
Mineral Resources: Minister's Budget Vote Speech

Briefing Information

Date of Briefing: 10 May 2012

Summary:

Minister of the Department of Mineral Resources gave her Speech on the 10 May 2012

Honourable Chairperson,
Deputy Minister Oliphant
Honourable Fred Gona, Chairperson of the Portfolio Committee
Honourable Members,

May I begin by acknowledging the presence, in the public gallery, of 21 girl learners from disadvantaged communities. They, Honourable members, are beneficiaries of the Ministerial programme, supported by the mining industry, who are studying at various tertiary institutions.

We stand at the cusp of a new era in South Africa - one which sees, so clearly now, the resurgence of mining as a central force.

I am therefore honoured to present the budget of the department that is responsible for a sector so critical to our country's future. The fact is that the African National Congress has placed the mineral and energy complex right at the centre of its socio economic and political agenda. This is an appropriately far-sighted step as the organisation and movement I represent marks its centenary, committed as it is with even more vigour to change the lives of our people for the better.

We are, indeed, living in a season of marking centuries! Only a few years ago, our country's modern and large-scale mining industry itself celebrated its centenary. We were able to take pride in the progress made, despite some debilitating policies and practices rooted in history. This of course reminds us of another century, one we noted two years ago without celebration. It began with the formation of the old Union of South Africa in 1910. It was plagued from the outset by racist policies which rejected blacks in all walks of life until the people, under President Nelson Mandela, changed the course of our history in 1994.

But, over those decades, the nation inexorably grew economically despite the ravages of *apartheid*. We have thrown off injustice and strengthened our economy - and in doing such things we have shown our true greatness as a nation, for the entire world to see. The resulting unity of spirit, rooted in our diversity, is what gives us our real strength and drives us today in an advanced economy characterised by features of both the developed and underdeveloped worlds.

Budget allocation for 2012/2013

Today, we are tabling a budget of R1, 169 billion for the 2012/2013 financial year which represents an increase of R130 million from the previous budget of R1, 039 billion. This increase is largely earmarked for research and development in the minerals and mining industry through Mintek and the Council for Geoscience.

The budget is allocated as follows: R239 million for Administration, R154 million for Mine Health and Safety, R180 million for Mineral Regulation while a further R596 million is allocated to Mineral Policy and Promotion. Included in these figures is an amount of R560 million allocated for transfers and subsidies to departmental agencies, public and private enterprises. My department will continue to manage this allocation in line with good financial management principles as prescribed by the Public Finance Management Act (PFMA).

In the same spirit I am pleased to report that my department utilised 99.1 % of its allocated budget for the 2011/12 financial year. We have developed clearly targeted action plans to address matters raised in the audit of the previous financial year.

In response to the call by the President with regard to tightening Supply Chain Management Practices (SCM), the department has begun reviewing its procurement policies and procedures to ensure that the acquisition of goods and services continues to be done in a manner that is fair, equitable, transparent, competitive as well as cost effective.

Furthermore, the department has a process in place where annually all SCM practitioners sign a code of conduct. All Bid Committees have been appointed and are functioning effectively. The department has already begun the practice of vetting all SCM officials.

Underpinning it all is the fact that in 2011 the mining industry contributed 9.6% to our country's Gross domestic product (GDP), more than 12 % to total fixed capital formation, more than 35 % to our total export revenue and employed 2.9 % of the country's economically active population, which currently stands at more than half a million direct jobs.

Furthermore, the sector contributes significantly to the country's corporate tax receipts. It is important to note that more than 60 % of the country's energy and more than 90 % of electricity generation is derived from activities associated with mining.

We are tabling this budget at a time when, influenced by our mining sector strategy, which is a product of the tripartism of Mining Industry Growth Development Employment Task Team (MIGDETT), we have an historic opportunity to rekindle the role of the mineral and energy complex in our economy in a quest to eliminate the evil triplets of poverty, unemployment and inequality which are stubbornly refusing to disappear from our landscape almost two decades after 1994.

The urgency of ensuring that we take advantage of the next wave of the commodities boom which will surely come was underscored when President Jacob Zuma announced massive infrastructure plans in his State of the Nation address. The projects promise solid progress ahead for our nation.

We are committed to working together with other state institutions on action plans to optimise the sector's extractive capacity, attraction of investment as well as maximising mining's job creation potential. The availability of more rail, port and water infrastructure necessary for mining will raise the level of mining, resulting in job creation and economic development, in various commodities including iron and manganese ore in the Northern Cape and coal from the Witbank and Waterberg coalfields in Mpumalanga and Limpopo respectively.

