



Harmony – Bambanani

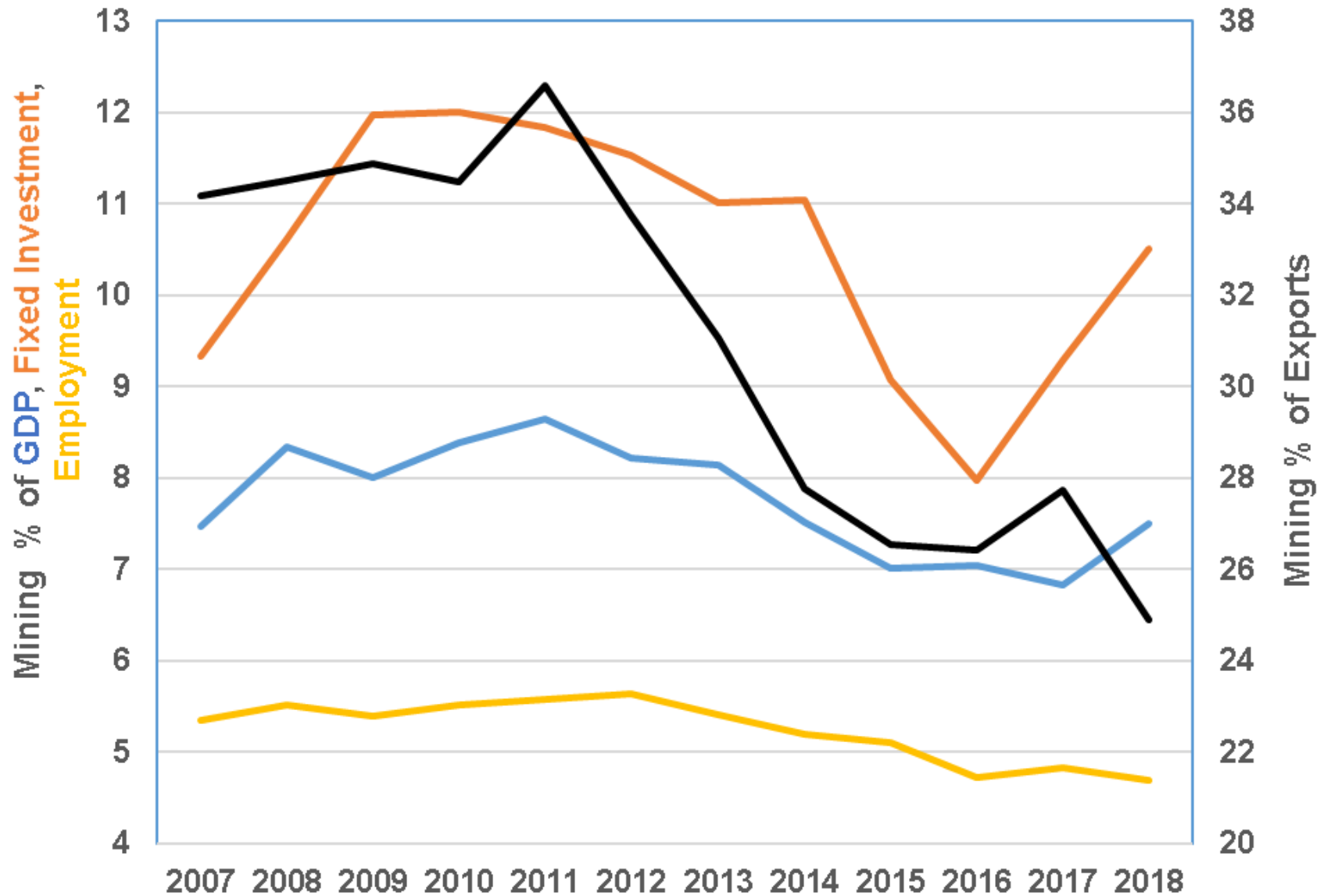
MINERALS COUNCIL POSITION: ESKOM TARIFF INCREASE APPLICATION AND IRP

Henk Langenhoven, 1 February 2019



MINERALS COUNCIL
SOUTH AFRICA


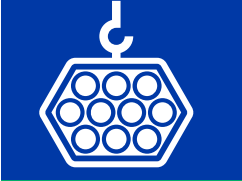


Mining sector contribution to the SA economy



Sources: SA Reserve Bank, Statistics South Africa, Minerals Council South Africa



The HARD CORE of the SA economy

	Mining	7%
	Steel and Engineering	4%
	Construction	5%
	Automobile manufacturers	4%
Total		20%
x2 through multipliers		40%

