

**SPEECH NOTES FOR MR SIPHO NKOSI,
PRESIDENT OF THE CHAMBER OF MINES OF
SOUTH AFRICA, IN HIS ADDRESS TO THE ASSOCIATION OF MINE
MANAGERS OF SOUTH AFRICA AGM
14 MARCH 2008**

Good morning ladies and gentlemen.

It gives me great pleasure to address you this morning at the AGM of the Association of Mine Managers of South Africa. I regard the mine managers in many ways as the unsung heroes of the mining industry. You are, after all, the people who manage operations; who ensure that things run smoothly both on surface and underground so that the company can manifest a sterling performance above ground. You are also the people who, together with their workforce, put their lives at risk when things go wrong. Because you work 'behind the scenes', so to speak, it is seldom that the president of the Chamber of Mines gets a chance to interact with you face-to-face. I am therefore delighted to have this opportunity to be with you today, and at the same time to be able to welcome in the new president of the Association, Mr Philip Tobias, as well as express my appreciation to the outgoing president, Mr Dawid Stander, for being at the helm this past year. Mr Tobias, I wish you a successful tenure as the new president.

I would like to use this occasion to share with you some of the accomplishments of the Chamber of Mines which, similarly to your situation, are not always obvious. I think we would all agree that the most important issue in the mining industry these days is that

of reduced electricity supply to the sector and, given that this affects everyone but more so those working underground, I would like to focus my speech on what the Chamber has been doing to tackle this problem.

The Chamber in fact, together with other stakeholders, took up the cudgels on behalf of the mining sector from the moment that the industry shut down on the *force majeure* instruction from Eskom on 25 January this year. Since then the Chamber has had a series of high level meetings with very senior government officials, including President Mbeki as part of a BUSA delegation, to try to reverse the situation of reduced power output to mines. We are pleased to say that Minister Sonjica's announcement of 95% power to the sector is undoubtedly a consequence of the interactions that the Chamber has had with the minister and other parties. We are mindful of the fact that the increase in the supply of power is not going to be universally implemented, but will be phased in over a period of time. It is our hope that this represents the first step in getting Eskom to restore full power to all of our mines.

To convey to the minister and other government officials a true reflection of the effect of the electricity emergency on the mining industry, the Chamber undertook a survey to determine empirically what impact the power cuts are having on the industry, and the ramifications of this for the country as a whole. The survey serves not only to enlighten stakeholders, but also the public which has been misinformed through some incorrect and irresponsible statements made in the media.

One of the Chamber's main concerns on the issue of power cuts is their frequency and that only a small proportion of these outages is as a result of planned maintenance, the rest being attributed to equipment breakdowns, coal stockpile problems and, ultimately, poor planning.

The current crisis is also unequivocally the result of inadequate supply of power and not because of a massive increase in demand from the mining sector. Indeed, the industry was cognisant of the need for energy efficiency long before the current crisis and had already saved 200 megawatts through demand-side management programmes, in addition to reducing demand via demand-market participation. The further energy cuts to the industry therefore affect the business of mining disproportionately as there is little scope for tighter energy efficiencies in the immediate short term.

An issue that I would like to clarify as it may not be evident to all is that the mining industry acquiesced to a 10 per cent reduction in its level of electricity supply as a temporary measure to assist Eskom in averting a national blackout. This agreement, however, was based firmly on the premise that it would last no longer than four weeks, ending on 29 February, to enable Eskom to stabilise the system. The forbearance of the industry in this regard actually lasted longer than the four weeks, as the additional five per cent supply was only announced by Ministers Erwin and Sonjica last week. It should also be noted that the sacrifice of foregoing 10 per cent electricity supply was made primarily by the large Eskom customers, with minimum contribution from any of the other industrial or household sectors.

I referred earlier to a survey conducted by the Chamber to assess the extent of the impact of a 10 per cent power cut to the industry over an indefinite period, and would like to share with you some of the results of that study. The survey covered about 70 per cent of the mining industry, so the figures highlighted here are 'conservative' and would be more severe if one were to take the industry as a whole. The findings of the survey are illustrative of the importance of the mining sector to the SA economy, and therefore of the magnitude of the effort made by the industry to manage on 90 per cent power.

In relation to production and investment, a 10 per cent power cut translates into a loss of at least R12 billion in turnover per annum. The cost estimate to the industry of simply having closed between 25 and 31 January was R7 billion. Naturally, reduced production means a similar loss in exports which has the potential to cause a 12 per cent deficit in the balance of payments. As a proportion of gross domestic product the deficit is already high and would increase by a full percentage point to about 9 per cent.

Clearly, such production losses have repercussions for mining employment which, it is estimated, could decline by as many as 21 000. Further job losses are in the form of missed opportunities through the transfer of employees from one operation, that may need to be scaled down, to another. The industry is currently in an expansion phase and in 2007 created 40 000 jobs. This fact rebuffs allegations that the industry is using the energy crisis as a smokescreen for job cuts.

On a broader front, a sustained reduction of power to the industry could result in planned investment over the next five years to decline by as much as 13 per cent, or R16 billion. Given that some of this funding would have been sourced from outside the country, it means that capital inflows may drop, weakening further the financial account of the balance of payments. In conjunction with the decline in exports, there would be pressure on the rand exchange rate and a possible escalation of inflation in the domestic economy.

The platinum mining industry is at the forefront of expansion and job creation in the mining sector. As has been seen in the press of late, even the perception of reduced output from platinum mines causes the price of the metal to spike. Whilst this might seem like a favourable situation for platinum mining companies, it is actually detrimental insofar as high prices are likely to encourage the automotive and other industries to seek less expensive alternatives to pgms, with the concomitant effect of compromising the future growth of South African platinum mines.

The blasé attitude in some quarters to a 10 per cent reduction in power in the mining sector is largely based on ignorance of the functioning of South African mines. In the case of deep level mining especially, almost 50 to 70 per cent of electricity usage is for pumping, cooling and ventilation. In other words, this power is required simply to create the environment for miners to work in safety, and cannot be adjusted in any manner. The 10 per cent electricity saving therefore has to be extracted from the production

side, which can amount to a 20 per cent production loss and the attendant job redundancies.

The expectation, therefore that the mining industry should function in the long term on a 90 per cent power allocation is unsustainable. This point was made most emphatically in a meeting which a Chamber delegation had with Minister Sonjica in Pretoria about two weeks ago.

Having outlined the dire effects of the energy crisis on the industry, one must ask ourselves what is the way forward? The industry maintains that 40 per cent of consumers, including the mining sector, shoulder 100 per cent of Eskom's power supply reductions. The industry expects other power consumers in the country to share the burden of the power shortage, enabling more electricity to be allocated to the mines for normal production to be resumed. The Chamber is pleased to inform that the DME minister shares this perception and she has gone out of her way to plead with President Mbeki to ensure that this happens. After last Friday's announcement of an added electricity allocation to mining, we can conclude that the Chamber's campaign to restore normality to the mining industry has been, at least in part, successful.

I would like to assure you that the Chamber will persevere in its lobbying efforts to ensure the successful functioning of the mining sector, not only in respect of the energy crisis but any other factors or developments that compromise what still constitutes the life-blood of the economy. One such additional issue is royalties. Acting on behalf of its members, the Chamber is engaged in an

intensive lobbying process at securing a truly equitable royalty regime for the mining industry.

Thank you.