My department will by end of July 2012 release the Coal Resources and Reserves Study which is being led by the Council for Geoscience which reveals that the Waterberg region hosts a significant share of our country's remaining coal reserves. This is the first comprehensive assessment of South African coal resources and reserves since 1987.

The Mineral and Petroleum Resources Development Act (MPRDA)

The promulgation of the MPRDA in 2004 introduced a policy of equal access to South Africa's mineral resources which was previously the exclusive preserve of one racial group. The democratic mineral dispensation introduced the policy of socio-economic responsibility, which was to be achieved through the application of black economic empowerment policy by ensuring that the historically disadvantaged South Africans are brought into the mainstream of mining. However, challenges experienced in the implementation of these policies resulted in the need to review both the MPRDA. The objectives of the review are to:

- provide for a detailed consultation process,
- support the beneficiation strategy,
- streamline the licensing process to avoid delays and inefficiencies,
- provide for enhanced punitive measures,
- improve the current construct of the Act and to remove ambiguities, and provide clarity on the mining of associated minerals.

The review of the Act however, does not seek to introduce any major policy shifts in respect of exploration and exploitation of South Africa's mineral resources. Accordingly, in our efforts of harmonising our legislation, the creation of synergies between the MPRDA and the MHSA becomes pivotal in ensuring that we create regulatory alignment.

Mineral Regulation

South African Mineral Resources Administration (SAMRAD)

Last year we launched our flagship online mining licence application system, SAMRAD. I am pleased to report that after initial teething problems associated with implementing a ground breaking system we have now entered a stage where system is rapidly gaining ground.

To date, we have well over 3 500 applications having been successfully lodged remotely through the department's website into a system designed to ensure that we achieve transparency, reduce the margin of error and ensure a consistent systematic approach to the evaluation and eventual decisions regarding the awarding of rights.

Honourable Members will recall that on this occasion, last year, we reported on a process of cleaning up our data with the intention of ensuring that we migrate it into the new system. This has now been done. Working together with the mining industry, we are now giving priority to processing legitimate old order rights applications that are our in our system. We are committed to ensuring that these conversions yield positive results.

The department will continue to search for ways to upgrade the system to ensure that we remain an attractive and

competitive mining jurisdiction. These improvements will include amongst others, the ability of the system to allow users ultimately to lodge various categories of reports online.

Integrated licensing system

A fragmented regulatory and mining licensing system has long been identified as one of the impediments to investments and therefore the competitiveness of the South African mining industry. The current timeframes for obtaining a mining right, water use licence and an environmental authorisation are not aligned, which results in prolonged processes and unnecessary delays.

As a result the Department of Mineral Resources (DMR), and the Departments of Environment and Water Affairs are currently reviewing the regulatory framework in an effort to put in place an integrated and streamlined licensing system which will not have a negative impact on the timeframes.

It is envisaged that the streamlined licensing process will ensure compliance by right holders with the various pieces of legislation, create certainty in the regulatory framework, expedite the licensing process and ultimately strengthen the constitutional imperative of security of tenure. This is in keeping with the principles of co-operative governance which dictate that government departments streamline their processes to promote seamless compliance with all relevant and applicable legislation.

Over and above this, I am pleased to announce that a task team reporting directly to the Minister of Water and Environmental Affairs and myself will deal with the issues that we have just outlined.

Honourable members would recall that we had extended the moratorium in Mpumalanga due to the complex nature of environmental challenges in that province. This culminated in over 41 Rights that are located in Wakkerstroom and Chrissiesmeer being identified as those belonging to the category of environmentally sensitive areas. Consequently we have taken action to prohibit mining within these areas.

The Pot – Auctioning of Rights

At the Mining Indaba I announced measures we intend taking to address the issue of the rights that are either being revoked or are lapsing. In February this year, I published a notice in the Government Gazette inviting submissions with regard to our intention to introduce a new system in the auctioning of rights.

I would like to thank all those who have made representations which, I must add, were not opposed to the system, but were instead offering suggestions on how we can address the technical aspects of the process itself.

After due consideration, I have decided to issue a proclamation in the Government Gazette which will invite applications on revoked or lapsed rights. In this regard, rules that are aligned with the MPRDA will be clearly spelt out in the Gazette. The first round of bidding would take place before the end of June 2012.