Sources: SA Reserve Bank, Statistics South Africa, Minerals Council South Africa

Mining sector is a PRICE TAKER



Exports **80%** of mining production



Exposed to internationally determined commodity prices



Exposed to Rand exchange rate fluctuations



Exposed to a cost structure that is overwhelmingly determined by administered prices

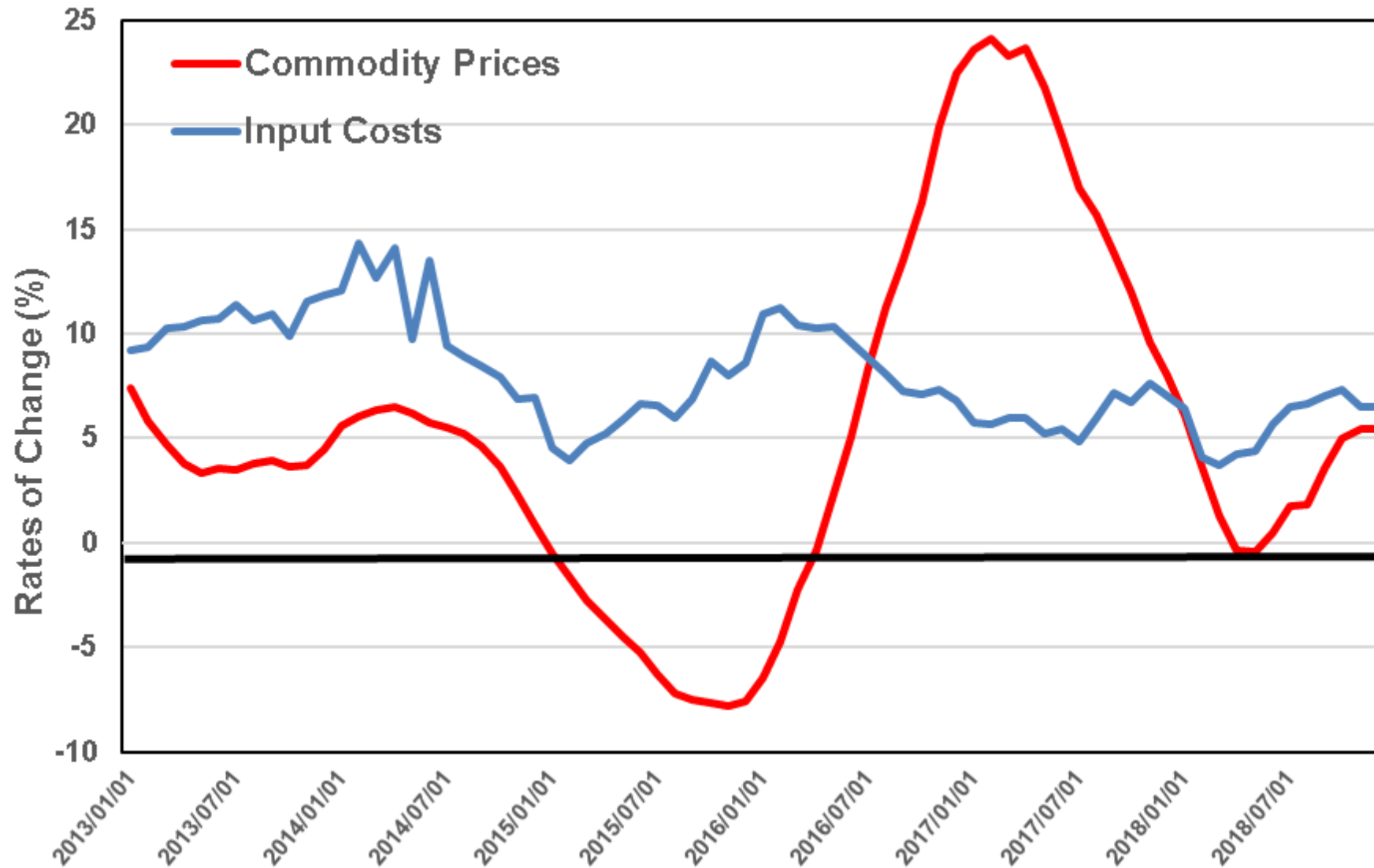
Sources: SA Reserve Bank, Statistics South Africa, Minerals Council South Africa

