% of South African mining output falls on the high half of the global cost curve.

Investment promotion

The progress of the South African mining industry is currently undermined by negative perceptions of the industry globally. South African mining has challenges with investor branding. To maximise the impact of actions aimed at improving competitiveness, government and industry should work together to improve global perceptions.

BCG proposes that government and key industry stakeholders 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 very real concerns many investors have. This narrative can then be communicated, with credibility, at mining conferences and other key events.

"South Africa has some constraints around safety and security of people. I think some of the perceptions are worse than the reality. To make the country an attractive investment destination, firstly there is need to change the reality to be a better one and secondly, it's also about aligning the perception with the reality. We need to rebrand the country as an attractive investment destination. That would not only benefit mining, but all sectors of the economy," concludes Chaumontet. ■

Key takeaways

- In order to turn around the South African mining growth trajectory and rebound stronger from the COVID-19 crisis, a set of collaborative actions are required from all key stakeholders, including government and labour
- The BCG report suggests that South Africa should rethink its regulatory framework to enforce regulation in a much more permanent, stable and predictable manner
- Modernisation is key to the competitiveness of the mining industry, given that a total of 64% of South African mining output falls on the high half of the global cost curve
- BCG proposes that all new projects be conceived with inputs from government, industry and communities, building long-term development plans on what communities should look like in the future