Litigation cases and its impact on transformation

Whilst reaping the fruits of transformation brought about by the MPRDA, as a department we are concerned that the recent court decision with regard to the matter certain litigation matters., which we are appealing, will have unintended consequences of reversing the gains of transformation in the mining industry. We have a historic obligation to do everything in our power to ensure that transformation and competitiveness of the sector are not compromised.

Transformation

Mining Charter

We call on the mining industry to implement fully all the provisions contained in the scorecard of the Mining Charter. Audits that were conducted by my department have revealed that the level of compliance is not what it should be. Such as amongst others:

Low levels of implementation of Employment Equity by some mining companies.

Low level of women representation at senior management level especially in decision making structures.

Fronting especially by women who do it on behalf of men.

Companies that change approved Social Labour Plans (SLPs) without appropriate consent from the department and without consulting communities.

Suppliers of capital goods to the mining industry are mostly reluctant to transform and transfer skills to the Black Economic Empowerment (BEE) entities.

Rampant use of expired BEE verification certificates and fronting.

Procurement

Honourable members! Procurement is one of the critical pillars of the Mining Charter. In this regard, I am concerned about the manner in which the entire procurement value chain is being handled in the mining industry. It is disturbing that procurement benefits are being reduced for BEE entities that are limited to mundane and peripheral issues such as catering, cleaning and gardening services. And these entities are excluded from sustainable core activities such as capital goods, services (such as transport) as well as consumable goods.

Working together with the mining industry, we have an historic obligation to ensure that the historically disadvantaged South Africans play a key role in this regard.

SLP

Social Labour Plans are an essential instrument in the hands of the democratic state to ensure that communities benefit from mining operations.

It is an area where we have identified gaps in the proper alignment of identified projects with Integrated Development Plan (IDPs) and consultation with communities.

Sadly this is one of the areas that constitute conflict between communities and mining companies. I therefore call on the mining industry to embrace and implement these imperatives without equivocation as they will create harmony between the mining industry and communities.

We are keen to work with the mining industry in circumstances where voluntary compliance is both a moral and an ethical issue. This should be the case as all the mining companies profess to embrace the King III Code on Corporate Governance whose chapter six enjoins mining companies to comply with the law.

Rehabilitation

My department continues with the project to rehabilitate derelict and ownerless mines. Working together with Mintek we have reached agreements with communities on the implementation of the Heuningvlei project whose scope has been finalised. Taking this into account and building on the experience gained, projects for upcoming activities are expected to be concluded before the expiry of the current three year cycle.

In the year 2011/12, a total of 115 temporary jobs were created in the Northern Cape. It is anticipated that during 2012/13 there will be a further 260 temporary jobs, to include the and Limpopo Provinces, with the bulk of the jobs still being created in the Northern Cape.

My department has secured the services of an actuary to conduct the valuation of the liability associated with Derelict and Ownerless Mines as well as providing the necessary cash flow requirements for successful implementation of the programme. The work is almost completed and a report will be ready by the end of this month. We believe that this work will go a long way in informing our implementation plan and resource requirements going forward as well as improving the overall approach towards rehabilitation.

We will do this as we tackle the practice whereby some major companies are prone to selling off assets to junior mining companies which have huge environmental liabilities.

Beneficiation

In July last year, Cabinet adopted the beneficiation strategy which is central to our bid to ensure that the mineral and energy complex yields concrete benefits to our country and its people. It includes the overall toolbox of interventions at the government's disposal in support of value addition to minerals extracted in South Africa. We are currently in the process of fine tuning these tools for practical application in the industry. This will take the form of an implementation plan with clear actions for the identified commodity groups.

It will, however, align the Act with the recently approved beneficiation policy to ensure that the mining industry contributes to local value addition by making available the requisite mineral inputs to the local beneficiaries. Working together with our State Owned entities such as Mintek and the Regulator, we are steaming ahead with various programmes to give effect to the Cabinet approved beneficiation strategy.

In this regard, we have to continually seek, amongst others, that minerals such as platinum are able to find new opportunities and markets other than the traditional catalytic convertor market. We therefore welcome Anglo American Platinum's promotion of the centuries-old fuel technology, whose fuel cell locomotive was launched in Rustenburg yesterday. It was a pleasure to see this cutting-edge, green technology being rolled out in such a promising direction – one which is of special interest to mining.