Mining sector cost structure

Cost basket	Total mining	Coal	Gold	Other mining
	%	%	%	%
Intermediate cost basket				
Mining and quarrying	1.22	0.18	0.39	0.13
Wood and wood products	1.52	0.44	8.37	0.43
Coke and refined petroleum	1.32	1.54	1.19	1.28
Basic Chemicals	1.85	1.03	4.98	1.45
Other chemicals and man-made fibers	2.98	3.20	4.96	2.52
Rubber products	1.41	2.46	1.58	1.08
Metal products excluding machinery	1.85	2.12	3.92	1.36
Machinery and equipment	5.11	5.86	8.07	4.30
Electrical machinery and apparatus	0.93	1.51	1.59	0.63
Transport equipment	1.39	1.47	2.17	1.20
Electricity, gas and water	5.79	3.00	16.60	4.37
Wholesale and retail trade	4.93	5.90	7.38	4,17
Transport and storage	43.89	43.04	2.32	52.49
Finance, insurance, real estate and business services	4.69	4.71	10.14	3.59
Community, social and personal: other producers	2.22	2.22	3.45	1.97
Residual	0.00	0.00	0.00	0.00
Imported intermediate inputs	18.92	21	22.66	18.91
Total intermediate costs (excl. labour)	100	100	100	100
Intermediate costs	65	69	47	69.5
Compensation of employees	35	31	53	30.5
Total input costs	100	100	100	100

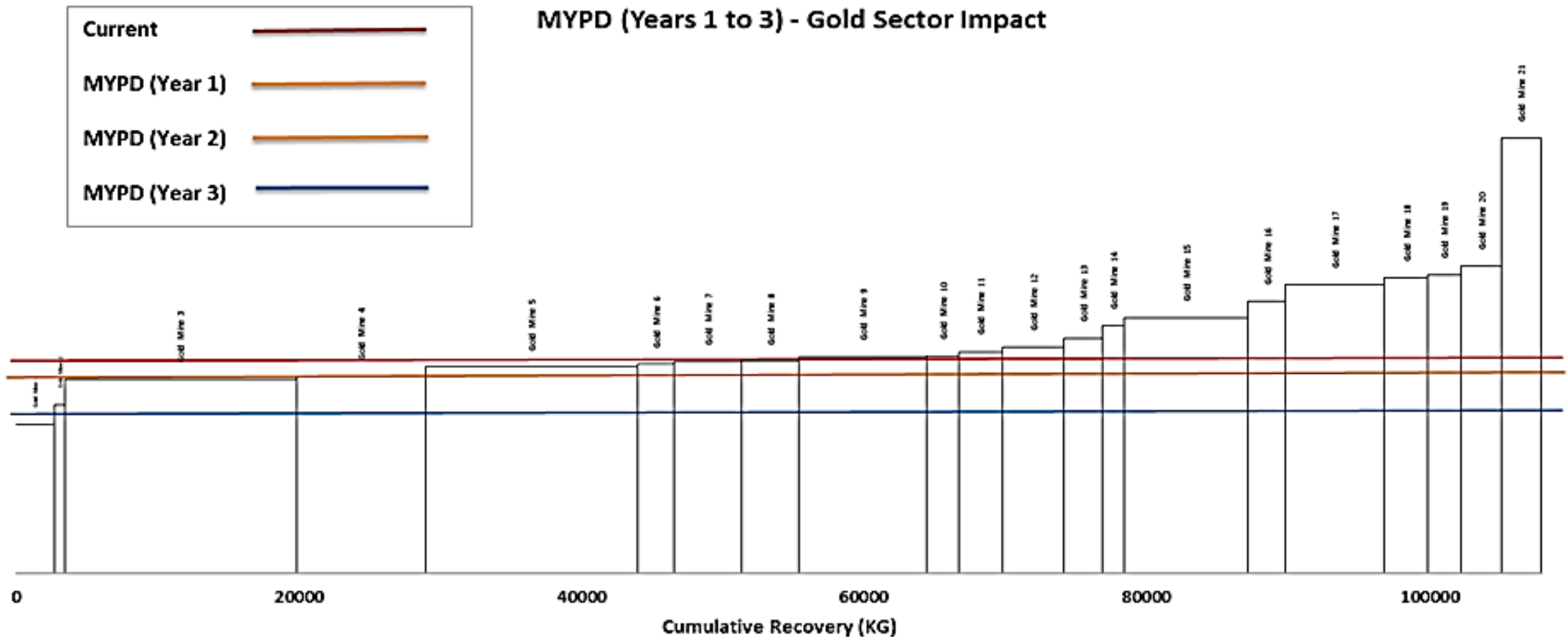
Sources: Statistics South Africa, Quantec, Minerals Council South Africa