This will include initiatives such as underground coal gasification in a bid to extract maximum value from our coal resources.

Beneficiation initiatives

We are also endowed with semi-precious and precious stones which we need to use to reconfigure the racial patterns to of the jewellery industry. This, amongst others, includes jewellery fabrication which seeks to increase the beneficiation thus leveraging maximum value from our mineral resources.

This value addition activity has the potential to create a new cadre of skilled entrepreneurs who will be real players in the industry, working together with the Department of Higher Education and Training through MINTEK and Further Education and Training (FET) colleges. My department plans to host a Jewellery Summit sometime this year, to engage stakeholders on how best to build on this window of opportunity.

Additionally, my department will work through the State Diamond Trader to ensure that HDSAs become part of the mainstream and contribute to the economic growth and job creation. We want to revisit the model that involves the State Diamond Trader and we recognise the shortcomings inherent in the current configuration. We will continue to search for ways to make it more efficient and enable it to carry out the mission for which it was founded.

In the meantime, the South African Diamond and Precious Metals Regulator (SADPMR) will strive to ensure that the historically disadvantaged South Africans benefit and utilise the licences for which they have been awarded. This will be done whilst tackling the rampant acts of fronting prevalent in this important area.

In the same vein, the Kimberley Process (KP) has elected South Africa as deputy chairperson of the process during the year 2012 and we will assume the chair in 2013. As founder members we accepted this honour as it coincides with the 10th anniversary of this initiative founded in the modest Tabernacle Church in Kimberley. This occasion as Chair gives us the opportunity to review the statutes and other founding documents in a bid to ensure that we meet the current challenges facing diamonds industry.

SOMCO

Subsequent to the Cabinet's decision to establish a state owned mining company and the endorsement of the African Exploration Mining and Finance Corporation (AEMFC) to operate as a nucleus for this entity, Cabinet further approved the model and the hiving off of African Exploration Mining and Finance Corporation from the Central Energy Fund's Group of Companies.

My department is working with the Department of Energy, the Central Energy Fund, the AEMFC itself, as well as the National Treasury to give effect to this decision so that the AEMFC can operate as a stand-alone public entity. Honourable members you will recall that in the last Budget speech we announced that AEMFC had commenced with mining activities at its Vlakfontein mine and signed an offtake agreement with Eskom. Thus far the mine has produced 681 458 tonnes and sold over 468 554 tonnes of coal.

This crucial entity of the democratic state is about to undertake a second project which is now in the post-feasibility phase, and will, upon operation, produce 4.6 million tonnes of coal per annum over 33 years, creating almost 1 000 jobs.

Shale gas

Following Cabinet's decision last year to investigate the feasibility of shale gas in our country, and our subsequent decision to set up a task team to engage with this issue, we will by end of July table the report to cabinet for consideration.

Mine health and safety

The health and safety of mine workers in the mining industry remain of utmost importance to the Department of Mineral Resources. Workers in this industry have endured harsh working conditions ever since the birth of mining in South Africa, including living in overcrowded single-sex hostels, poor health and safety measures and the indignity of being separated from their loved ones for inordinate periods of time as a result of the ridiculous system of separate development.

Even to this day, 18 years after 1994, this sector's commitment to the health and safety of both the workers and communities resembles a curate's egg - good in parts, which means lacking overall. This must change. The inevitability of death, injury and disease must be rooted out. In addressing poor health and safety issues at mines, we have identified the need to review the Mine Health and Safety Act. This review will strengthen enforcement provisions, reinforce penalties and ensure alignment and harmonisation with the Mineral and Petroleum Resources Development Act, 2002 (MPRDA).

While we remain ceased with these challenges, we however recognise some improvement in the health and safety since intensifying the monitoring and enforcement measures. The enforcement measures have resulted in an 80% reduction in the number of deaths, from 15 in January to 3 during April 2012. This is the lowest ever recorded compared with other historical

monthly figures which were generally more than 11 deaths per month. It is also commendable and encouraging to note that some of the mining companies are now going for more than 6 to 18 months without fatalities. Amongst others, these are Lonmin, DRD, Coal of Africa, Kumba, Pan African Resources and Petra Diamonds.