Commodity price and cost changes



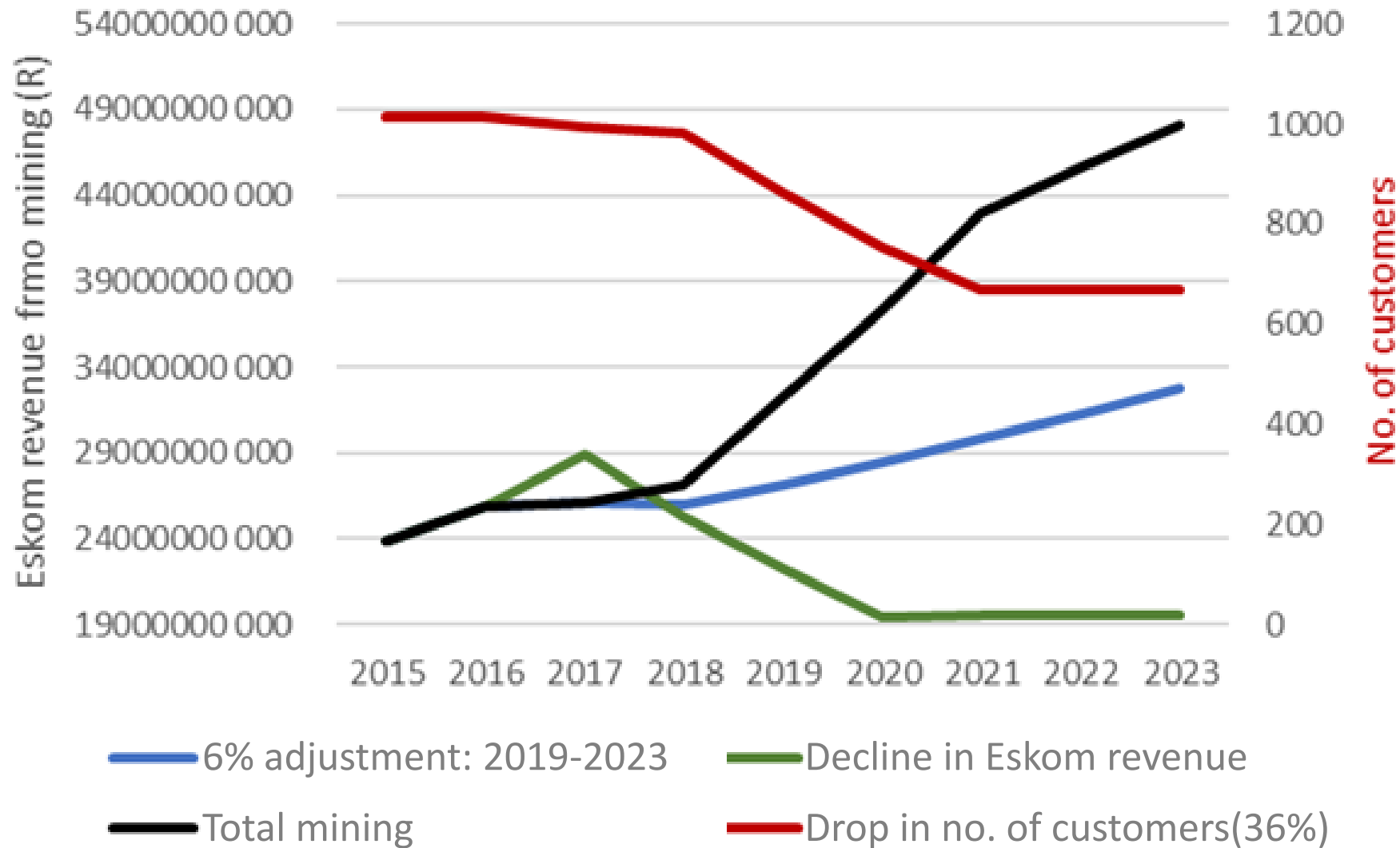
Source: World Bank, Stats SA, SA Reserve Bank, Minerals Council SA

Gold mining sector impact



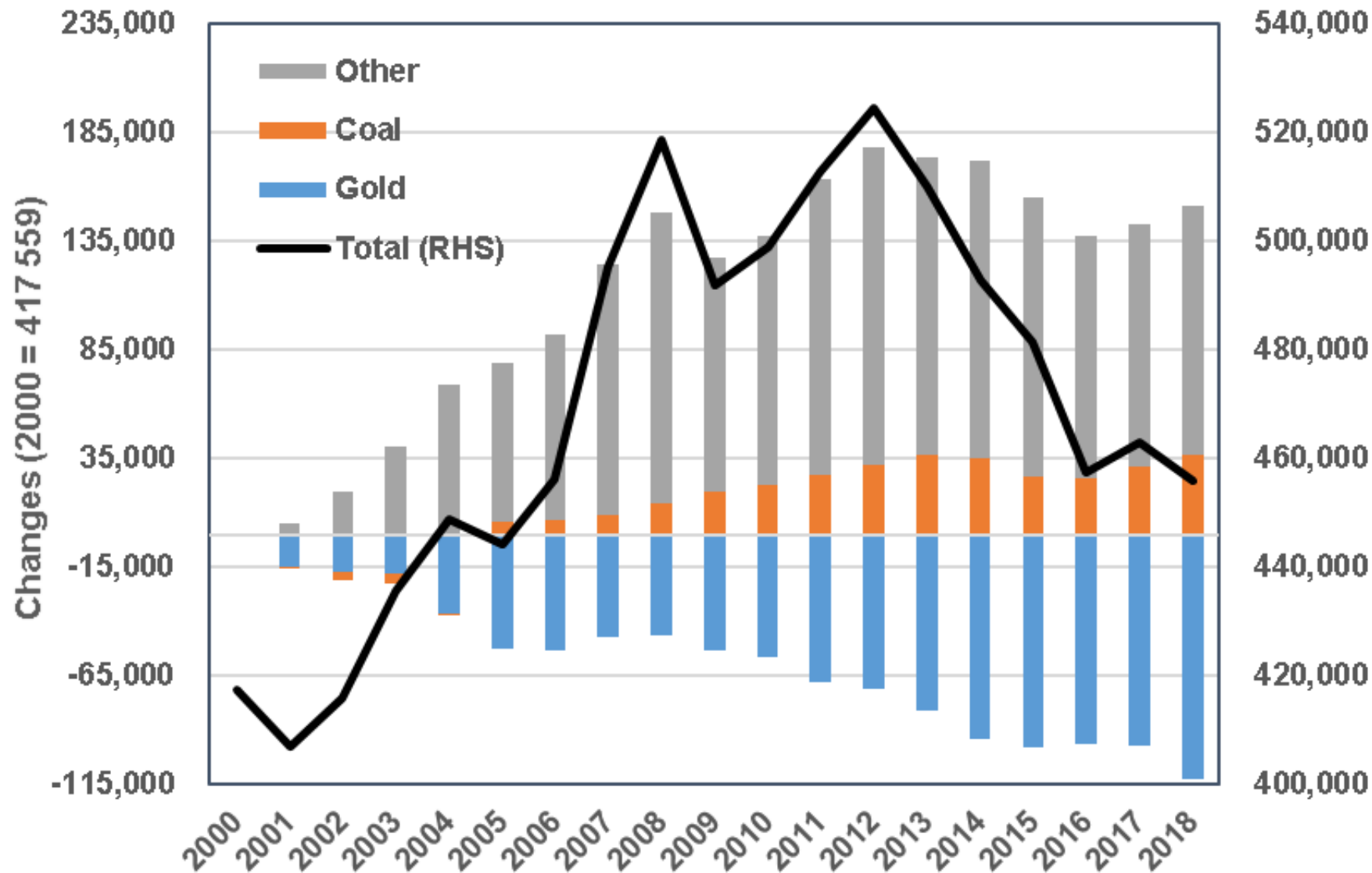
Sources: Company Financial Statements, Eskom, Minerals Council South Africa