Hon members, whilst we recognise improvement, we still experienced in 2011 a total of 123 fatalities, compared to 127 in 2010, which translates to about a 3% reduction. This year (2012) to date, figures show that fatalities in the mining industry have dropped by 9% - from 43 in the same period in 2011- to 39 in 2012. The number of mine injuries has reduced by 35% from 1 024 in 2011 to 668 in 2012. Major contributors to the accidents are gold and platinum mines. I call upon the mining industry to once more commit and internalise the to the value system of zero harm.

I am concerned with the safety of women in the mining industry. Mining companies are urged to implement measures aimed at protecting women miners. In this regard I commend the NUM for championing the just cause of safety of women miners.

As the DMR, we remain determined to apply Section 54 to ensure compliance, taking into account the self-regulatory framework of the mining industry.

I want to state categorically that it is mischievous to regard section 54 as the only contributor to the loss of production. This flies in the face of the reality that mine operational challenges, can contribute significantly to low production.

We have agreed with stakeholders to set up a task team comprising all relevant sector stakeholders to investigate the concerns raised in respect of the application of Section 54. The task team has finalised its investigation and has made recommendations for consideration by the Minister of Mineral Resources and other Mining Industry Growth, Development and Employment Task Team (MIGDETT) principals.

As I had promised last year, we have split the North West regional office into two separate offices. The split has resulted in the reduction of fatalities and injuries by 43% and 51% respectively in the Rustenburg area.

In November 2011, the Mine Health and Safety Council hosted a summit focusing on the attainment of the Occupational Health and Safety milestones as set out in 2003, which include the eradication of Silicosis, Noise Induced Hearing Loss, TB and HIV/AIDS. Silicosis continues to be the cause of premature retirement and death at our mines while tuberculosis (TB), exacerbated by HIV/AIDS, has proven to be a serious challenge for the industry. Noise Induced Hearing Loss (NIHL), resulting from exposure to high levels of noise in working places, is also a significant health hazard.

The commitments made during the summit on TB and HIV/AIDS were also informed by the National Institute of Occupational Health (NIOH) report which was commissioned by the Department of Mineral Resources.

Also, during the 2011 summit a commitment was also made to implement the Culture Transformation Framework (CTF). The framework pillars include the review of bonus incentives to ensure that zero harm is prioritised ahead of production; mine owners will lead by example in walking the zero harm talk; and the adoption of technology and leading practice for eliminating health and safety risks to mine employees.

The stakeholders are also committed to establish a Centre of Excellence to do research, capacity building and facilitate research implementation. Stakeholders committed themselves to the aforementioned in order to improve the industry's Health & Safety record.

The department recently participated in South Africa's 2012 world TB Day commemoration in Carletonville which was also addressed by Deputy President Motlanthe. I would like to commend Gold Fields for supporting this programme and call on other mining companies to do likewise.

There is still a great need to improve on the current skills capacity within the mining sector. To this end, the department is collaborating with the Department of Higher Education and Training (DHET) and our social partners through the Mining Qualifications Authority (MQA) to improve on skills development.

Some of the programmes include artisan development; improving women's participation in mining; developing black managers, fostering skills required to support Beneficiation Strategy; issuing bursaries annually at public Higher Education and Training institutions with mining and mineral related faculties; training Health and Safety Reps and Shop Stewards over five years using accredited institutions; and exploring ways of improving the percentage pass rate for various certificates of competency.

Although there has been significant progress in ensuring that the appropriate measures are taken to eliminate illegal mining, the problem is still of great concern. The department will continue collaborating with the relevant law enforcement agencies

and social partners to ensure that there is a national effort to combat illegal activities.

Conclusion

As I present this Budget, I would stress that we are working round the clock to build the capacity that is necessary in this department in all areas, including in the vital legal section which is involved so regularly and exhaustively in litigation. We are also building up our IT systems to improve efficiency and effectiveness of the department.

We are working on developing partnerships, between government and the private sector, as well as with communities and civil society generally. We are looking forward to participating in the Mining Lekgotla in collaboration with the Chamber of Mines in our drive to ensure that South Africa remains the preferred mining destination in Africa. It is only on a basis of sound partnership that our country, with mining confirmed in a leading role, will ensure success in the centuries to come.

Finally I want to thank the staff of the DMR, so ably led by the Director General, who has taken the proverbial bull by the horns and has acquitted himself very well in his new role. The same goes for the Deputy Minister for his leadership and contribution to the second Budget. It is this same commendable spirit that must characterise the work of the department as we proceed to build a mining dispensation that is in harmony with the environment - and with communities, with whom we constantly seek to engage in consultation.

Hon members, I Thank You.

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