The impact of MYPD4 on Eskom's mining customers



Sources: Eskom, Minerals Council South Africa

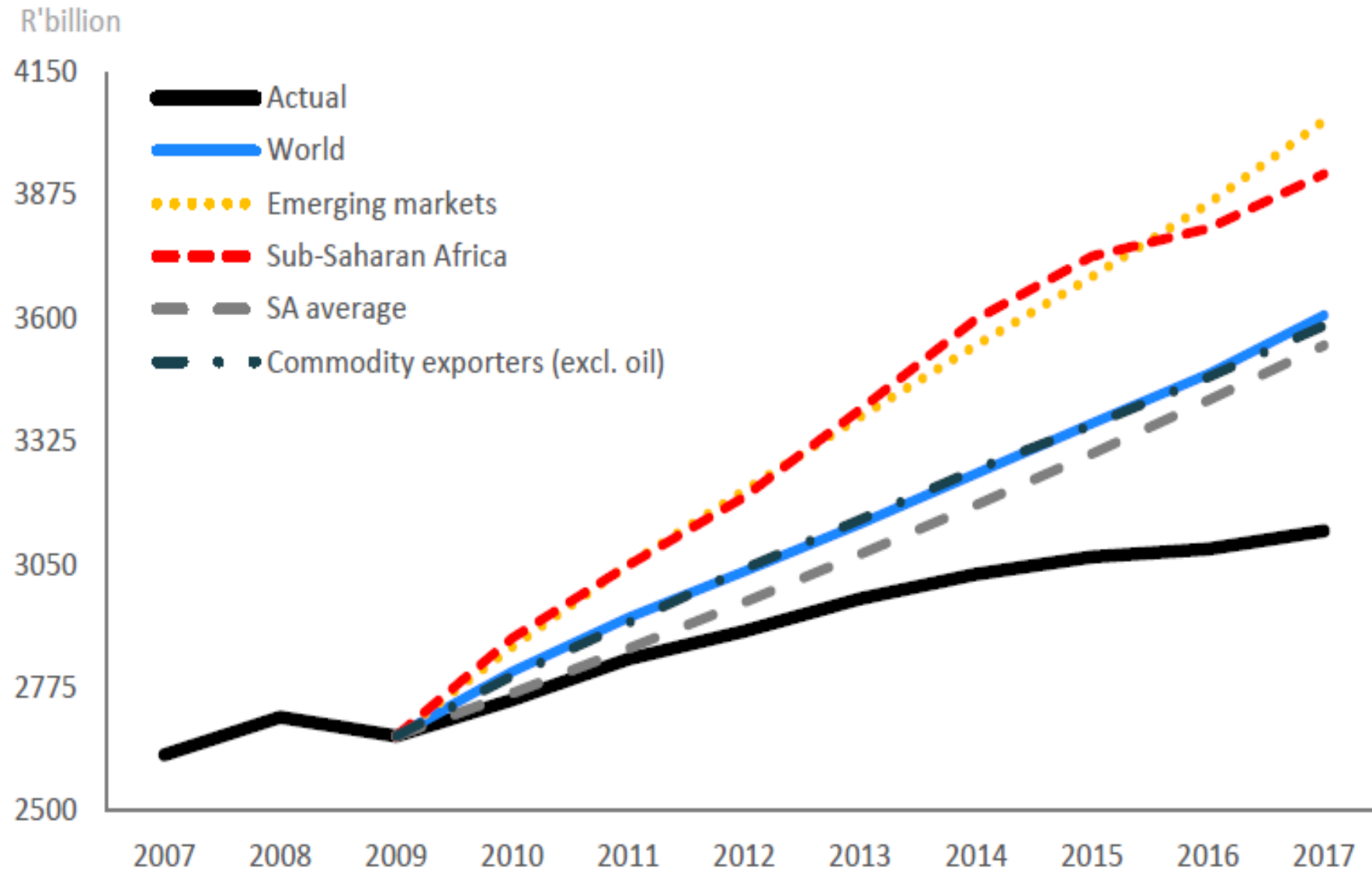
Historical impact of business conditions and tariff hikes



Sources: Statistics South Africa, Dept of Mineral Resources, Minerals Council South Africa

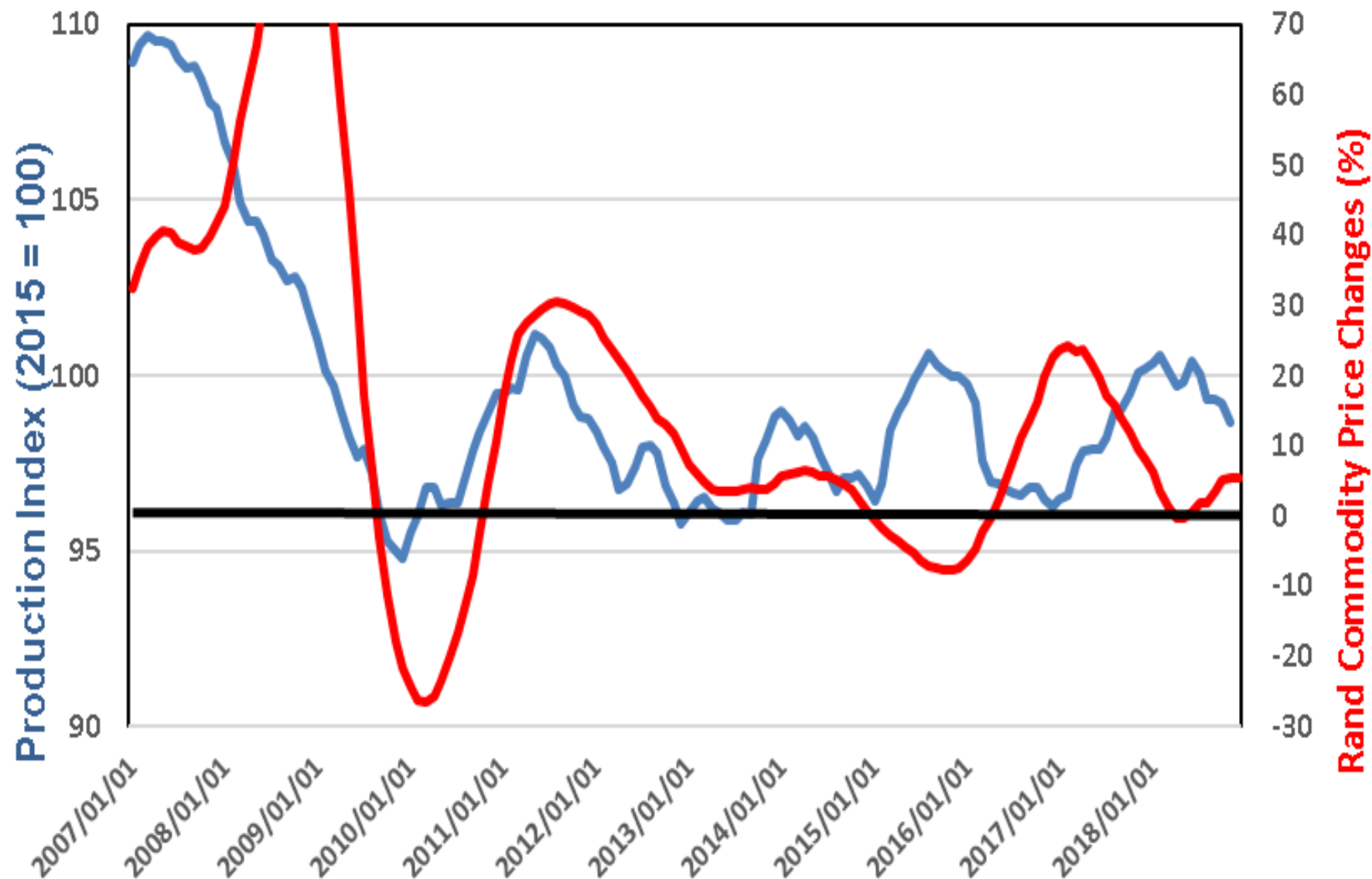


SA lost out compared to commodity exporters



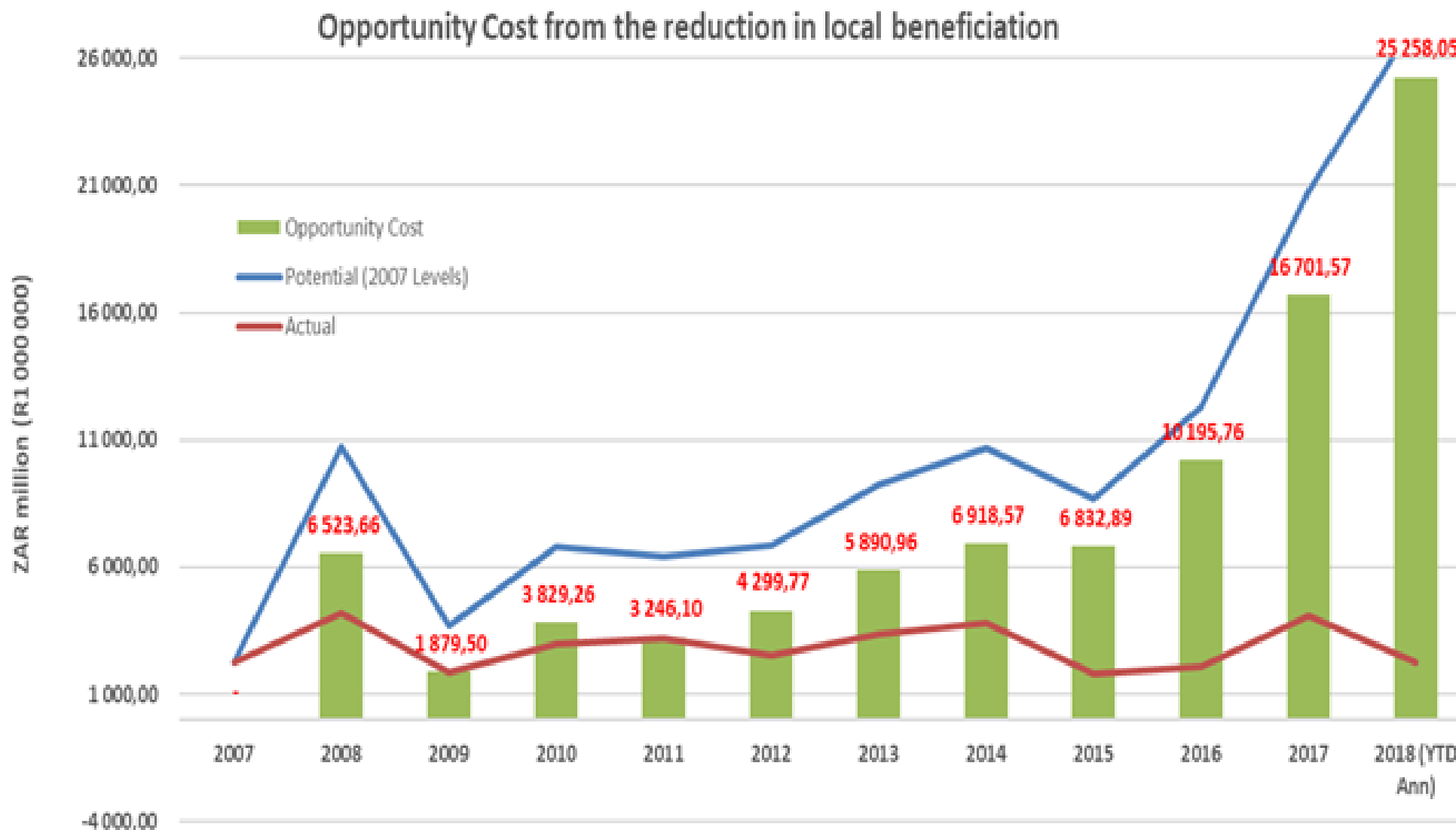
Source: Bureau for Economic Research

Mining production has not recover since 2007



Sources: World Bank, SA Reserve Bank, Statistics South Africa, Minerals Council South Africa

Local beneficiation of minerals has been in decline



Sources: Department of Mineral Resources, Quantec, Minerals Council South Africa



Conclusions

- A similar (average 15%) surge in electricity tariffs between 2006 and 2017 resulted in the loss of 53,500 jobs, and over a R100 billion in fixed investment foregone.
- The proposed increases will hasten the demise of the **gold mining** industry where 61,367 employees are currently working at marginal or loss-making mines. The proposed tariff increases will virtually eliminate the entire gold mining industry.
- The impact would similarly be severely felt in the **platinum mining** industry, where 37,900 jobs would be terminated.
- The impact on **other commodities** could bring the total mining employment job losses to as high as 150,000.
- The impact on the **mining supplier industry** will be as high, i.e in the order of 150,000 jobs.
- Due to the **dependency ratios** (mine worker to family), between 1.5 million and 3 million people will be affected.
- Downstream beneficiation (15% of Eskom's client base) of SA mined commodities will all but be impossible.
- It is the Minerals Councils considered view that Eskom would lose a critical part of its mining (baseload) customers, and its income would suffer severely.
- The result will be the collapse of Eskom; an accelerated 'death spiral'

Thank you

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Minerals Council South Africa submission to NERSA



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